GTBank

Guaranty Trust Bank plc
RC 152321

# NIGERIA MACRO-ECONOMIC AND BANKING SECTOR THEMES

2020

# MACROECONOMIC AND BANKING SECTOR THEMES **FOR 2020**

**This article presents our forecasts and opinions of the broad Nigerian macroeconomic and banking sectors trends that we expect would shape the economic landscape in 2020.**

## KEY THEMES / TRENDS FOR 2020 INCLUDE:

- Fiscal Policy and the 2020 FG Budget
- Total Debt Profile
- Interest Rate and Inflation
- Exchange Rate Policy, External Reserves and Capital Flows
- Oil Prices, Production and Security

# REVIEW OF 2019

2020, Year of the Rat, marks the beginning of the repeating 12-animal cycle of the Chinese Zodiac. The last Rat Year, 2008, reminds us of the collapse of the global investment banking giant, Lehman Brothers which tipped the scales in the build-up to the last global financial crisis; one that many have referred to as the most severe since the Great Depression of the 1930s. Incidentally, it is the first time in almost a century that the Rat Year has coincided with the beginning of a new decade hence, the widespread expectations that the year 2020 will signal new opportunities, new beginnings and renewals. With the race for Downing Street out of the way, Boris Johnson must now lead the government to pass a Brexit deal or leave the European Union (EU) without one. Unlike the parody video of Tom Cruise running for President of the United States of America (USA), President Trump will require more than speed, humour and a stuntman to win another term at the Oval office as he jostles to survive the ongoing impeachment inquiry against him.

The need to quell tensions stemming from escalated attacks between Iran and the USA using more conciliatory approach could pave way for a new dawn in the Middle East. The thawing of relations between the US and China on the back of the signed phase one deal by both countries signals a probable end to a protracted trade war. With President Macron championing the need to include Russia in the new architecture of trust and security in Europe, Vladmir Putin could improve his country's relationship with the EU and secure a deal to lift sanctions against his country.

Separatism surged as established pro-independence movements in Hong Kong, Kashmir and Catalonia sustained their struggle for new beginnings while Scotland's clamour for independence from the United Kingdom (UK) is set to intensify in the wake of Brexit. From Venezuela to Paraguay, Peru to Bolivia and Ecuador to Chile, the wave of protests and civil unrest could birth an era of accountable elected officials and implementation of people-oriented policies in South America.

Japan, host of Tokyo 2020 Olympics, will look to show the world that it has risen from the ruins of Hiroshima & Nagasaki to become a beacon of peaceful democracy, home to iconic technological inventions.

The World Bank projects that the global economy will expand by 2.5% in 2020, up from an estimated growth of 2.4% in 2019 on the back of modest economic recoveries in Emerging Markets and Developing Economies (EMDEs), deceleration of trade tensions and improved global financial conditions. Despite the need to develop appropriate fiscal policies and build resilient buffers to withstand financial market disruptions, EMDEs are projected to grow by 4.1% in 2020 from an estimated weaker-than-expected expansion of 3.5% in 2019 predicated on decelerating financial pressures, stable global commodity prices and improved trade relations between major economies.

Sub-Saharan Africa's growth is projected at 2.9% in 2020, better than 2.4% estimated for 2019 on the back of improved investor sentiments in the region's largest economies (Nigeria, South Africa, Angola), strengthened recoveries among industrial commodity exporters, increased oil production and robust growth in non-resource intensive economies including Kenya, Rwanda, Uganda etc. The region's growth excluding Nigeria, South African and Angola is projected at 4.6% from an estimated 2019 growth of 4.1%.

## Nigeria

In his inaugural speech on June 12, Nigeria's new Democracy Day, President Buhari highlighted his intention to prioritize security, infrastructural development, poverty alleviation and anti-corruption during his 2nd term. After three (3) months of his swearing-in for a second term, President Buhari forwarded the list of his cabinet members for screening and subsequent confirmation by the National Assembly. The dominance of ex-governors, senators and politicians in his ministerial selection suggested that the President might have favoured politicians in his appointments.

