Competitiveness of Moroccan Banks and International Development Strategies: The Case of the African Banking Sector

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Abstract

The globalization of economies and financial markets combined with deregulation have modified the conditions of competition and increased the profitability requirements of banks. Moreover, management and control have become a major issue for banks. Banking has also been radically transformed by technological developments and financial innovations. Banks have had to adapt quickly to the upheavals of the banking landscape, by seeking sufficient size, to diversify and reorganize. The internationalization of financial flows, technological progress and deregulation have created new opportunities for banks, and at the same time a stronger competitive pressure has increased contagion opportunities. Moroccan banks reacted positively to this new international situation by launching their bid to conquer international markets of proximity by developing external growth strategies supported by an internal restructuring, on the one hand, on the banks themselves and on the other side on the banking sector. Large companies have pushed some banks, able to accompany them on all their global needs. Many medium-sized banks worldwide, however, continue to develop services for large international corporations, even if most of them have no choice but to integrate into banking pools because the degree of internationalization of banking activities remains clearly distinct according to the banking professions, finance and investment that compete most directly on a global scale, likewise in market activities, trades are more segmented and more specialized, so that for each segment, only a small number of actors are globally competitive. In addition, the offer is focused on retail banking. The retail banking businesses are still maintaining an essentially national competitive environment.

1. Determinants of the Moroccan banking model

If we retain the general orientation of the banking business towards internationalization and the necessary deployment of global offers, the question of the formation of national « champions » resulting from a wave of concentration of Moroccan banks seems to be really relevant, for many trades, only in defensive terms, to lock the access to a market. Because, more fundamentally, the question for each establishment is now to determine what will be its place in a world where customers of banks will be more free of their movements. A world where the practices and therefore the expectations and the degrees of requirement will strive, globally, to become standardized.

Conscious of this reality and to benefit from the training effect with foreign banks present in Morocco, Moroccan banks develop external growth strategies. The critical size acquired by some banks allowed them to establish themselves in several countries. In 2019, the banking network abroad consists of 13 subsidiaries, 39 agencies and branches and 60 representative offices. The monetary authorities pay close attention to the fact that there is no formation of dominant positions, while insisting on the monitoring of risks, particularly the country risk. Given the growing trend of the deployment of Moroccan banks abroad, the Central Bank of Morocco has issued, by directive, the minimum requirements that must be observed in terms of country risk management. Under this directive, country risk is broadly defined as the probability of financial losses resulting from macroeconomic, financial or political imbalances in a foreign country. This is a reality that has always faced three types of economic actors: exporting companies, multinational enterprises and international commercial banks. Banks stand out in terms of managing all the risks associated with their international activities. Country risk assessment is therefore of paramount importance in the banking sector. According to B. MARIOS, this is « the risk of materialization of a disaster, resulting from the economic and political context of a foreign state, in which a company carries out part of its activities ». These very general definitions illustrate the fact that the concept of country risk is vague and multifaceted.

Country risk may consist of sovereign risk or transfer risk. CALVERLEY[1] defines it as «the risk that results from the set of country-specific factors that affect the creditworthiness of private debtors located in that country». Among the most important factors are a devaluation, a recession, a sharp change in economic policies, a civil war, or discrimination against foreign companies.

[1] CALVERLEY J., « Country Risk Analysis », 2nd edition, Butterworth, London, 1990.

