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Banking on Africa: Can Emerging Pan-African Banks Outcompete Their Global Rivals?

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Introduction

With the increasing liberalization and globalization of the financial services sector over the past two decades or so, there has been a rise in the percentage of foreign banks among total banks around the world (from 21 per cent in 1995 to 35 per cent in 2009), accompanied by an increase

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in the foreign ownership of banking assets (Claessens & Van Horen, 2014). Spanish and Portuguese banks, for instance, have expanded their footprint in Latin America, leveraging their historical colonial ties; Australian banks have become dominant players in New Zealand; Asian banks are expanding their regional footprints; and South African and Nigerian banks have built a strong franchise across Sub-Saharan Africa (De Haas, 2014).

In Sub-Saharan Africa, where European multinationals have dominated many economies since the colonial era, there was also a considerable increase in the percentage of foreign banks among total banks between 1995 and 2009, from 31 to 53 per cent (Claessens & Van Horen, 2014). Since this period, there has been a remarkable rise of domestic and regional banks. From Togo to Mali, Kenya, Nigeria and South Africa, banks like Ecobank, Bank of Africa, Equity Bank, KCB, United Bank for Africa (UBA), Guaranty Trust, First Bank, Standard Bank, and First Rand have ambitiously positioned themselves in the form of challenger firms as competition for market share intensifies across the region (Boso, Adeleye, & White, 2016). Financial services firms accounted for 25 per cent of the 40 African global challengers identified in a report by BCG (2010), the highest of seven sectors analysed. This trend is especially interesting as it runs counter to the current dominance of foreign multinationals in most other sectors across Africa, and raises a pertinent question: Can Pan-African banks outcompete their global counterparts in cross-border banking in the region?

This chapter is focused on addressing this issue, providing analysis from past, present and future perspectives. The chapter is organized into four main sections. First, we provide a historical overview of five major time periods, from the pre-colonization era to the present: barterization and commercialization, colonization and formalization, nationalization and indigenization, liberalization and privatization, and recapitalization and internationalization. Second, we provide an extended discussion on the current competitive dynamics between local and multinational banks. This is illustrated using mini case studies of African challenger firms (Ecobank, Standard Bank and United Bank of Africa) and their global rivals (Société Générale, Standard Chartered and Barclays). We sum up by offering perspectives on the future competitive dynamics in African banking.

A few caveats are warranted at this point. Given the diversity that characterizes Africa's 55 countries, our analysis provides broad generalizations and narrows in on a smaller number of countries. The chapter mostly excludes North African countries as this book series is devoted to Sub-Saharan Africa; most of the reviewed literature and discussions focus on the larger economies and banking markets, particularly South Africa, Nigeria and Kenya.

"The Scramble for Africa": A Historical Overview of Banking Sector Developments

There is a long history of competition between domestic and foreign financial institutions in Africa, dating back to pre-colonial times. The geographical scope of the competition and the power dynamics in this centuries-long rivalry has changed considerably, with a persistent decline in the dominance and competitiveness of African players until the last two decades or so. In this section, we identify five distinct trends in the history of banking in Africa—barterization and commercialization, colonization and formalization, nationalization and indigenization, liberalization and privatization, and recapitalization and internationalization (see Table 5.1), and provide an overview of the defining characteristics of each period and how these impacted sectoral competitive dynamics.

Barterization and Commercialization Era: Pre-Nineteenth Century

Before the establishment of European banks in Africa in the late 1800s and early 1900s, indigenous institutions existed to facilitate trade in the largely informal economic societies of Africa. There is evidence that *manillas* (pieces of copper and brass) were used as currency as far back as the thirteenth century in the Benin kingdom, and cowry shells were also used as a means of exchange until the mid-1850s (Verhoef, 2017). There were thriving communities in the Mali, Songhay and Ashanti kingdoms