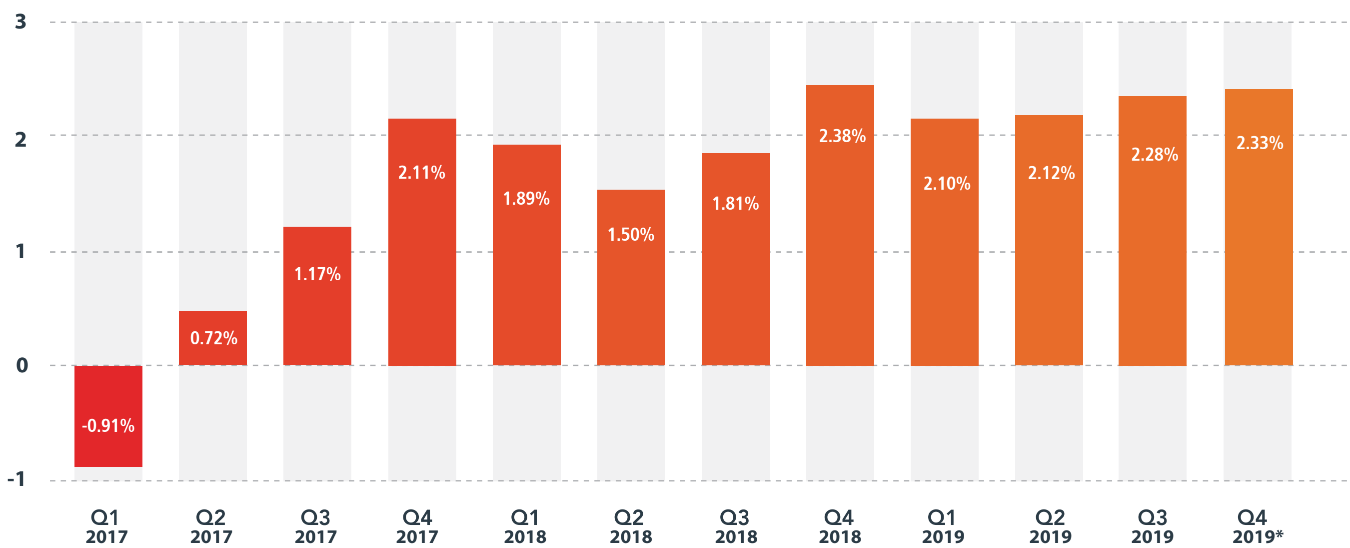
The economy kicked off at a rather slow pace due to the 2019 general elections that dominated the first half of the year, coupled with low CAPEX spend and restrictive fiscal policies. To put it in perspective, the economy grew by 2.28% in Q3 2019 better than 2.12% and 2.10% in the preceding quarters of Q2 and Q1 respectively, primarily driven by growth in the non-oil sector. As a result of the festivities and yuletide season in the fourth quarter, Q4 has been the best performing quarter each year since 2017. With that in mind, we project that 2019 will grow by 2.27%, slower than general consensus of a much higher growth given the obstructions to economic activities by electioneering in the first half of 2019. Considering that population is estimated to have outgrown the economy at 2.7% resulting in lower per capita income, the economy must grow faster than population for real growth to have been achieved.

We project that the economy will expand by 2.4% in 2020 on the back of increased CAPEX spend as the country returns to the Jan. – Dec. budget cycle, favourable oil prices, increased government revenue and stronger non-oil sector growth. Our forecast is largely in line with growth projections of IMF and the World Bank of 2.5% and 2.1% respectively.

We expect the non-oil sector to be driven by activities in the agriculture, manufacturing and services (ICT and Transport) sectors. Specifically, growth in agriculture would be supported by declining farmers-herdsmen clashes, favourable weather conditions, sustained CBN interventions and short to medium term positives from land border closure. The transport sector has upsides for growth going into 2020 given growing competition amongst car and motorcycle hailing service providers with potential for employment and investments. In addition, increasing patronage of the Abuja-Kaduna railway and anticipated completion of the Lagos-Ibadan railway later this year could also enhance the contributions of the transport sector.

The manufacturing sector is also believed to have benefitted from the land border closure due to reduced pressure from cheaper smuggled goods. Despite the prevalence of poor power supply, weaker demand and high cost of production, we expect the sector to contribute positively to economic growth in 2020.

**GDP growth**




**expected*
*Source: NBS*

Other prospects of macro-economic importance in 2020 include:

## Business and Regulatory Environment

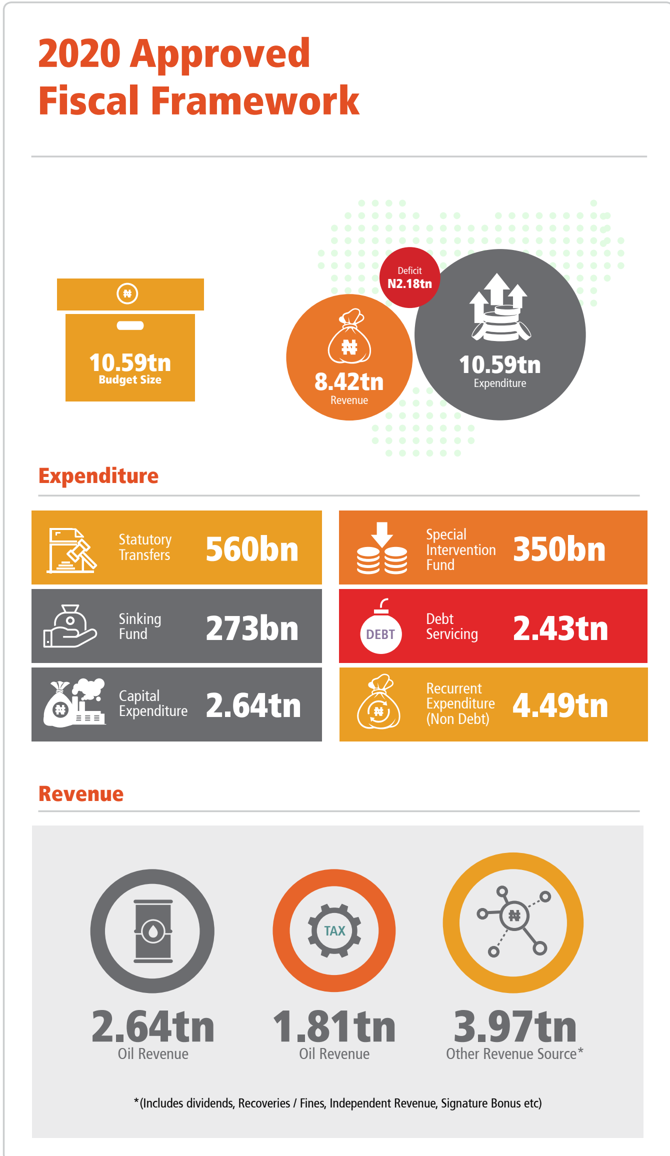
Unlike 2019 when political activity dominated the first half of the year, we expect significant improvement in the business environment as relative exchange rate stability and increased CAPEX spend would stimulate economic activity.

