



Revived African Bank has its work cut out to find a sustainable strategy

WITH all the political drama surrounding the Treasury, it is easy to forget that real work goes on. Next week marks the culmination of one of the most challenging projects that our financial regulators have yet taken on: the official relaunch of African Bank as an independent, standalone entity.

Monday will be legal day one of the new African Bank.

Since its collapse in August 2014, the bank has been managed by curators appointed by the finance minister and reporting to the Reserve Bank. The resuscitation has taken lengthy negotiations with creditors, an amendment to the Banks Act, a R7bn government guarantee to absorb some problem loans, and a new banking licence application. The relaunch has been delayed several times due to the challenges in getting all of the relevant parties on board.

But that hard work is done. The bank will start on a sound financial footing, with R10bn of shareholder funds, and R24bn of cash on hand. That's great in theory, but a strong balance sheet is useless without a profitable business model. The substantial cash position is, in fact,

ON THE MONEY



Stuart Theobald

stheobald@intellidex.co.za

bad news — it indicates the bank has been collecting far more cash than it has been able to lend out. A bank with a shrinking asset base is not sustainable.

I suspect the bank's shareholders — the Reserve Bank with 50%, the Government Employees Pension Fund with 25%, and a consortium of the other commercial banks with the rest — will be praying for someone with deep pockets to offer to buy out the whole bank. That will be the neatest way out of their uncomfortable exposure, but the bank has to assume no such offer will materialise. It needs to develop a strong standalone strategy.

That has fallen on the shoulders of Brian Riley, a former

CEO of Wesbank who heads the resuscitated bank, and a board led by former Absa deputy CEO Louis von Zeuner as chairman.

It is a strong team, with deep experience, but the challenge of finding a competitive strategy in a difficult market is immense.

It doesn't help that the Department of Trade and Industry is imposing new price caps on unsecured lending and credit life insurance, the two areas that had been African Bank's profit generators. And it is a very difficult economic environment for any business model premised on the financial health of consumers.

The bank will eye primary competitor Capitec with envy. African Bank has announced that it will emulate one aspect of Capitec's success by going into transactional banking. The old African Bank steadfastly avoided that, making its money out of lending and raising funding on the capital markets. Capitec has shown that a low-cost transactional model can provide a diverse source of funding, and a healthy stream of fee income.

I have my doubts as to whether the market has room for another transactional bank focused on the middle- and lower-income market.

African Bank also intends to

go into asset-backed lending, such as home loans and vehicle finance. Historically, the bank dabbled in such financing, including funding minibus taxi businesses. With the large banks far less interested in long-term asset-backed lending, I think this interesting area is open for an innovative competitor.

African Bank's one strength is its relationship with the other banks that were forced by the Reserve Bank to become shareholders as part of the bailout. It is in the rest of the banks' interests to see African Bank succeed. That may allow it to form profitable partnerships.

African Bank has teamed up with Sanlam to market its services in the bank's network and gain access to Shoprite's stores for collection channels. It's not impossible that it will tie up with one of SA's larger banks as a specialist unsecured lender.

I am sure Riley has wondered whether the whole bank could be merged with Wesbank.

The bank has two years to get it right. That is when the restructured bonds will become due. It will need by then to be in a convincing profit position to ensure it can obtain new funding.

The management team cannot lose another moment.