Table 5.1 Key historical developments in African banking

1	Barterization and Commercialization	Pre-1800s	Indigenous entrepreneurial-lending activities existed before colonization ushered in "modern" banking in the nineteenth century. There is evidence of the use of manillas as currency in thirteenth century Benin, and barter was widespread in many societies. Later, as the use of gold and silver coins and other currencies spread, allowing for accumulation of wealth, the provision of "financial services" by local traders became a commercial activity.
2	Colonization and Formalization	1800s–1960s	From the 1850s, the Europeanization of banking in Africa commenced, with the rapid expansion of British, French and Portuguese banks. These banks largely focused on supporting colonial export trade and expatriates, and dominated local and regional economic activities. The adoption of European institutional arrangements led to the formalization and globalization of the industry, marginalizing the traditional entrepreneurial African money-lenders.
3	Nationalization and Indigenization	1960s–1970s	As most African nations became independent in the 1950s and 1960s, states pursued interventionist economic policies, taking control of foreign banks, establishing public sector banks and granting licenses to indigenous firms. Faced with diluted/minority equity, most foreign banks continued operating, although they lost their dominance and industry competitiveness.
4	Liberalization and Privatization	1980s–1990s	Following failed interventionist policies and severe economic headwinds, many African states embraced the World Bank's neo-liberal reforms, granting licenses to new private sector players and privatizing state-owned banks. Notably, many dynamic banks emerged across the continent, reducing the dominance of state-owned banks and incumbents. Several foreign banks also benefited from the reforms, expanding their presence in the region.
5	Recapitalization and Internationalization	Post-2000	Widespread bank failures were commonplace across the continent after the liberalization. Regulators then imposed sharp increases in banks' capital requirements for stability, sparking a wave of mergers and acquisitions and capital raising deals. Armed with more capital, and with increasing regional integration, banks from several countries embarked on international expansion, many of them emerging as serious challengers to foreign multinational banks in Africa.

Source: Authors' analysis, drawing from various sources including Adeleye (2009) and Verhoef (2017) in West Africa, and trading networks between Sudanese and other east African societies and Middle Eastern merchants developed before the 1600s. Towards the end of the seventeenth century, as the Mediterranean Islamic economy stagnated, the Sudanese networks expanded into eastern Africa (Verhoef, 2017). Following this period, the Atlantic trade with Europe and the Indian Ocean trade with India and Portugal became dominant. These extensive contacts with global merchants paved the way for the more widespread use of gold and silver coins, and the development of relatively sophisticated systems for accumulation of money.

Before the free circulation of money in the late 1800s, however, a barter economy was prevalent, and there were "institutions" to facilitate exchange, controlled by indigenous trading families and kingdoms that served as a form of commercial organization (Verhoef, 2017). The commercialization of informal and indigenous banking was eventually enhanced with the development of systems of wealth accumulation; local institutions engaged in entrepreneurial money-lending activities and served as the major providers of "financial services", a position that would be taken over by European banks in the mid-nineteenth century (Verhoef, 2017).

Colonization and Formalization Era: 1800s–1960s

From the 1850s, colonial and imperial banks sprang up across Africa, as British, French and Portuguese banks established operations in their colonies. The Portuguese Banco Nacional Ultramarino (National Overseas Bank), for instance, was founded in 1864 as a joint venture between the Portuguese government and entrepreneur, Francisco Chamiço, enjoying government subsidies and full exclusivity for operations in the colonies for a period of 15 years, and even the authority to issue paper money. The bank quickly opened branches in Angola and Cape Verde in 1865, and three years later opened more branches in São Tomé and Príncipe and Angola (Nunes, Bastien, Valério, Martins de Sousa, & Costa, 2010). In Great Britain, the Standard Bank of British South Africa was founded in 1862, and rapidly expanded in South Africa and the southern Africa region. The bank later merged with another colonial bank to become Standard Chartered in the 1960s, and following a 1987 divestment became today's Standard Bank. Another British bank, the Colonial Bank, was permitted by an Act of Parliament to expand from the West Indies into West Africa in 1916; the bank was eventually acquired by Barclays Bank in 1925. French banks also established operations in Africa; Société Générale commenced banking in Morocco in 1913, and later expanded its footprint in Western Africa.

These banks were specifically set up to support colonial export trade and expatriates, and dominated banking and economic activities in their respective territories on the continent, with little or no competition from local or foreign operators. In several countries, indigenous banks emerged to serve Africans and local businesses; however, many did not survive, as the playing field was uneven economic and regulatory wise. In Nigeria, for example, of the 24 indigenous banks established between 1929 and 1952, only about four were still in existence in 1960 (Uche, 1997). This era laid the foundation for the decades-long dominance of foreign banks on the African continent.

The Europeanization of banking in Africa, specifically the introduction of European institutional arrangements for the practice of banking and regulation of banks and commercial activities, led to the formalization of the industry, which had hitherto been dominated by informal indigenous players, trade networks and kingdoms. The banking sector in Africa was "modernized" and became more fully integrated into the global economy.