We also expect the regulatory environment to remain focused on driving growth and maintaining lower interest rates without losing sight of inflation and exchange rate. The new minimum Loan to Deposit ratio (LDR) of 65% with a 150% weight on SME, Retail, Consumer and Mortgage loans and levy of additional CRR on 50% of the shortfall in the event of non-compliance, for banks could bring about some unintended consequences. Increased private sector lending in the face of limited investment options as a result of the restriction in Open Market Operation (OMO) investment is likely to drive significant increase in the demand for FX. While this factor could drive exchange rate to come under pressure on the one hand, it might also create a bubble in the equities market on the other hand. The equity market which ended 2019 in negative territory with the All Share Index (ASI) losing 14.6%, has picked up to a good start rallying up by 10% year-to-date in 2020 following increased interest in the equity space as local corporates and Pension Fund Administrators (PFAs) used it as an avenue to deploy cash. Hence, we expect that the CBN will take proactive measures to introduce effective mitigants to deal with the resultant issues.

## Fiscal Policy and the 2020 Appropriation Bill

President Buhari signed the national-assembly amended 2020 appropriation bill into law in December 2019, paving way for a return to the January – December budget cycle. The budget was increased by N264 billion from N10.33 trillion proposed by the Presidency to N10.59 trillion by the National Assembly. In a statement credited to the Senate Committee Chairman on Appropriation, Sen. Ibrahim Jibrin, that the increase was targeted at offsetting the infrastructural deficit and cater to interventions in security, health, road and other such critical areas of the country.

The 2020 budget is predicated on a benchmark oil price of US$57 per barrel (pb), oil production volume of 2.18 million barrels per day (mbpd), exchange rate of US$1/N305, inflation rate of 10.81% and GDP growth rate of 2.93%. With a projected revenue of N8.42 trillion and targeted spend of N10.59 trillion, the budget deficit stands at N2.18 trillion. The projected revenue breakdown consists of N1.81 trillion non-oil revenue, N2.64 trillion oil revenue and N3.97 trillion from other revenue sources. On the expenditure side, N2.47 trillion was earmarked for capital expenditure, N4.49 trillion for recurrent expenditure and N2.43 trillion for debt servicing.




*Source: Ministry of Finance, Budget and National Planning*

President Buhari also introduced and signed the 2019 Finance Bill into law – making it an act - after it successfully scaled through the scrutiny of the National Assembly in a bid to reform domestic tax laws to mirror global best practices. The objectives of the act include to promote fiscal equity, introduce tax incentives for infrastructure & capital market investments, support Micro, Small and Medium Enterprise (MSMEs) and increase government revenue. The changes proposed in the act seeks to make the tax system more dynamic and reflect the changes in the economy with upsides for investments especially in the MSME space. Of the changes covering seven (7) tax laws, a few of them stand out:

- Increase in Value Added Tax (VAT) from 5% to 7.5% with certain basic food items defined by the act as 'agro and aqua based staple food' such as bread, cereal, cooking oil, flour, milk, vegetables, water etc. classified as VAT exempt.
- Stipulates that only businesses with an annual turnover of N25 million and above will be required to register for, charge and collect VAT on sales.
- Raises the threshold for payment of N50 stamp duty charge on bank transfers from N1,000 to N10,000.
- Introduces the provision of Tax Identification Number (TIN) by individuals and companies as a precondition for opening and/or continue operating bank accounts.

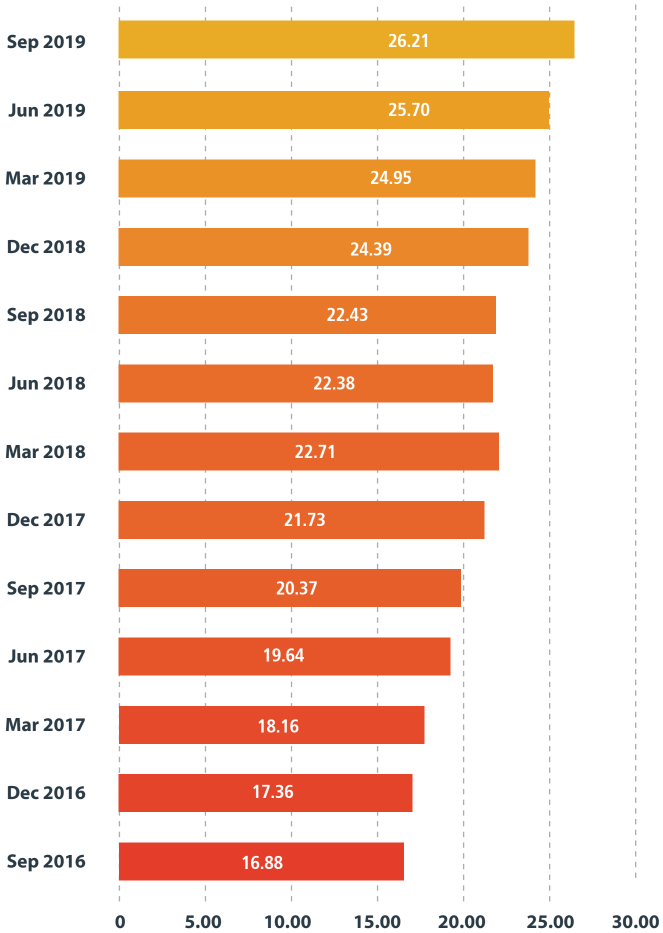
The recurring inability of government to achieve its projected non-oil revenues over the years point to the need for urgent structural reforms. In 2019, the Federal Inland Revenue service (FIRS) was reported to have generated a total of N5 trillion against a projected revenue of N8.8 trillion, which represents a 56.8% revenue performance. Given the changes made to tax laws as contained in the Finance Act, we expect the government to ramp up on its tax revenue. In addition, the amended Deep Offshore and Inland Basin Production Sharing Contract Act (DOIBPSCA) which regulates the operations of oil and gas Production Sharing Contracts (PSC) in the Deep Offshore and inland Basin, was signed into law by President Buhari in October 2019. Specifically, the act was amended to attain a higher flat royalty rate of 10% to be paid on PSCs on fields operating in water depths greater than 200 meters as against the graduated rates of 0% to 12% for deep offshore PSCs between 201 meters to 1000 meters water depth previously obtainable. The amended act also introduces penalties which will attract a minimum fine of N500million or 5 years imprisonment or both for violation of the act. These considerations could see total revenues close the year at c.70% revenue performance.