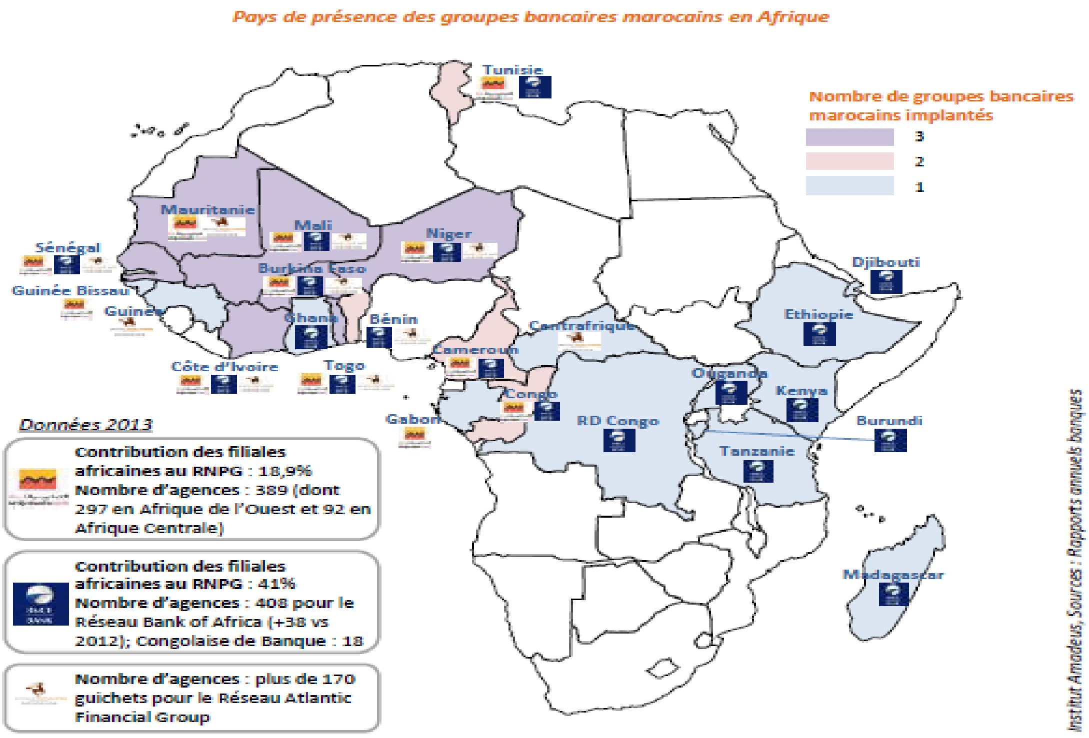
The country risk management system put in place by the Central Bank of Morocco must make it possible to identify off-balance sheet and off-balance sheet commitments involving such a risk and to monitor its evolution on an individual and consolidated basis. It must also be adapted to the size and complexity of the institution's portfolio operations. Identified risks must be covered by general provisions.

Country risk management is a condition for improving and maintaining the competitiveness of banks in a market where cultural, social and economic variables are constantly changing.