Nationalization and Indigenization Era: 1960s–1970s

During the colonial era, there was much clamour across Africa for indigenous banks that would cater to Africans and local economic development since the colonial banks had failed to provide these services. As the independence wave swept across the continent in the 1950s and 1960s, African political leaders pursued interventionist economic policies, with banking as a major target for reforms. The most consequential of these reforms was the nationalization of the European banks, with states taking significant equity in them. Société Générale, for instance, had to reorganize its banking franchise in the region along national lines in the 1960s, with governments in Côte d'Ivoire, Senegal, Cameroon and Morocco becoming shareholders. Several other anglophone countries like Ghana and Kenya also adopted this less aggressive approach, taking up only minority interests, and allowing the foreign banks to retain their franchises. In countries like Nigeria, however, the government took 60 per cent equity, and renamed the nationalized banks, imposing credit allocation and priority sector funding requirements. A similar approach was adopted in Malawi.

In addition, many public sector commercial and development banks were set up, and licenses granted to local private sector operators. The foreign banks largely remained on the continent, although their dominance had been checked. Clearly, this transformation increased the participation and relative power and importance of indigenous banks across Africa, and also increased lending to Africans and local developmental projects increased. In many countries, this "development" came at a cost, as government takeovers appeared to have stifled competition, encouraged mismanagement, and ultimately led to the insolvencies and failures that plagued the industry in many African countries in the 1980s and 1990s (Adeyemi, 2002).

Liberalization and Privatization Era: 1980s–1990s

The aggressive interventionist policies implemented in post-independence Africa did not yield the desired results in many countries, as economic growth was sluggish and development was elusive. The problems were exacerbated by global commodity crises and economic shocks. The nationalization and indigenization of banks, as highlighted earlier, had created several problems in the industry. In many countries across the region, for instance, non-performing loans accounted for up to 80 per cent of the overall loan portfolio of public sector banks (Beck, Fuchs, Singer, & Witte, 2014).

Desperate to address the mounting economic challenges, many states embraced neo-liberal reforms instituted to roll back the developmental state, including currency devaluation, removal of price controls and privatization of state-owned enterprises. In the banking sector, these reforms included: liberalization of banking licenses to lower entry barriers for new local and foreign private sector players; removal of interest rate controls; and privatization of nationalized and public sector banks. One immediate effect of these reforms was the upsurge in the number of banks. In Nigeria, for example, the number of banks tripled from about 40 in 1985 to nearly 120 in the 1990s (Lewis & Stein, 2002), with local privately owned banks outnumbering the state-owned and foreign banks.

Many of the privately owned banks established during this period were led by entrepreneurial founders, and a number of them (for example, the Mali-based Bank of Africa, Guaranty Trust Bank of Nigeria, and Ecobank) have today have become domestic and regional champions. Foreign banks also benefited from the liberalization, with banks like Citi and Société Générale expanding their footprint on the continent. In the key markets of Nigeria, Kenya and South Africa, there was a substantial decline in presence and competitiveness of foreign firms (Beck et al., 2014). South Africa's situation was unique, as the two large British banks (Barclays and Standard Chartered) were pressured to disinvest in protest against the oppressive apartheid regime. Even in Ethiopia where the government embraced the developmental state model, local privately owned banks were allowed to operate from 1994, although the sector remained closed to all foreign banks. Overall, this era laid the foundation for the increasing dominance of African banks, especially in the larger economies in the region.

Recapitalization and Internationalization Era: Post-2000

The rapid liberalization of banking created several problems of its own. Not only did the sector become overcrowded in many countries, it was also beset with poor management and corporate governance standards, and lax oversight. In Nigeria alone, nearly 60 banks had been declared distressed by the regulator by the end of the 1990s, with 26 having their licenses revoked (Lewis & Stein, 2002). There were similar bank failures in Benin, Cameroon, Côte d'Ivoire, Ghana, Guinea, Kenya, Senegal, South Africa, Tanzania, Uganda and Zambia.

In response to the high number of bank failures and distress, regulators imposed more stringent measures to stabilize the sector, most notably an increase in banks' minimum capital requirements. Nigeria had the sharpest increase, from N2 billion to N25 billion ($190 million) in 2004; this led to a flurry of mergers and acquisitions and capital raising deals, and a reduction in the number of banks from 89 to 24. In the aftermath of the global financial crisis of 2007–2009, many African countries fast-tracked capital build up towards levels outlined by BASEL III, an international regulatory framework on bank capital adequacy and stress testing. In Ghana, for example, banks were required to increase their capital from $1.9 million to $16.7 million in 2012 (OBG, 2017b); in Ethiopia, it went up from $3.4 million to $22 million in 2011 for new banks, and up to $90 million for all banks by 2020; in Kenya, from $3.3 million to $12.5 million by end of 2012; and in Zambia from $0.4 to $2.2 million (Oduor, Ngoka, & Odongo, 2017).