That said, we believe a more sustainable solution would be the introduction of reforms and policies that engender the widening of the tax base with a view to achieving a significant improvement in the country's tax to GDP ratio, which currently hovers around 6%, to more tenable African average of 17.2%. We believe this is possible given that the current tax base consists of about 10 million of the estimated 77 million work force. Despite the increase in taxes and other projected revenue streams of the government, there are concerns that the 2020 revenue target of N8.5 trillion might not be achieved.

## Total Debt Profile

Recent releases by the Debt Management Office (DMO) revealed that the country's total debt stock as at September 2019 stood at N26.2 trillion (US$85.4 billion) from N22.4 trillion reported in September 2018 which represents a year-on-year increase of 17%. President Buhari submitted a request for reconsideration and approval of the 2016-2018 External Borrowing plan to the National Assembly to secure a US$22.7 billion loan to finance about 39 infrastructural projects across the country. A quick scan at the referenced projects, highlights seemingly laudable projects that have the potential to improve the country's infrastructural capital, save the proposed US$500 million earmarked for NTA Digitization Project.

Total Debt Profile (N' trillion)




*Source: DMO*

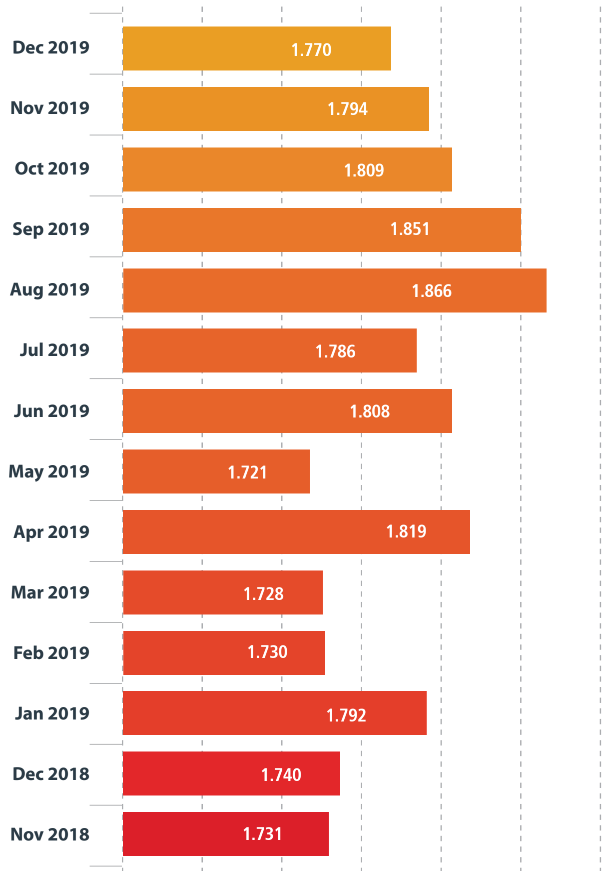
In light of the much debated concerns raised by private sector practitioners, foreign commentators and economists about the rising sovereign debt profile and the potentially unsustainable nature of the cost of servicing - with government's debt service to revenue ratio estimated at over 50% as at june 2019 - we expect to see increasing concerted efforts by the government aimed at increasing its revenue base in the coming months. There is however a need for government, and its agencies to adopt a holistic approach towards driving the fiscal policy activities required to achieve this objective. Policies and pronouncements must engender private enterprise and lead to increased business activities which can then enhance revenue generation through tax efficiency.

# Oil Price and Production

2019 witnessed a deceleration in oil demand owing to global economic slowdown, especially in China and the Eurozone. Crude oil prices have been affected by the weaker-than-expected oil demand, with recent volatilities in crude oil supply proving insufficient to generate a spike in prices. Demand dynamics also seem exacerbated by the increasing clamour for cleaner energy and advocates of climate change action, resulting in an increase in the adoption of Environmental and Social Governance (ESG) policies and investments in solar energy and electric cars.

