

BANKING FOR ALL



Helios Principal **Souleymane Ba** explains why **Helios** sees opportunity in the African banking sector while others are retreating.

In April 2016, Helios Investment Partners, one of the largest investment firms focused on Africa, acquired two financial services businesses from Crown Agents Limited, a UK-based international development company owned by a non-profit-making foundation. The two businesses provide payments, trade finance, foreign exchange and investment management services to governments, development organizations, donors, central banks, investment fund managers, and corporations operating in Africa, the Caribbean and South East Asia. The Crown Agents transaction marks the first time an African-managed fund has won approval from regulators to acquire a UK financial institution.

Why did Helios decide to acquire UK-regulated Crown Agents Bank (“CAB”) and Crown Agents Investment Management (“CAIM”)?

CAB is a UK-regulated commercial bank focused on the provision of transactional banking services to sub-Saharan Africa and other emerging markets. As a specialist provider of financial services to governments, central banks, development organizations, financial institutions and corporates, CAB focuses predominantly on Africa, managing deposits and facilitates payments, foreign exchange and trade finance transactions through a network of correspondent banks. African entities make up over 70% of CAB’s commercial bank client base and over 50% of its central bank client base.

CAIM is a UK-regulated and licenced investment manager providing specialist services to governments, central banks and ministries of finance, in addition to public and private sector pension and insurance funds. Like CAB, CAIM focuses predominately on Africa. Over 60% of the investment manager’s top 20 external clients are African entities. It has longstanding relationships with central banks and provides training to the treasurers, employees and key decision-makers in the finance ministries of those banks across the continent. CAIM provides access to other UK financial institutions such as the Bank of England, which is important to its customers. Crown Agents offers something unique in that it acts as a credible platform for a range of customers, facilitating the payments they make globally.

A key aspect of this transaction is financial inclusion, which is consistent with our acquisitions in the past, such as our 2007 acquisition of a stake in Equity Bank in Kenya. At the time of Helios’ investment in Equity Bank, a large segment of the Kenyan population, particularly in the rural and informal economy, were viewed by traditional banks as an unattractive demographic and were therefore excluded from the financial system. Equity built a successful bank serving the financially excluded and became the leading bank in East Africa both in terms of profitability and number of accounts.



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The same theme of financial exclusion is also playing out at the institutional level, even with high street banks in small and medium size countries. The large global banks do not view those customers as attractive, which results in many of these institutions being excluded from the global financial system. They struggle to build correspondent banking relationships, effect payments, get access to currencies or execute trade finance transactions, which hampers economic development. Helios' investment addresses this substantial unmet need.

Does it concern you that banks like Barclays and HSBC are exiting the African market?

We approach the region from a different perspective. Larger global institutions may find, due to increased regulation and capital requirements, that it is too onerous for them to serve the financial markets in Africa, particularly when Africa and frontier markets represent a minuscule portion of their assets. Ultimately, it makes sense for them to focus on their core markets where they have most of their assets. For CAB and CAIM on the other hand, those “neglected markets” are core, and we see opportunity given the significant and growing demand in our markets for transactional banking services. By applying a focused model, we feel we can succeed in creating the leading independent transactional banking institution and investment management companies focused on Africa and other under-served markets.

The key is having deep relationships, transactional banking expertise and a platform with relevant products, adequate systems and people that not only meet customer's needs in Africa but on a global basis. CAB and CAIM have a 180-year legacy of focusing on these under-served markets and we plan to inject both financial and non-financial resources to enable them to achieve their ambition. We work on the ground with the expertise, local knowledge and understanding, and hands-on involvement that these businesses require, which larger public financial institutions may not be able to do.

How do you plan to overcome or avoid the difficulties that these institutions have identified?

It is important to have a clearly defined target market and customer, and to build a business that is consistent with that choice. CAB and CAIM will focus on small and medium size markets and not try to become a business adept at serving retail customers in Europe, multibillion dollar US companies, and small African corporates at the same time. In addition, maintaining a high quality, low risk, hard currency balance sheet is critical. Also, our sector expertise and on-the-ground presence in Africa allows us to understand market trends and to capitalize on this insight.

What are the challenges of acquiring a business like CAB and CAIM?

The first challenge is ensuring that we remain good custodians of the great legacy Crown Agents Limited has built over its 180-year history. That means continuing to meet the needs of existing customers and ensuring a smooth transition.

The second challenge is selecting the correct approach to grow the business. If you are used to building businesses in more developed markets where your main customers are large multinationals, the systems you use would be tailored to these large customers and difficult to apply to the needs of smaller customers. The model you adopt must reflect the DNA of the organization, and in the case of CAB and CAIM it needs to focus on the mindset and culture of its existing customers so that customers realize they are important to CAB and CAIM, even if the large global banks have neglected them.

This approach requires intensive management to drive strong returns on investment, a key differentiator for Helios. We have an investment team for sourcing, negotiating and structuring deals, collaborating with a separate portfolio operations group that works alongside management to develop and implement the business plan. The trust that the management teams of portfolio companies place in us enables us to pool our resources and work side-by-side in identifying and addressing the needs of our businesses.

Consolidation

Do you envisage consolidating the bank and asset management company with any of your other portfolio companies?

When I think about Helios' investments I think of building institutions that fill a market segment that is under-served by many players. As a result, there will naturally be geographical overlaps between CAB, CAIM and many of our other portfolio companies.

We aim to help our portfolio companies grow with their customers. We hope there will be opportunities for our portfolio companies to work together to increase efficiency and profits, for example with the foreign exchange businesses, but this will always be on an arm's length basis. This is because, particularly for the bank and asset manager, we want to retain the customers' trust and the independence of the bank is an important factor in this.