These recapitalization initiatives, as well as increasing regional integration across the continent, have facilitated cross-border expansions. In Kenya, the two leading banks—KCB and Equity Bank—have expanded across East Africa in the last decade. Likewise, Nigerian banks such as First Bank, UBA, GTBank, Zenith, Access Bank and Diamond Bank have established subsidiaries in West Africa and beyond (Ngwu, Adeleye, & Ogbechie, 2015). In the south, besides the Standard Bank, which has expanded to 20 countries, competitors like Nedbank and FirstRand have expanded throughout the southern Africa region and are heading north. From the north of Africa, Moroccan banks have also expanded southwards rapidly, with BMCE (18 countries), Attijariwafa (13) and BCP (11) embarking on large mergers and acquisitions (Beck et al., 2014). Clearly, pan-African banks from all over the continent have become bigger and stronger, and appear to have a solid competitive footing as they challenge the foreign multinational banks for market share in the region.

"The New Scramble for Africa": Competitive Dynamics Between African Challenger Banks and Foreign Banks

As globalization intensifies, there is increasing interest in investing in, and trading with Africa by the world's economic powerhouses; Africa has become "strategically important" for countries such as the US and China, unleashing "a new scramble" for the continent's resources and markets (Carmody, 2016). The banking sector has been at the frontlines of this new scramble, as European, American, Chinese, Indian and other foreign banks establish operations and alliances in an increasingly sophisticated and competitive industry.

An interesting phenomenon in this competition is the rise of pan-African banks challenging foreign multinationals for market share in a region historically dominated by foreign players (Leon, 2016). About a century late to the game, these African banks are fighting for market share with the colonial-era European banks, and now make up about two-thirds of the 104 cross-border banks in Africa (Beck et al., 2014). In addition to the European banks, they face competition from global banks like US-based Citigroup, which operates in 15 countries, and the Dutch Rabobank, which now operates in five countries (Beck et al., 2014).

Given their latecomer status, the African challenger banks appear to be performing well. In the top three Sub-Saharan Africa (SSA) economies—South Africa, Nigeria and Kenya—the industry is dominated by local banks. In South Africa, all the top five banks are local; likewise, the top 10 in Nigeria, and the three market leaders in Kenya. Most of these banks have also emerged as champions in their respective sub-regions (Beck et al., 2014). This trend is also evident in several small and mid-size economies. In West Africa's nine-country francophone monetary union (WAEMU), for example, the combined market share of the five largest African banks has climbed up from 18 per cent in 2003 to 44 in 2010, while those the top five non-African banks fell from 40 to 17 per cent (Leon, 2016).

In this section we discuss the competitive dynamics between African and foreign banks, focusing on six of the ten leading cross-border banks identified in Table 5.2: Standard Chartered, Société Générale, Barclays, Ecobank, Standard Bank and United Bank for Africa.

Table 5.2 List of leading cross-border banks in Africa

	Bank	Home country	Year of 1st Africa cross-border entry	Subsidiaries in Africa	Regional strength in Africa	Employees in Africa
1	Standard Chartered	UK	1862	15	Anglo West, East & South	8000
2	Société Générale	France	1913	18	Franco North, West & Central	11,000
3	Barclays	UK	1917	12	Anglo South, East & West	41,200
4	BNP Paribas	France	1940	13	Franco West	10,000
5	Ecobank	Togo	1988	36	West, Central & East	12,700
6	Standard Bank	South Africa	1988	20	Southern, West & East	35,000
7	BMCE Bank of Africa	Mali/Morocco	1990	18	North, Central, Franco West & East	8300
8	Guaranty Trust Bank	Nigeria	2002	9	Anglo West & East	6500
9	United Bank for Africa	Nigeria	2005	19	West, Central & East	12,300
10	Equity Bank	Kenya	2008	6	East	6000

Sources: Authors' analysis, based on data from companies' financial statements and websites

Standard Chartered Bank: "Here for Africa"

A British colonial bank, Standard Chartered Bank (SCB) is the result of the 1969 merger of the Chartered Bank of India, Australia and China, founded in 1853 in London, and the Standard Bank of British South Africa, founded in London in 1862. Standard Bank began operating in Port Elizabeth, South Africa, in 1862 and played a leading role in financing the development of the diamond fields in Kimberly. It later extended its operations to Johannesburg in the late nineteenth century, and by the 1950s had expanded across southern, central and eastern Africa. In 1965, Standard Bank entered West Africa through a merger with the Bank of West Africa. Following the divestment campaign against apartheid in South Africa, SCB sold its local subsidiary in 1987, and Standard Bank became a South African-owned bank (Standard Chartered, 2017).

