My Worries as a Banking Executive in 2024

The banking industry has evolved over the years, and we have seen a disruptive shift in the business of banking in the last two decades. Banks have faced and is still facing these multiple disruptive forces like FINTECHs, emerging technology such as AI, Cyber security, Customer experience evolution etc. In addition to these disruptive forces, there are also other macroeconomic forces like interest rates, inflation, exchange rate, among others, which are challenging the core architecture of banking especially locally in West Africa. These changes are quite crucial for banks' success and thus a burning concern for many bank executives.

Banking executives are entrusted with the arduous task of leading and helping banks adopt strategies to manage these forces. Having had the opportunity to interact with several African bank executives; CEOs, CFOs, managing directors, etc., it is instructive to know that issues like Forex, Fintech, Technology, Cyber Security, Process efficiency, Talent Management and ESG are critical factors they make decisions on every day to successfully navigate the dynamic and evolving banking space in West Africa and beyond.

The Global Banking and Capital Market Outlook for 2024

In Deloitte's 2024 Banking and Capital Market Outlook report, the following key points were highlighted:

- The banking industry will be challenged in their ability to generate income and manage cost as the industry is faced with a slowing global economy coupled with divergent economic landscape.
- The banking industry is gradually changing how they operate to serve customer needs as the industry will experience an exponential pace in technological trends.
- The business models of the banking industry will be tested, and banks will be challenged to explore new areas of generating revenue in a capital-scarce environment.
- Higher interest rates, reduced money supply, more assertive regulations, climate change, and geopolitical tensions are key drivers reshaping the core fundamentals of the banking and capital markets.

Africa Banking Outlook for 2024

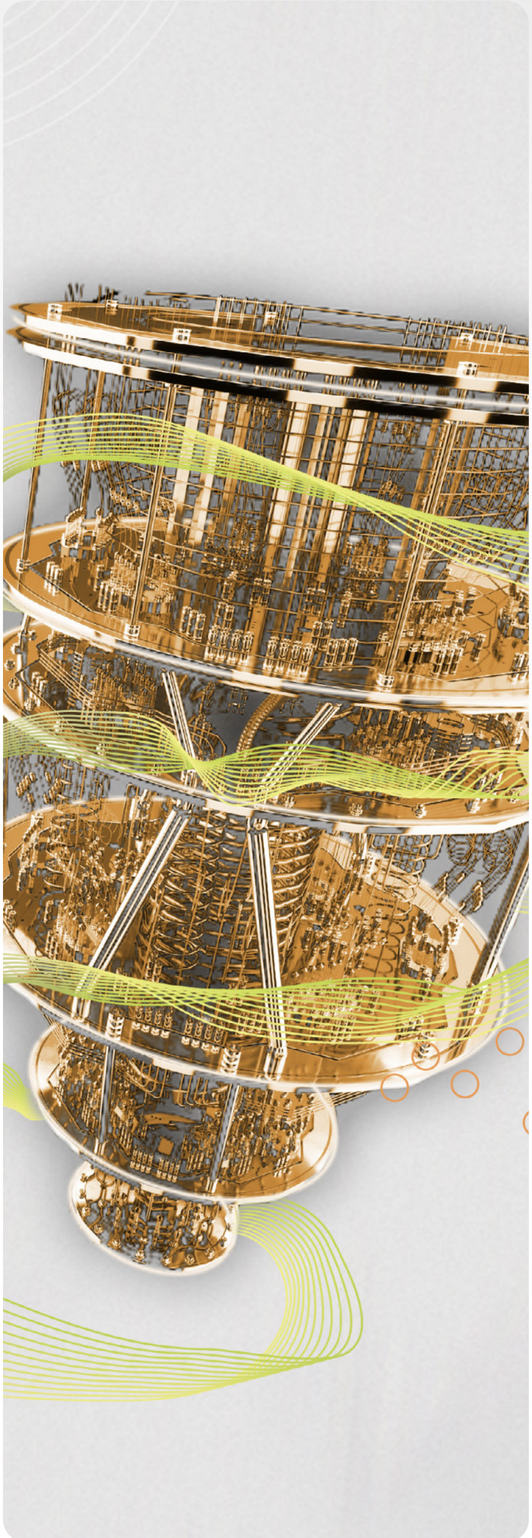
Fitch Ratings outlook report on African Banks for 2024 conducted in November 2023 creates an expectation that operating conditions for African banks will be as challenging in 2024 as they were in 2023. The following items listed below were revealed:

- In 2024, banks will remain exposed to domestic and global operating environment risks supported by high commodity prices. GDP is expected to remain moderate with no African economy set to face recession and thus the base case expectation will be better than what was experienced in 2023. Most banks are showing some form of resilience as we can see in the case of Ghana and Nigeria.
- Asset quality risks will remain prominent as interest rates and inflation will continue to be on the rise.
- Domestic currency is expected to further depreciate against the US dollar in 2024.
- Markets, funding, capitalization and Liquidity levels will remain fairly stable for banks in 2024.