A further disruption to the supply side has been the accelerated growth of US shale oil production, with the International Energy Agency (IEA) reporting output at 17.8 mbpd in November 2019 – a 15% growth from a 2018 average of 15.5 mbpd. The number of operational rigs as at December 2019 was reported at 663. It is believed that oil prices benefited from continued reduction in production by Saudi Arabia, though many suspected this is not unrelated to their wish to have oil prices at an attractive level in the build up to the listing of 1.5% Saudi Aramco's shares in an IPO. Notwithstanding the poor level of non-adherence to existing production cut agreements and scepticism about Saudi's willingness to moderate production, crude oil prices are expected to remain at approximately US$60pb in 2020.

Nigeria's Oil Production Volumes (mbpd)




*Source: OPEC*

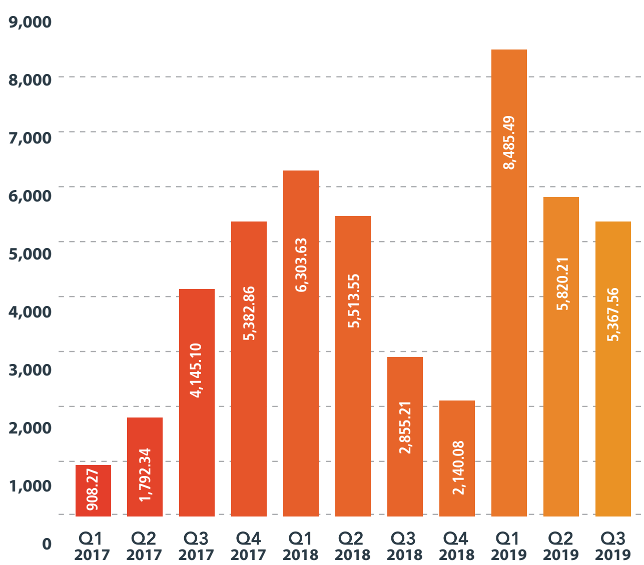
OPEC's January 2020 Oil Market report revealed that Nigeria's production volumes - less condensates - were reported at 1.770 mbpd in Dec. 2019, 1.34% lower than 1.794 mbpd in Nov. 2019 but in line with the OPEC production cut agreement quota of 1.774mbpd. There are however concerns about the impact the recent amendments to the Deep Offshore and Inland Basin Production Sharing Contract Act (DOIBPSCA) might have on investments in offshore fields. It is believed in several quarters within the upstream industry that the amendments to the act could translate into increased production cost for offshore fields, resulting in less favourable investment returns and a scale down in much needed new investments in the country's oil and gas industry.

That said, we are encouraged by current levels of crude oil production and the relatively supportive price levels when compared to the realistic estimates employed in the 2020 budget.

# Exchange Rate, External Reserves and Capital Inflow

Foreign currency capital flows in Q3 2019 were reported at US$5.37bn, with FPI accounting for US$3bn (55.9%), and FDI and other Investments accounting for US$201million (3.7%) and US$2.2billion (40.4%) respectively. This was 7.8% lower than the US$5.82billion recorded in Q2 2019 and showed a 30% and 10% decline in FPI and FDI flows respectively.