Today, SCB has a presence in 15 countries across west, central, east and southern Africa. The bank has 180 branches and over 8000 employees in Africa, a significant proportion of which are in anglophone countries where it has strong decades-long ties. SCB is somewhat unique in the sense that it decided to focus on the emerging markets of Africa, Asia and the Middle East, with a tiny presence in the developed world—even in its home country, UK.

The bank has positioned itself as a key player in facilitating trade between Africa and the rest of the world. In 2012 alone, SCB financed $7.2 billion of Africa's trade (Standard Chartered, 2017). Like most of the other global banks, it has a strong corporate and wholesale banking franchise, serving large local and multinational corporations. To strengthen its wholesale banking business, the bank has completed several mergers and acquisitions with regional corporate finance and investment management firms over the last decade. The bank is also building its consumer banking business in Africa, with a focus on high-net-worth and middle class customers.

SCB faces intense competition from other global banks, especially Citi, which operates in mostly the same countries, has a similar strategy and target market, and an impressive global reach. Competition from pan-African banks is also intense, especially in the bank's key anglophone markets (Nigeria, South Africa, Kenya, Ghana and Botswana), where challenger banks are aggressively expanding in their respective countries and sub-regions. Ecobank and Standard Bank are serious competitive threats to SCB.

Société Générale: "A Solid and Historical Presence in Africa"

Société Générale (SG) was founded in 1864 by a group of industrialists and financiers to support the growth of trade and industry in France. It established branches in France's colonies in Africa several decades after; first into Morocco in 1913, and then Senegal, Côte d'Ivoire, Cameroon and Algeria in the early 1960s (Société Générale, 2017). Like other colonial banks, it was forced to reorganize its branches along national lines following independence, and in many markets had to partner with national governments that had taken equity in it. A third wave of expansions was concluded in the 1990s, to Burkina Faso, Equatorial Guinea, Tunisia, Algeria, Madagascar, Chad, Benin and Ghana. In 2015, it acquired Mauritius Commercial Bank in Mozambique, strengthening the bank's presence in Southern Africa and Indian Ocean, where it also has operations in Reunion Island and Madagascar (Scala, 2015). Today, SG has 1000 branches and 11,000 employees in 18 African countries, with strong franchises in francophone north, west and central regions.

SG has a competitive corporate banking franchise in Africa, leveraging on its global network and deep connections in the region. The bank is building its consumer banking business, competing with technology and innovation. In 2013, it launched a mobile banking product which was aimed at lower income earners in Senegal, and it recently acquired a stake in a French fintech company to strengthen its mobile banking offerings to the unbanked segments of the African market (Business Wire, 2016).

SG is very competitiveness in francophone Africa, with at least 10 per cent market share in more than half of the countries it operates. It has a market share of over 20 per cent in Cameroon, Guinea, Senegal and Côte d'Ivoire (where it also ranks as either number 1 or 2), and it is the largest bank in the francophone West African Economic and Monetary Union (UEMOA). The bank's most serious competitive threat appears to be

Ecobank, since it is also a strong player in francophone west and central Africa. Moroccan banks (BMCE, Attijariwafa and BCP) have also expanded into this space in recent years, and can mount a significant competitive challenge.

Barclays: "Focused on Our Goal to Be the Financial Services Group of Choice in Africa"

Barclays Bank (BB) is a British bank with a long history dating back to 1690. The bank entered into an alliance with Colonial Bank in 1917 to partner with it in West Africa and the Caribbean, and in 1925 merged Colonial Bank's operations with those of Anglo-Egyptian Bank and National Bank of South Africa to form Barclays Bank (Dominion, Commercial and Overseas), known as Barclays Bank DCO later Barclays Bank International. Although it lost control of some of its subsidiaries to nationalization (e.g. Ethiopia, Malawi and Nigeria) and disinvestment (South Africa), the bank has built a strong presence in Africa, especially in the anglophone countries. BB has a presence in all the regions of the continent, with over 1200 branches and 40,000 people in 12 countries (Barclays, 2017).