The following are some of the likely areas that will keep bank executives awake in 2024:

Forex

Foreign exchange plays a major part in the global financial system and directly affects the banking industry. Banks are constantly concerned with exchange rate fluctuations as adverse changes could affect the bank's balance sheet. For instance, huge foreign currency loan exposure where local currency is depreciating could have direct impact on capital ratios resulting in the banks struggling to meet regulatory metrics. Also, it could create significant credit risk on those loans. Ghana has experienced currency depreciation of 25.8% against the dollar as of November 2023 according to the Bank of Ghana Summary of Economic and Financial Data. Ghana also experienced cedi depreciation of 28.6% and 27.7% against the pound and Euro respectively. Also, per the Nigeria Development Update (NDU) report shared by the World Bank, Nigeria experienced the depreciation of the naira against the dollar by approximately 41% in the official market and 30% in the parallel market as of December 2023. This is why managing forex risks is very crucial for banks in 2024 particularly emerging economies like West Africa. The forex market is inherently volatile and geopolitical events as we have seen can have a significant impact. Bank executives should explore forex risk management tools like hedging using appropriate derivates to safeguard their profitability and minimize the risk of banking foreclosure in the face of market fluctuations, redefining Asset Liability Management and use of forecasting and stress testing tools to anticipate and be better prepared.



Fintech

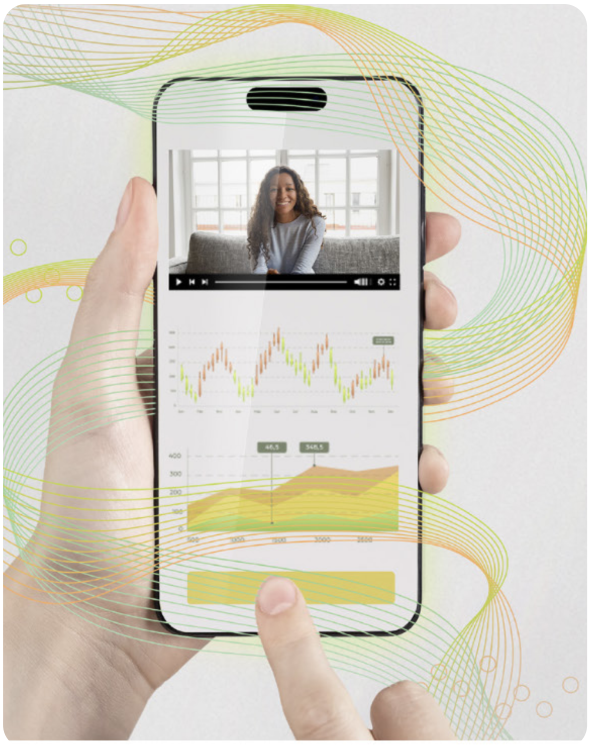
Fintech is an amalgam of Finance and Technology, and it is one of the transformative forces the banking industry has reckoned with over the past decade. Electronic payments solutions have become an integral part of banking and the emergence of Fintech entities have created a smooth transition and further elevated payments. Banks executives should explore the various ways to assimilate the fintech model into their business model since fintech companies continue to evidently disrupt the traditional banking models. In 2024, banks may explore establishing strategic partnerships with fintech firms to provide avenues for innovation and expansion. Other options include acquiring platforms to effectively compete with fintech firms as this competition is essential for maintaining market share.

Technology

Technology has had a massive impact on the banking industry, and it continues to evolve. We have seen how technology has induced competition among banks and how behaviors of customers towards banks have evolved. Any discomfort with how a known brand operates could easily influence their decision to switch to other banks where they can find satisfaction because of the low switching cost. Technology has also made banking more convenient with the introduction of smart phones and mobile apps. Data protection has also helped banks to protect and manage sensitive banking data as a result of technological advancement in the banking space. Banks should embrace and implement cutting-edge technologies such as blockchain, machine learning and artificial intelligence to stay relevant and competitive.