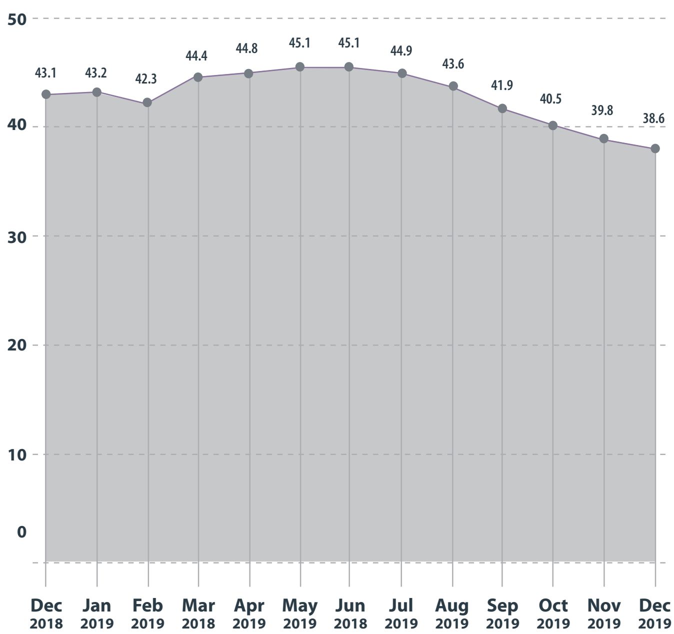
**Capital Inflow (US$' million)**




*Source: NBS*

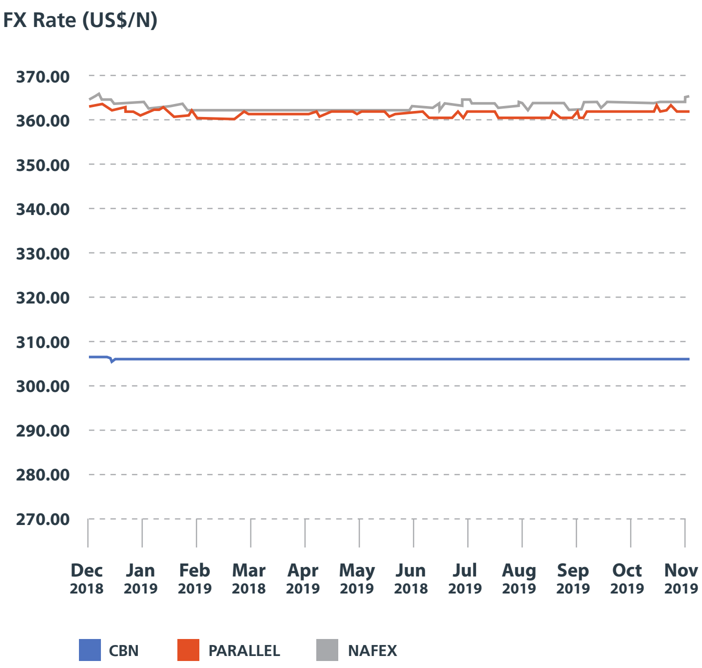
The currency was fairly stable in 2019 relative to 2018. Notwithstanding the stability so recorded, there are increasing concerns about the ability of the CBN to sustain the exchange rate of the naira in the face of recent decline in reserves. Reserves are seen to have declined from a 2019 opening of US$43.08 billion to US$38.60 billion as at 31st December 2019, though touching a high of US$45.18 billion at the end of the second quarter within the year, supported by strong portfolio investment flows within Q1 2019.

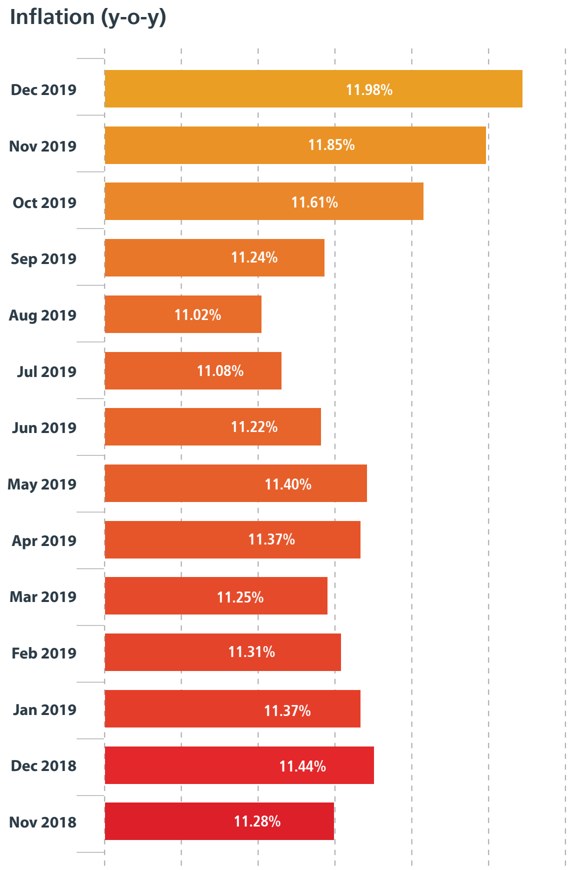
**External Reserves (US$'Bn))**




*Source: CBN*

It is noteworthy that the CBN Governor has stated the commitment of the administration to sustain the value of the naira. We believe though planned FX borrowings, current crude oil price and production levels are supportive of this agenda in the short term, more would be required in the form of monetary and fiscal reforms, that can encourage foreign investment to further bolster reserves and improve confidence in the economy.



