

The Banker (United Kingdom)

November 1, 2004

Comment

Barclays' South African Bid Provides A Litmus Test - South Africa's Market Potential Lies In Extending Services To Poorer, **Unbanked** Areas, So How Will A Foreign Bank Fair In This Environment?

Barclays has upped the stakes in Africa with its €2bn bid for ABSA Group, one of South Africa's so-called Big Four banks with close to €30bn in assets. Other foreign banks, including Standard Chartered, are believed to be circling.

Should the deal be approved, analysts are tipping Barclays to unlock significant value in ABSA, which many believe still carries the flab of the 1991 merger of four separate banks that was its origin. The combination of Barclays' strong balance sheet and considerable know-how will appeal to South African corporates and inward investors.

But Barclays will know that South Africa's future market potential - and indeed the entire continent's potential - depends not just on clawing away market share in traditional, well-served but ultimately small market segments. Rather, the greatest latent growth potential lies in extending services to '**unbanked**' markets: low-income retail customers and the growing number of small and medium-sized businesses, the bulk of which presently have limited or no access to banking services. These are the profitable customers of the future.

In South Africa, the government is not waiting for a slow evolution of the market. Under subtle pressure from the government, banks there have signed up to the Financial Services Charter, a voluntary undertaking to extend services to poor areas. So far results have been mixed and the challenges significant.

South Africa's local banks are not idle and government compulsion may prove just the impetus to stimulate novel solutions in these new markets. Barclays does not bring obvious experience in this regard and there will be keen interest to see how quickly it is able to respond to the challenge. Can Barclays, best known as a British high street retail bank, make the cultural leap to illiterate customers in informal settlements?

It will be a test case for the rest of Africa, to see whether the continent's huge untapped markets can be made viable. If Barclays gets it right in South Africa it has the scale and resources to make a strong play for the rest of Africa, well beyond its existing presence.