Speech by the Group Executive, Operations & Technology, Ecobank Transnational Inc., at the 12th Annual Banking & Finance Conference of The Chartered Institute of Bankers of Nigeria on Tuesday, 24th September 2019.

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I am delighted to be part of this session on "Shared Services and Cost Management" as part of the theme "The Future of the Nigerian Banking Industry" in this 12th annual Banking & Finance Conference of The Chartered Institute of Bankers of Nigeria.

I would like to start by pointing out some of the challenges facing the Nigerian banking sector and the need for the right responses for sustainable future. We need a balanced approach to improve on how we provide financial services to our various clients and how we perform the essential functions of spurring economic growth for the country.

Based on recent developments, there are reasons to believe that the future for the Nigerian banking sector is up to some challenges. Dealing with asset quality and the requirement for capital buffers in a tough economic environment, banks have been faced with the process of restructuring the balance sheet: writing down impaired assets and increasing provisions. The consequence is inevitably lower profits, and huge stock of non-performing loans further weighing on earnings prospects. In addition, the growth of internet, mobile banking and evolving customer preferences has meant that barriers to entry into banking are falling- banking service has become commoditized. The customer expectation is now banking services at very low price point. Banks with large branch networks are being exposed to competition from low cost and branchless financial service providers like Fintechs and MNOs. For survival, banks need to look at ways of operating efficiently to deliver services at the low prices the customers are willing to pay and still make sustainable profit. They however need to be cautious that response to short-term pressures does not come at the expense of longer-term viability, especially in the area of cutting cost to boost profits. So, the way for banks to improve sustainable profits is through genuine efficiency gains.

This calls for strategic approach to cost management as part of a broader and sustainable efficiency efforts. It will require a mix of short-term tactical cost management that is complemented with longer-term strategic initiatives on cost. Banks need to deal with high cost structures in a thoughtful and sustainable way without impacting revenue generation capacity. There will always be opportunities around simplifying processes and systems. Prominent among opportunities we need to explore is lean operational model that is complemented with extensive use of shared services to eliminate duplication of activities within the bank and the industry at large. Secondly, I would like to discuss inherent opportunities in simplified technology infrastructure, as another lever towards sustainable reduction of cost of ownership of technology assets. This is particularly important as Technology is taking a prominent place as enabler in banking. Apart from creating new opportunities, these propositions will enable banks deal with heavy cost overhang in our current tough business environment.

Africa is reported to have the second-highest cost-to-asset ratio of any region in the world[1] at 3.6%, including cost-to-income (CIR) ratio at over 60%[2]. These have worsened in the recent years. For Nigeria, average CIR since 2005 has remained high (at about 70%) relative to some international peers where banks play key role in economic development. Heavy staff costs and labor-intensive, paper-dominated processes hold back productivity in Nigerian banks. What has been protecting most backs in Nigeria from a dramatic worsening of CIR ratios is the high margins. With dynamics like the focus of the Central Bank of Nigeria on asset creation (at single digit) by the banks, increased competition and growing customer expectations, margins are likely to come under more pressure in the years ahead. This calls for action now, especially around the creation of simpler, leaner banking models.

We can achieve sustainable cost reduction by exploiting the inherent opportunities that technology offers. Share services facilitates a service model that engender efficiency gains. I would like us to look at this from two perspectives- intra-bank shared services (within the same bank), and inter-bank shared services (Banking Industry).

Globally, shared services as a concept is not new. This has been used across industries and economic sectors. Across the world, most

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[1] https://www.statista.com/statistics/915652/cost-to-asset-bank-ratio-by-country/

[2] https://www.afdb.org/fileadmin/uploads/afdb/Documents/Knowledge/AEB_Vol_6_Issue_5_2015_The_Banking_System_in_Africa__Main_Facts_and_Challenges-10_2015.pdf

organizations have introduced different models (captive or more hybrid models like outsourcing) of shared services in one form or the other. Although there will always be more opportunities for consideration. One key area is transaction processing. Today, transaction costs and risks are reducing as a result of technology that is enabling the processing of smaller transactions, turning more low-income customers and SMEs into commercially viable clients. Processing of transactions can be centralized in remote locations far from where the transactions are occurring. This has multiple benefits- it deepens skills and competencies as the central processing unit gradually evolve into a center of excellence given the improvements in requisite expertise over time. It also reduces institutional risks through centralization and automation of effective risk mitigation controls such as Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT), due diligence and Know Your Customer (KYC) requirements. Other key areas that can complement gains from shared services through centralization and automation include the centralization of cyber risk control, process and operations control amongst others. And for banks with business operations across multiple jurisdictions, centralized product development is key.