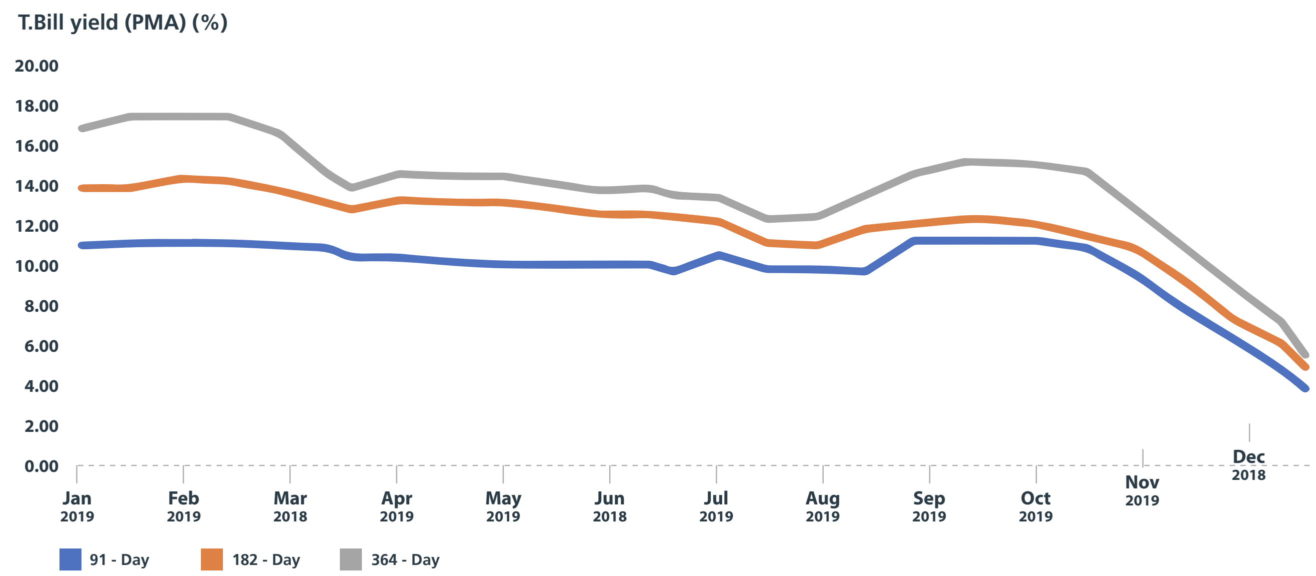

*Source: NBS*

# Monetary Policy – Interest Rate and Inflation

The fiscal landscape continued to struggle owing to a combined impact of low revenues and high cost of debt servicing. The monetary authorities however, focused on spurring growth through tightening policies. The closure of the land borders in Q3 2019, the expected increase in VAT, implementation of the new minimum wage & the associated consequential adjustments, increment in other government taxes and an expected hike in electricity tariffs could see headline inflation remain elevated going into 2020. These factors coupled with a high 2019 base, where headline inflation increased by 11.98% in Dec. 2019 from 11.85% reported in Nov. 2019, would keep average inflation around 12.5% in 2020.

In a bid to achieve its policy mandates of exchange rate & price stability, growth stimulation and healthy reserves, the CBN implemented a few monetary policies including the introduction of minimum LDR for banks, special intervention loans etc. In addition to these policies which were targeted at spurring growth in the real sector, the CBN also restricted investments of domestic investors and local non-bank corporates in OMO instruments.

The introduction of the minimum LDR of 60% (later reviewed to 65%) recorded some positives in some areas including a reported increase in gross credit by over N1.1 trillion between May and October 2019, decrease in interest (borrowing) rate by over 400 bps between June and October 2019 etc. As yields on OMO find equilibrium points high enough to sustain the appetite of foreign portfolio investors and low enough to reduce the liquidity management cost of the CBN, we expect the CBN to maintain this policy stance in the near term. That said, there is a chance that OMO rates might increase to incentivize portfolio investment if exchange rate remains under pressure. We also do not expect any changes to monetary policy rate (MPR) at 13.5% given the sluggish transmission of changes in MPR to significant impact in the real economy.




## Ease of Doing Business

Nigeria's Ease of Doing Business ranking improved by 39 places from 170 in 2015 to 131 in 2019 which underscores the President Buhari led government's effort at ensuring improved ranking to attract foreign investment into the country. Despite this remarkable feat, doing business in Nigeria remains a challenge and have not attracted as much capital as one would have expected. According to the NBS' Q3 2019 Capital Importation report, the progress in ease of doing business is yet to translate into increased capital inflow – especially Foreign Direct Investment (FDI) - as capital contracted relative to Q3 2018. While factors such as policy uncertainty and security can be fingered for this decline, emerging research also suggest that concerns around the sanctity of rule of law could be an 'elephant in the room'. The strength of a country's rule of law ranks among the top three (3) considerations when making investment decisions on where to deploy FDIs, one that ranks above cost/ease of doing business and access to regional and local market considerations.

Specifically, the World Justice Project (WJP) 2019 Rule of Law index which measures countries' adherence to rule of law based on experiences and perceptions of the general public and in-country experts worldwide, ranked Nigeria 106 out of 126 countries rated. Another report by the United Nations Conference on Trade and Development (UNCTAD) revealed that Cote d'ivoire, South Africa and Ghana are rated amongst the top African countries attracting the most FDIs in the continent. To emphasize the positive relationship between favourable investment decision and rule of law of a country, these countries were ranked 93rd, 47th and 48th respectively by the same WJP Rule of Law index.

## Security

Following increased reports of various attacks and kidnapping by the Boko Haram insurgents in 2019, the Nigerian military alongside other law enforcement agencies intensified counter-terrorism measures to repel the insurgents and recorded laudable successes. However, the activities of the ISIS-backed faction of Boko haram, otherwise known as the Islamic State of West African Province (ISWAP) have become of grave concern following their focus on attacking military bases to restock arms & ammunitions and kidnapping soft targets (especially aid workers, women and young boys) to demand ransoms to serve as funding and also serve as bargaining chips for the freedom of their members in government's custody.

There are reports of a growing alliance between the insurgents and host communities as locals claim that the insurgents fill the gaps that exist following the absence of good and accountable governance through the provision of economic support for them and their families. Also, of concern is the prevalence of waves of kidnapping, armed robbery, banditry, cultism and other forms of crimes and criminal activity that are reported in states and on inter-state highways seem to have continued unabated. We expect the government to develop a more dynamic, formidable and sub-regional counter-terrorism and negotiation strategy to effectively fight the protracted decade-long insurgency as well as general security challenges and seek international assistance for intelligence and firepower where necessary.

# NIGERIAN BANKING INDUSTRY

## Overview of 2019

The CBN's 2019-2024 policy thrust document revealed the apex bank's vision for the next five (5) years with improved access to credit, growth & diversification of the economy through intervention programs for select real sectors as priorities going in 2020. Similarly, the CBN's Monetary Policy Committee (MPC) also reiterated concerns about the continuous deployment of funds by banks into fixed income instruments at the expense of extending credit to the real sector. In a move to compel banks to increase private sector lending, the apex bank rolled out some policies. These policies changed the dynamics of the banking landscape and shaped the banking sector in 2019 and set the tone for banks going into 2020. While the CBN has been applauded for the introduction of this policy, there are concerns within the industry that the drive for banks to achieve 65% LDR will put pressure on the banks' ability to maintain minimum regulatory liquidity ratio of 30%.