In 2005, BB embarked on an ambitious acquisition of one of South Africa's big four banks, ABSA, and in 2013 combined ABSA with its other subsidiaries in the region (except Egypt and Zimbabwe) to form Barclays Africa Group (Reed, Croft, & Davies, 2005). The new entity positioned itself for market leadership in the retail and corporate banking space, aiming for a top three revenue position in its five key markets (Botswana, Ghana, Kenya, South Africa and Zambia) and a revenue share of 20–25 per cent from the rest of Africa (Barclays, 2017). In a dramatic turnaround in 2016, the bank's new CEO announced the decision to sell its entire operations in Africa and focus on the UK and US markets (Arnold & Jenkins, 2016).

BB has since sold its Egypt and Zimbabwe subsidiaries to two pan-African banks: Morocco's Attijariwafa Bank, and Malawi's First Merchant Bank. A partial sale of Barclays Africa Group was also completed in May 2017, making it a standalone, integrated pan-African bank owned by local and international shareholders. Given the dominance of South Africa's ABSA in the group, and a likely unwillingness to approve the sale of a major bank to a foreign operator again following Barclays second exit from the country, there is a possibility that the new entity is likely to be distinctively South African. If this were to be the case, it would fit into a long pattern of pan-African groups acquiring European banks exiting the continent due to nationalization, political or strategic reasons, and would most certainly increase the relative strength and competitiveness of challenger African banks.

Ecobank: "The Pan-African Bank"

Founded in 1985 by individuals and institutions from 14 West African countries, Ecobank's vision was to facilitate private sector development and contribute to the economic development and integration of the West Africa region (Ecobank, 2012). From inception, the bank aimed to be a world-class institution, and signed a technical assistance agreement with Citibank. The first CEO joined from Citi, and long-time former CEO Arnold Ekpe, and the current CEO are also ex-Citibankers. The bank also wanted to play in the retail and SME banking space, unlike many of the multinationals that provided niche services to high-net-worth individuals and large corporations.

Between 1988 and 1990, Ecobank expanded to five West African countries, and another seven between 1997 and 2001. The bank then set its sights beyond West Africa and entered 18 countries between 2006 and 2010. Since then, the focus has been on consolidation and global alliances. Representative offices were opened in France, UAE, China, US and UK and an alliance was signed with ICICI Bank of India (Ecobank, 2012). The bank established a strategic alliance with Nedbank in 2008, with the South African bank acquiring a 20 per cent stake in Ecobank in 2014; the Ecobank Nedbank Alliance is by far the largest banking network in Africa, with more than 2000 branches in 39 countries. Ecobank by itself is the leading pan-African bank in terms of geographical spread, with over 12,000 employees in 36 African countries (Ecobank, 2016).

Ecobank has a well-developed retail and corporate banking franchise, and it continues to invest heavily in technology to drive market penetration. The bank has introduced an award-winning payment card and first pan-African payment gateway that allows customers to withdraw cash and make online payments and purchases across all the countries in its network. It has also recently launched a mobile banking product aimed at financially empowering 100 million new customers by 2020 (Ecobank, 2016).

The bank faces intense competition in francophone Africa where it has a strong presence from the French banks (Société Générale and BNP Paribas), and other emerging pan-African banks, including Moroccan banks (BMCE, Attijariwafa and BCP). With its two major acquisitions in Nigeria and Ghana around 2012, it has become a top-tier bank in these two anglophone markets; the bank faces serious competitive challenges in these and other markets from other pan-African banks likes Standard Bank and UBA.

Standard Bank: "Moving Africa Forward"

Standard Bank Group (SBG) was established in 1862 as Standard Bank of British South Africa, a colonial bank. Following a 1969 merger with Chartered Bank, an Asia-based British bank, a new bank emerged: Standard Chartered Bank (SCB). SCB was forced to sell off its South African subsidiary in the apartheid era in 1987; SBG subsequently became a South African bank, separated from the rest of the SCB group in Africa (Standard Bank, 2017).