Cyber Security

Cyber security risk has been identified by many banking executives as the most significant threat to businesses and the banking industry is not an exception. Cyber fraud in the banking space has become prevalent in recent times due to increasing reliance on digital platforms. This may pose costly threats to banks and can further derail the trust of clients. Globally, a data breach report by IBM revealed that the cost of data breach has reached a record high of $4.45 million in 2023 as compared to a record of $4.35 million in 2022. A fraud report by the Bank of Ghana evidenced that 2,998 cyber fraud cases were recorded in 2022 which represents a 27.4% increase compared to 2021 and resulted in a total loss value of GHS 56 million. The major drivers of the recorded cases stemmed from forgery and manipulation of documents, cheque fraud, fraudulent withdrawals, cyber emails and cash theft. Also, according to FBI Internet Crime Report released by FBI in 2020, Nigeria was ranked 16th country globally to be worst affected by cybercrime. The Cyber Security Experts Association of Nigeria forecasts indicated that Nigeria will be faced with more cyber security threats spanning from the 2023 Elections, Government Infrastructure as a Target (GIaaT) threat, Cryptocurrency based threats, Ponzi Schemes, Phishing and Social Engineering. As of August 2022, Nigeria recorded 174% increase in cybercrime mainly from phishing and scams. This is to show that banks are being adversely impacted by cybercrime activities and thus, a need to enforce cyber security interventions. Implementing robust cyber security measures has become inevitable and banks should look into rolling out more sophisticated cyber security solutions.



Talent Management

Technology has influenced how work is done in the banking space and therefore, a need for banking executives to ensure that the skills gap is bridged. In managing talents, banking executives need to assess and identify critical roles that form the core and strategic function of the bank and develop strategies to attract, retain and upskill talents to ensure that the workforce is fully equipped to navigate the evolving banking landscape. Banks should be able to match the best performing talents to these critical roles and actively manage their growth and development.

Process Efficiency

Operational efficiency in the banking space is very essential as it depicts how smooth and orderly the banking business is run. Banking involves a series of processes and even though functions are departmentalized there is still some interconnectedness and as such the need for process efficiency. Banking operation leaders are challenged daily to ensure that cost savings are realized amidst high customer demands. Bank executives must meet these dual imperatives in the face of competition and digital disruption. Tools like Process Digitization, Robotic Process Automation (RPA) and in some instances Advanced Analytics is changing the way business is done and creating a disruptive move in the world of work. Therefore, Banks need to explore how these tools can be used to streamline its processes to ensure efficiency in the banking space and ultimately foster a more agile and responsive banking operation.

Environment, Social and Governance (ESG)

The banking industry plays a pivotal role in assessing how their activities impact the environment and society in which they operate. It has become expedient that banks incorporate sustainable banking which is also known as “green banking” in their everyday business to ensure that the banking business helps in the overall reduction of external carbon emission and internal carbon footprints. By doing this, banks can get access to other financing opportunities like the green loans that foster its capital and asset growth. Besides banks adopting ESG, the emphasis on ESG considerations is growing and customers are beginning to prioritize socially responsible institutions. Thus, banks integrating ESG principles, such as sustainable investments and lending, into their banking practices, is very crucial in meeting customer expectation and regulatory requirements.

Conclusion

We acknowledge that many of these concerns are not novel within the banking industry in West Africa and beyond. In addressing these issues, banks may want to consider a holistic and integrated approach that involves leveraging technology for both operational efficiency and cybersecurity, proactive and forward-looking enterprise-wide risk management, investing in talent development, fostering collaboration with fintech partners and aligning banking practices with ESG principles to meet evolving market demands in the banking industry. Opening up discussions around these areas will definitely give banks in 2024 a competitive edge and firsthand move in the financial services landscape. Deloitte is your strategic partner of choice in helping you navigate through these topical issues and seeing you through to success in this dynamic banking landscape.

How Deloitte Can Help

These services provided by Deloitte can help address the major concerns raised above:
- Treasury Management
- Finance Digital Transformation
- Robotics & Process Automations
- Cyber & Strategic Risk Services
- Financial Risk Management
- ESG Reporting

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