2. Internationalization of Moroccan banks: An inventory of fixtures

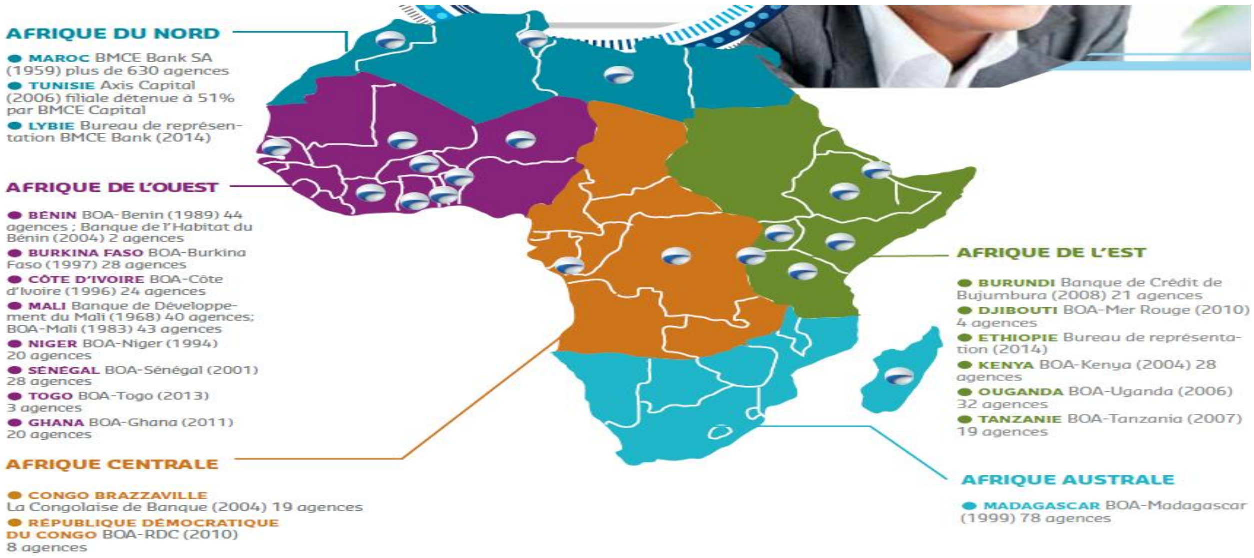
In recent years, Moroccan banks have demonstrated their ability to develop their businesses and find the growth drivers needed to sustain their income. A major international deployment effort has been undertaken by the main institutions, particularly towards Europe, the Maghreb and Central and West Africa. This strategy aims to ensure greater proximity with Moroccans residing abroad and efficient support for economic operators, while allowing banks to position themselves as a reference player in the region.

The two main Moroccan private banks, BMCE Bank and Attijariwafabank are present in seventeen African countries and have emerged in the space of a few years as mastodons in Africa. Thus, BMCE Bank Group opened a business bank in Senegal (BMCE Capital Dakar) before taking control of the Congolese bank (LCB) in the Republic of Congo.



Attijariwafa Bank has deployed in the Maghreb by taking over the Banque du Sud (now Attijari Bank Tunisia) before becoming the undisputed leader in Senegal;

BMCE Bank took control of Bank of Africa (BOA), a banking group present in eleven countries, is considered as the third banking network in the West African Economic and Monetary Union (UEMOA). Moroccan banks' subsidiaries represent 29% of the total UEMOA banking system.



Like Morocco, the presence of Moroccan foreign capital raises concerns in African countries. Dominant positions in some countries fuel fears. In Senegal, Attijariwafa Bank now controls more than 33% of bank deposits. In Mali, the situation is also blatant, the BMCE, through its two subsidiaries (BDM and BOA), accounts for nearly 40% of bank deposits.

Note that the BMCE and Attijarriwafabank deploy all their resources and relegated the original idea of creating a consortium to conquer with a single entity the African financial markets, a partnership that would have allowed economies of scale and a better division of risk for the first two banks in the country.

Interest in the African market can be explained by the low rates of bank access and the commercial opportunities are not lacking in these countries. These are the reasons for the craze of Moroccan banks for these economies. Moroccan companies have also proven their expertise and their know-how several times by becoming a cross-border giant. Moroccan banks also intelligently divide the risk related to their activity. There is a risk to take at the entrance: the liabilities of the banks. Moroccan companies buy back assets and liabilities, including debts and risky debts, this was the case when Attijari entered the Southern Bank, in Tunisia which has since become Attijari Tunis through a recapitalization operation. The BMCE also relies on the partnership of its English subsidiary Medicapital Bank and Bank of Africa, which allows North-South exchanges in particular in terms of technology transfer and know-how, but also to expand potential markets. According to the management of the BMCE, the project of merger between MedCapital Bank and Bank of Africa is the launching pad for the strategy of expansion of BMCE Bank Group internationally and geographical grid of the markets of the Maghreb and Sub-Saharan Africa.

Compared to its location abroad, the Moroccan banking sector which has just begun the opening movement, must persevere in this approach in the years to come. Several markets are still to be explored such as Maghreb countries or African markets. However, in markets that are difficult to access, should there not be mutualization between banks, so as to facilitate Moroccan representation in these markets? Mutualisation would have the advantage of making this representation possible and speeding up, with the aim of supporting national operators and investors.