The competitive landscape took a different turn with the successful completion of the Access-Diamond Bank merger as well as the licensing of two (2) new commercial banks; Globus Bank and Titan Trust Bank. The licensing of payment service banks (PSBs), Fintechs, and super agents to deepen financial inclusion through the provision of diversified financial services also stepped up the battle for retail customers.

## Outlook for 2020

We expect the CBN to retain its monetary policy stance to achieve its mandate going into 2020. The LDR regulation and moderation of yields on government securities should boost increased private sector lending, expand the loan book portfolio of banks, discourage investment in government securities, reduce lending/borrowing rates as well as de-emphasize the growth of deposits especially tenured deposits.

Following from our expectation of oil prices trading at around US$60 pb in 2020, oil revenue should come in within government projections with moderate accretion to reserves. In addition, a successful international debt issuance is expected to provide additional buffer to the CBN to maintain its market intervention activities aimed at sustaining exchange rate stability. There are however concerns that emerging geopolitical and economic activities may weigh negatively on global demand with attendant impact on oil prices. This could impact oil revenue and accretion to reserves. We would expect further tightening of monetary policy by the CBN in this instance.

We also expect that non-interest income will come under pressure in 2020 in the wake of the CBN's downward review of bank charges across payment and alternative channels. The apex bank reviewed electronic transfer charges from a flat charge of N50 per transaction to graduated charges of N10 for transfers below N5000, N25 for N5,001 to N50,000 and N50 for transfers above N50,000 effective January 2020. Maintenance fee charged on debit cards have also been reviewed such that only debit cards linked to savings accounts will be charged subject to a maximum of N50 per quarter. Lastly, the apex bank addressed a major pain point within the industry - charges for the use of other bank ATMs. Prior to the recent amendment, customers paid N65 for the use of other banks' ATMs, otherwise known as Remote-On-Us (ROU) with their banks absorbing the charge for the first 3 uses per month. The ROU is charged on transactions done by cardholders on another bank's ATM after the 3rd transaction per month. This had always been a pain point for customers who didn't have easy access to ATMs from their banks. With the recent review, customers would now pay only N35 for ROU transactions, an almost 50% reduction. It is hoped that this may help promote increased use of ATMs and reduce the need to transact within bank premises.

## Asset Quality

A cursory look at the activities of deposit money banks (DMBs) in the latter half of 2019 shows that the relatively impressive pick-up in loan growth was due to regulatory changes in the sector. The CBN has revealed that the growth in private sector credit by 7% between July and October 2019 was as a result of the introduction of the minimum LDR. We expect that DMBs will sustain the H2 2019 loan growth momentum going into 2020. That said, DMBs have a duty to their stakeholders to balance the need to significantly grow their loanbook with strict adherence to their respective risk assessment policies to avoid increased provisions and NPLs in future.

## Capitalization

The CBN commenced sensitization of banks ahead of the implementation of Basel III in the course of 2020. The new standard would require banks to absorb risks using common equity, otherwise known as Tier 1 capital, which implies that banks will need to focus on shoring up Tier 1 Capital. Put differently, the strength and sufficiency of a bank's Tier 1 capital would determine how much risk it can take on.

In a related development, upon his reappointment for a 2nd term as CBN Governor, Mr. Godwin Emefiele hinted at a probable recapitalization exercise for banks during his final term in office in line with the CBN's 5-year policy thrust. It goes without saying that banks with inadequate capital may be expected to proactively retain more of its earnings to shore up tier 1 capital in a bid to weather likely increase(s) in minimum regulatory capital requirement. In addition to raising qualifying capital, the Access and Diamond Bank merger have provided additional impetus for banks who are unable to strengthen their capital position to consider M&A as a viable alternative to stay afloat.

## Liquidity

The restriction of OMO investment to only banks and foreign investors has resulted in excess funds chasing limited investment outlets thereby leading to a very liquid market. With outstanding OMOs maturing into customers' accounts, banks must find eligible customers to extend these funds to in a bid to stay within touching distance of the prevailing LDR and avoid being levied with the 50% debit of the shortfall as CRR.

Save for any counter regulatory pronouncement, emergence of alternative investment options and an active stock market to absorb this excess liquidity, we expect a very liquid system going into 2020.

## Competitive Landscape

As regulation hinders robust earnings, non-bank competitors have continued to further deplete the already challenged earnings of commercial banks using asset-light technology to offer customers a bouquet of financial services across payment, lending and investment options. Put differently, the earnings of banks have come under pressure in the wake of licensed payment service banks (PSBs) and super-agents. In addition, the increase in fintechs and digital banks have also seen banks' earnings take a blow.

For context, fintechs provide a variety of mobile payment, transfers, ride-sharing and food delivery services to their customers which has deepened the competition for retail customers and forced banks to evolve beyond their traditional service delivery systems. Banks have now evolved into a simpler, dynamic, convenient and customer-centric strategy. Fintechs thrive on designing their platforms to include e-wallet options for payment which eventually becomes the only form of payment. While it is improbable for e-wallets to completely replace bank accounts anytime soon, its growing popularity should not be overlooked as it could gradually make deposits more expensive and erode a portion of the bank's payment-related earnings/business.

In addition to e-wallets, some fintechs have also developed an active and growing agent base used to drive their products and services. For some, their agency network has been reported to have successfully grown with agents running into hundreds of thousands. While we expect banks to respond appropriately to the threat posed by these fintechs, it is also important that banks make efforts to understand their business model with a view to adopting some of it to improve product offerings and enhance service delivery.