SBG then embarked on a regional expansion of its own, competing against SCB. In 1988, it expanded into Swaziland and then Botswana in 1992; that same year it acquired the African franchise of the ANZ Grindlays Bank, expanding its footprints in eight countries. To differentiate itself from SCB, SBG used the Stanbic Bank brand in these new locations. SBG continued to expand its portfolio in the region, and made two major acquisitions in Nigeria in 2006 (IBTC Chartered) and Kenya (CFC Bank) in 2008. In this same period, it expanded to the emerging markets, and acquired banks in Eastern Europe, Middle East and Latin America (Grosse, 2015). SBG also entered into a strategic partnership with one of China's top banks, ICBC, which paid $5.5 billion to gain a 20% equity ownership in SBG in 2007.

In the aftermath of the global financial crisis of 2007–2009, SBG adopted an "African-focused growth strategy" in 2011, and scaled down its operations outside the continent (Standard Bank, 2017). Today, SBG is the largest bank in Africa by asset and balance sheet size with more than 35,000 employees in 20 countries (Standard Bank, 2016).

SBG is a strong player across SSA, especially in the southern region where it holds more than 20 per cent of banking assets in 4 countries (Beck et al., 2014). Being a major player in Africa's largest and most sophisticated banking market, it is able to fend off competition from other African banks in its sub-region, while being able to fight for market share in other regions. However, it faces serious competitive threats from the global banks (e.g. SCB and Citi) in anglophone countries, and from Ecobank and other pan-African banks in the francophone countries.

United Bank for Africa: "Africa's Global Bank"

United Bank for Africa (UBA) was incorporated in 1961 to take over the business of the British and French Bank (BFB), which had been operating in Nigeria since 1948. BFB had been set up as a subsidiary of a French bank and incorporated in London with two British investment banks as shareholders; their goal was to compete with the two British banks that dominated the Nigerian banking industry. Following Nigeria's independence in 1960, a consortium of five international financial institutions took over BFB, but saw their equity significantly diluted when the bank was forced to "indigenize" and list on the Nigerian Stock Exchange in 1970 (UBA, 2017).

UBA remained one of the "big three" banks in Nigeria for several decades, and in a consequential merger with Standard Trust Bank (STB), a smaller dynamic bank in 2005, became an even more formidable player. Post-merger, notable Africapitalist Tony Elumelu of STB became the CEO of UBA, and embarked on an audacious transformation of the bank, acquiring three smaller local banks and specialized financial institutions (UBA, 2017).

More than four decades after rebranding to United Bank for Africa, the bank changed its vision to becoming "the undisputed leading and dominant financial services institution in Africa", and commenced the journey to becoming a pan-African bank; surely a case of *nomen est omen* ("the name foretells"). The execution was swift. After taking over STB's Ghana subsidiary that had commenced operations just before the merger in 2005, the bank entered Cameroon in 2007, followed by greenfield investments in 2008 in Côte d'Ivoire, Liberia, Sierra Leone, and Uganda. That same year, it acquired banks in Benin and Burkina Faso, and then entered into Kenya, Chad, Senegal and Tanzania in 2009. In 2010, it entered Zambia, Gabon and Guinea, and then Mozambique, DR Congo and Congo Brazzaville in 2011 (UBA, 2017). Today, UBA employs more than 12,000 people in 19 African countries and has branch offices in France, UK, and the US (UBA, 2016).

As is evident from the bank's rapid internationalization, it is a dynamic and highly competitive institution. The bank has positioned itself as a one-stop financial services institution, competing strongly in the retail, SME and corporate banking segments. The bank faces strong competitive threats from the other pioneering pan-African banks (e.g. Ecobank and Standard Bank) in virtually all the markets it operates in. Being a relatively young multinational in a complex, dynamic and challenging region poses several organizational and market challenges, in addition to the liability of country of origin (Ngwu et al., 2015).

Conclusion: Can African Banks Outcompete Their Global Rivals in the Future?

Since the arrival of European banks in Africa nearly two centuries ago, there have been dramatic changes in the relative power and competitiveness of foreign and African financial institutions. The rise of pan-African banks across the continent in the last two decades has transformed the competitive terrain, as these relatively new players position themselves to become major players in an industry and region historically dominated by global players. Can the African challenger firms outcompete the global banks in the future?