3. The maturing phases of the banking sector in Africa

The first phase of development is characterized by the presence of two or three large banks in a quasi-monopoly position. Financing the private sector very little, they focus on income-generating and low-risk activities. Some small establishments operating in niche markets. The banking business is focused on short-term fundraising to finance risk-free counterparties or placing resources in the financial systems of developed countries. This development phase mainly concerns Central African countries. **In phase 2**, four to five dominant banks start generating returns to scale. Several private universal banks are emerging but competition remains limited. External financial systems continue to play an important role. Banking activity is to finance the state, large corporations and individuals with collateral. Kenya, Ghana, Côte d'Ivoire or Senegal are examples of countries in phase 2. **In phase 3**, a consolidation movement eliminates inefficient small banks. Healthy competition is developing. The sector's capacity is sufficient to finance the majority of local operations. Banking sector penetration rates in the economy are rising rapidly. An expansion movement begins in neighboring countries. Only South Africa and Nigeria can today be considered as actually in phase 3**.**

4. Impact on the competitiveness of banks, diversification of the economy and opportunities for regional integration

This vast movement of internationalization of Moroccan banks combined with vague operations of concentration in the domestic market where the external market goes without asking questions in terms of economic integration, social and financial diversification.

In terms of competitiveness, Moroccan banks must respond and adapt to the environment of their location by offering comprehensive services to their customers to expand their business portfolio and their geographic coverage. With its *« one stop Bank »*[2] business concept, which consists of product diversification and overhead amortization over a wide range of products and is the source of economies of scale. Also we are witnessing the emergence of the virtual bank offering all of its services remotely using telephony technologies, internet… the goal is to minimize the cost structure and to be competitive across all segments.

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[2] SAMIA, B et NATHALI, J « l'enjeu de la diversification : synergies opérationnelles ou financières » BANQUE magasin N°646, Avril 2003.

The backwardness of the African countries is mainly due to the lack of competitiveness and diversification. Therefore, the reforms to be implemented aim at: the gradual elimination of barriers to FDI, improving the business climate by encouraging competition, by fighting against rent-seeking situations and by promoting transparency, the fight against recurrent governance problems (corruption, discretionary power, irregular implementation of policies) and the promotion of a knowledge-based economy.

The internationalization of Moroccan banks in Africa is a step towards the Moroccan-African integration and a catalyst for the creation of an economic space carrying well-being. The latest theories of integration focus on what is called project-based integration, which consists of cooperating in the creation of major projects that could result in external growth that generates well-being for the populations of the partners, this research track deserves special attention in that it focuses on the correlation between banking internationalization and African economic integration.

Conclusion

Moroccan banks adopt a niche specialization, from the outset thought of on a global scale. The organizational principles chosen for these focused developments may well be worth a lot of banking jobs tomorrow: establishment in the main world financial centers, centralization of back offices at regional level; centralized tracking limited to large clients, risks and human resources. Refocusing on one or a few trades or on one or a few geographic markets with the aim of optimizing the management of even a limited customer base, the process of globalization of the banking activity does not prohibit in kidney the maintenance in the competitive arena of medium, or even small banks.

Thus, the level of development of Moroccan banks presents forces that are more in line with the environment in which banks operate; and advantages or specificities specific to the banks themselves. It is understandable then that a number of institutions are seeking to offset the decline in unit margins by increasing their market share. When the domestic concentration reaches a certain level and the competitive framework is characterized by a lack of prospect of growth in the domestic market, banks are encouraged to « look out of their borders ». Also the concentration of the banking sector seems to us to be a good criterion because it gives us an idea of the seat of the big banks on the national market, but also of their incentive to go abroad.

To be competitive for the banks, it is notably to continue the control of the costs and the increase of the productivity gains. This control takes place mainly through the technological revolution and relocation.

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