

TNF Africa 2022 – Headline Review

Had it not been for South Africa's world beating genomic sequencing capabilities and the subsequent discovery of the Omicron variant in early December 2021, TNF Africa might actually have gone ahead in Johannesburg this month after an (incredibly long) two year interlude.

Nonetheless, the situation does appear to be improving. Barring a handful of markets in Asia whose steadfast commitment to zero-COVID remains totally unassailable, most countries are largely casting off the shackles of restrictions and opening up their economies.

Accordingly, there is a sense of bullishness in the securities services industry that the TNF just held will be the last one to be entirely virtual - with physical events poised to make a much vaunted comeback later in 2022.

Although the world is putting COVID-19 behind it, geopolitical tensions – namely the brutal conflict between Ukraine and Russia have come to the fore - and this is already having a huge impact on the custody industry.

While Africa is far away from Ukraine geographically, the knock-on effects of rising oil and food prices will feed acutely into inflation across the region, potentially fuelling instability further down the line.

Creating a more competitive market

Investor interest in African markets is clearly on the ascent, which is prompting some local policymakers to implement wide-ranging structural reforms.

In addition to unveiling new investment products (e.g. derivatives plus CCPs, securities lending/borrowing tools), a number of African economies are also embracing ESG (environmental, social, governance) by developing sustainable bond markets.

This is likely to result in further inflows from global institutions, many of whom are coming under renewed pressure from investors and regulators to disclose how they integrate ESG into their decision-making activities.

Digital assets are also gathering momentum in Africa – especially CBDCs (central bank digital currencies) – which are being trialled in a handful of markets including South Africa. If applied correctly, CBDCs could remove a lot of the pain-points synonymous with cross-border payments and settlements by supporting real-time settlement in digital fiat money.

At a market infrastructure level, the Africa Exchanges Linkage Project (AELP) will remove some of the barriers preventing cross-border listing, trading and investing across seven of the continent's largest economies including South Africa, Nigeria and Kenya. Attendees at TNF seem to agree that the scheme is a good thing with over 90% saying improved regional connectivity will be beneficial for cross-border investment activity.

Although African economies have made excellent progress reforming their capital markets, there is scope for improvement. For example, network managers complain the existence of multiple CSDs in individual markets creates unnecessary costs and friction during the investment process.

Another network manager also stressed that CCPs should be adopted in countries where it is viable – in accordance with best market practice. While it makes absolutely zero sense for the smaller African economies to establish CCPs, some counter a regional CCP providing coverage across multiple markets could help attract liquidity.

Network management 2022

After being grounded for nearly two years, most network managers are raring for on-site due diligences to resume, not least because a number of agent banks were onboarded during the pandemic while a handful of African FMIs went live - meaning network teams have yet to meet any of them in person.

A TNF survey found 45% of network managers intend to return to on-site due diligences imminently, while a further 47% said they would do so in the next six to nine months.

However, many TNF attendees accept logistical barriers are likely to mean the due diligence process is less straightforward than what it was before.

Assuming network managers can even fly into a market without impediment (e.g. mandatory quarantine or arbitrary testing, etc), some have expressed concerns that local providers might have their own COVID-19 restrictions still in place - such as ongoing limits on face to face meetings or bans on outside guests visiting the office.

While remote due diligences do have benefits – namely negating the administrative headache of organising physical visits, network managers argue their effectiveness pales in comparison to on-sites, especially when dealing with new suppliers.

The Network Forum's Annual Meeting will return to Europe in June, while the Americas Meeting will take place on September 22 in New York, and Asia Meeting in Singapore in November.