Taking on a more centralized approach brings additional benefits, agility and added value. Perhaps the most striking sustainable benefit from this model is the efficiencies that reduces cost to serve through the reduction in management overhead, reduction in the number of transaction processors, and economies of scale, where increase in the volume of transactions may not result in commensurate increase in headcount. This also provides the organization the flexibility and ease of scaling volume. Apart from these, there are empirical evidences that support financial benefits of shared services. Return on Investment (ROI) for its implementation is about 20% based on global best practice, while average payback period is estimated at three years. In Europe and America, about 45% has been attributed to measurable direct bottom-line impact when fully executed. This include cost saves from headcount and other tangible assets. However, careful execution is required through fact-based analysis, strategy, and deployment plan. The proposition should not result in more complexities but should be carefully executed to provide business value. Execution should be preceded by an understanding of the needs, the systems and processes necessary to implement them.

Banks should look beyond internal initiatives to drive efficiencies. Industry approach to shared services should be explored. Banks could share infrastructure, service center and utilities. The model has been in use in some industry in Nigeria like the Telecommunication sector. Co-Location is now a common terminology in the telecom space. Mobile network operators (MNOs) co-locate their infrastructure by sharing telecom masts rather than each operator building their own masts. Nigerian banks must be willing to explore inherent opportunities in sharing the use of key tangible assets rather than continuing to carry them in their books at huge costs. This model is crucial to the new world in which we now find ourselves. In the banking sector, the role of transaction switching companies provided inter-operability that enabled banks to share ATM and PoS.

Another interesting area is around sharing of data. Why should a potential customer of bank A that already has an active account with bank B be subjected to endless documentation to obtain basic information for account opening? Nigeria banking industry require a data sharing standard and platform that is complemented with synergies. The world is now talking of Open Banking. Customer information held by one bank should be accessible to another bank in a way that facilitate ease of access when required by any other bank, just like it is being currently managed through the switching platform and payments facilitator. Banks need to embrace this hybrid shared services operation as a strategic priority. This will require breaking down silos among banks. Across major countries of the world, some leading financial institutions have already initiated this transformation through gradual process of restructuring their operational models to suit the new normal.

The collaborative efforts that created the switching platform that is providing the banking industry and the country with enormous possibilities can be extended to many other areas. For example, instead of committing huge financial resources to building on-site data centers on a stand-alone basis, access to cloud and colocation technology facilities is an attractive option at lower cost for sustainable efficiency. Rather than continue to build and staff own facilities, banks can rent space for servers and other computing hardware in data center that is managed by a provider at a fraction of their current technology related spend. This enables banks to scale their systems easily by buying capacity when it is needed. With high dependency on technology, especially now that digital service is the norm, banks create redundant capacities to ensure high availability of the system and disaster recovery. Banks can have one disaster recovery facility that will ensure efficiency in the industry. Capital expense for a stand-alone enterprise data center is huge. Some of these costs are duplicated across banks in the country. We need to question this model as we seek to enhance capacity of the banks to create more value for the economy. The option of shared services in Technology infrastructure will also enable banks deal with the issue of obsolescence of Technology components. Innovating for the future of the Nigeria banking industry is about initiating and strengthening a collaborative journey together so that we can achieve the goal of better outcomes for the banking public and the economy in general.

In conclusion, Nigerian Banks need to address cost challenges with a look at shared services models in order to be more efficient for a sustainable future profitability and growth. The consistent theme that underlines many of the challenges facing the banking industry in the coming years is cost reduction. However, traditional downsizing strategies are unlikely to be enough to deliver the cost base reductions needed. I strongly believe that banks need to start thinking about implementing longer-term sustainable cost reduction measures. There has been some progress along these lines as banks strive to eliminate paper, automate processes, pull back on branch network and retire physical infrastructure to right size their operating environments. But we need to do more. By taking advantage of shared services, banks can improve on costs and operational strategies, and can then focus on their core businesses. The overarching goal is to build a more responsive and agile banking industry, and profitably deliver better outcomes for the Nigeria economy.

Within the next few years, I hope to see Nigerian Banking industry that is more focused on core competences and cost-driven target operating models, where sourcing is considered a key component of the equation. A banking industry where banks outsource more of their none-core activities to external service providers or buy services from external sources.

Stability of the financial sector through greater banking sector resilience will engender sustained economic expansion. Sustainable profitability represents the first line of defense against losses. Retained earnings are an important source of capital, enabling banks to build strong buffers. Those buffers ensure that banks can provide financial services to individuals and businesses, even in the face of adverse economic developments. This smoothens rather than amplify the impact of negative shocks on the real economy through the provision of finance to clients that need funding to invest and grow.

To better align banking services with customer needs, improve efficiencies, become high performers and make significant contribution to economic development of the country, Nigerian banks must not be afraid to seek out innovations for improved service delivery. They must invest more in workflow capabilities, case management solutions, and self-service tools. The evolution of various payment solutions, agency banking, shared services etc., are clear examples of innovation in action for sustainable cost management. It will be interesting to hear more on this today.

Thank you