In the larger economies—Nigeria, South Africa and Kenya—the local and pan-African banks will likely continue to dominate. With Barclays Africa Group becoming a standalone pan-African group following the recent divestment by the parent company, the top five South African banks, accounting for 90 per cent market share, are all local. More importantly, perhaps, these banks have huge pan-African ambitions, and are best positioned to compete with local and multinational banks in the region, given their impressive size and sophistication. In Nigeria, where the recapitalization of banks triggered a pan-African expansion in the last decade, the two foreign-owned banks have somewhat lost their pre-eminence as many of the 19 local banks have become bigger and stronger, holding over 94 per cent market share. In Kenya as well, the industry leaders—Equity and KCB—are local banks, and they are becoming notable players in the sub-region as they expand to neighbouring countries (OBG, 2017a). In sum, pan-African banks pose a serious threat to foreign multinationals, as they are increasingly able to fend off competition in their home economies while fighting for market share regionally.

In the rest of the Africa, competition is likely to be much more intense, particularly in the smaller markets (e.g. Botswana, Ghana, Cameroon, Senegal and Burkina Faso) where foreign-owned banks have maintained a competitive advantage for several decades. As pan-African banks expand into these countries, buying up local franchises, the only predictable outcome is that local banks would become marginal players. Ghana epitomizes this emerging competitive scenario. International banking groups—Ecobank, Standard Chartered, Stanbic and Barclays—now control more than half of the sector, in terms of the number of institutions (15 out of 28) and total assets, making them four of the five largest banks. Ecobank became the leading player after acquiring a local bank in 2012. Ghana Commercial Bank, number two in terms of assets, is now the only local bank in the top five, as two pan-African banks compete for market share with two established global banks (OBG, 2017b). The entry of seven Nigerian banks into Ghana in recent years (Ngwu et al., 2015) will only intensify competition in the future.

The situation is similar in Côte d'Ivoire and francophone West Africa, where Ecobank and Bank of Africa are growing aggressively alongside market leader, Société Générale; between them, these three banks hold about a third of assets in the area (Leon, 2016). In Côte d'Ivoire, two French banks hold nearly a quarter of banking assets; two Moroccan banks hold just over 20 per cent, Ecobank holds 12.5%, while local banks NSIA and BNI hold 9.5 and 7 per cent respectively (OBG, 2017c). The French banks have historically dominated banking in this region, but are likely going to struggle to defend their market share in the future. The trend in the past decade (the top five non-African banks' market share was halved from 40 per cent; Leon, 2016) lends credence to this.

It is becoming clear across Africa that banks cannot continue to focus on just niche banking to affluent customers and large corporations. Many global and large commercial banks have successfully adopted this strategy, Citi being a great example, as it has cut its retail banking business in Africa and around the world (Onaran, 2016). Not many players can afford to focus narrowly on this increasingly overcrowded segment; hence, banks are now seeking to use technology to drive their retail banking business. So far, the pan-African banks have appeared more successful in the digital banking innovation space (Verhoef, 2017), and have generally shown more interest in reaching lower end and SME customers—even as they upgrade their corporate banking capabilities. If this trend continues, they are likely to have a significant competitive advantage as the retail segment grows.

Barclays' exodus from Africa could be a sign of things to come. In announcing the decision to pull out of the continent after nearly a century, the bank cited increasing costs and risks and the need to focus on the US and UK markets (Arnold & Jenkins, 2016). Though somewhat surprising, this is not exceptional as European banks tend to be sensitive to the high costs of their relatively small franchises in Africa—especially following periods of crisis (Verhoef, 2017). Several French banks, for example, have exited the region in the last two decades or so (Leon, 2016); Crédit Agricole sold its African subsidiaries in 2008 to Attijariwafa Bank, the same pan-African bank Barclays sold its Egyptian franchise to. With global banks seeking cash to meet new capital requirements in their home countries, while also facing environmental and strategic risks in Africa, the temptation to sell increases. Pan-African banks tend to be willing to pay a premium to acquire these "legacy" franchises, which would most likely help them establish a more solid competitive footing in the region.

In concluding, pan-African banks have the potential to compete successfully in the twenty-first century as the cross-border banking war intensifies in Africa. Realizing this potential, however, requires building a strong position in their home market, adopting a long-term perspective (McKinsey, 2016), and paying attention to the not-so-obvious cultural barriers (Nartey, 2015). While a lot of progress has been made in the last decade, they cannot afford to be complacent as much work remains in the journey to become a really competitive pan-African firm; in the three banks studied in this chapter, for instance, none has achieved up to 30 per cent revenue contribution from outside their home market/region. Furthermore, their global rivals are formidable players with robust capabilities for performance, and do not face the internationalization constraints and liabilities confronting them, including liabilities of smallness, newness, country-of-origin and *Africanness* (Ngwu, Adeleye, & Ogbechie, 2015).

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