Deutsche Bank: eye on Africa

Deutsche Bank has been building its footprint in Africa for over 40 years. With all eyes on this continent as trade flows move south-south, ***TFR*** talks to its FI experts on how they optimise correspondent banking relationships there

THE PANEL

Peter Knodt, **is Head of Trade Finance Financial Institutions, Global Transaction Banking**

Ulf-Peter Noetzel **is Director of Trade Finance Financial Institutions, responsible for Eastern and Southern Africa and Western Europe**

Charles Weller **is Country Head for Nigeria and is responsible for Trade Finance and Cash Management in West and Central Africa**

How has Deutsche Bank built its presence in Africa?

Charles Weller: We have had offices on the ground in Nigeria since 1973. From there, we have built our relationship network throughout the West and Central Africa region, and thereby established longstanding correspondent relationships with the key local banks in these countries.

Peter Knodt: Quite right. But still, by most of the world, Africa has long been regarded as the 'forgotten continent'. More recently, however, we are seeing much greater – and increasing – economic activity in many African countries – particularly those rich in natural resources such as, but not limited to, copper, gold, oil and gas.

What do you look for in an African correspondent bank? How do you mitigate the risk?

Peter Knodt: Whenever we enter into relationships with other banks, what is important to us is their integrity and quality of service. In other words, when we want to work with them, we analyse whether we are able to *a priori* fulfil our legal and compliance requirements in terms of KYC and anti-money laundering. And in the ongoing relationship, it's always all about service.

Charles Weller: I agree with Peter. Although Africa presents difficult challenges, if you follow your due diligence and KYC, you are well-equipped to operate successfully and efficiently. Moreover in terms of assessing banks' financial standings, our credit colleagues have played an active role within transaction banking. They regularly meet our clients personally and turn around quick credit decisions.

Ulf-Peter Noetzel: While we employ the same standards in all our correspondent bank dealings, we have adapted to the fact that given the differences in political risk climates, it is tougher to do business in some countries than others. In some environments you have to dig deep into the borrower's ownership structure and look at how they conduct their business.

Charles Weller: When we confirm a Nigerian letter of credit (LC), we don't just look at the banking partners, but beyond that – to the applicant and the beneficiary. The screening of customers requires digging down into ownership structures in order to accurately assess risk. We first establish their identities, evaluate potential reputational risk and look into past dealings. We need to know if we are comfortable with that importer, even if there is no Deutsche Bank credit risk on them – they are still a key risk party to the transaction.

Peter Knodt: Precisely, because besides KYC, there's 'KYT' – 'Know Your Transaction'. Also, Deutsche Bank is particularly careful as to how the underlying transaction relates to pricing. For example, you can always tell how much a shipload of oil would typically be; so if the price is US$10m in excess of our assessment, we will ask questions. However, this practice is not exclusive to Africa – we routinely perform these checks with all our emerging market correspondent banks.

In times of political unrest what is your response?

Ulf-Peter Noetzel: When we are confronted with political crises and uprisings, we get in even closer with our correspondent banks – with which we have had a relationship for many years – listen to them and factor their opinion into our own, as well as Deutsche Bank research. Obviously where we have offices ourselves, we can source more of our own on-the-ground intelligence.

Peter Knodt: The local knowledge Deutsche Bank gleans from its strong relationships with local banks allows us to make balanced decisions about what we should – and should not – do. This is also helped by the fact that we keep our business "neutral" – i.e. we restrict our business to basic imports like food, healthcare and oil to avoid being seen to endorse any political parties or initiatives. But what is instrumental about Deutsche Bank's approach is that whenever there are signs of a real crisis, we don't just go and cancel our limits, but instead stick to our valued correspondents to help them through difficult times. We take a closer look on a transaction-by-transaction basis – Egypt now and Libya last year – and we don't use political unrest as an opportunity to develop new business. In Egypt, where we do have an office, we continue to take on selective transactions.

Can you please outline your criteria under which you consider offering financing?

Charles Weller: On the day-to-day trade side, Deutsche Bank finances a wide range of products, from commodities oil, fuels, rice and wheat to fast-moving consumer goods (FMCG). Over the past months, the bank has seen longer-term trade transactions in Nigeria with 12 to 18-month tenors. This is a follow-on from the shorter-term trade business as infrastructure, plant and equipment gear up. Right now we are looking at trade financing for the import of gas conversion kits for trucks from Europe to Nigeria, financed out to 60 months.

How can local regulations impact your business?

Charles Weller: The effect of local regulations can be significant to our business. Only last year the Nigerian government significantly reduced the number of fuel product importers, from almost 100 names to the current 25 licensed import companies and individuals. Throughout the process, whenever we were asked to confirm LCs regarding imports of fuel products into Nigeria, we checked what licences were in place and the importer's reputation. We have, and in principle would turn down deals where we are uncomfortable with any aspect of the transaction.

Ulf-Peter Noetzel: When the Angolan civil war ended in 2002, we took early action and talked to ministries, banks and local regulators. This regular dialogue was critical to get us up and running by 2004.

As some regional banks retune their strategy to put Africa at the centre of everything they do and as local banks increase their reach, what are the longer-term prospects for Deutsche Bank in Africa?

Peter Knodt: Trade relationships do not end, they evolve. And you always need the involvement of two banks in trade. We may reach a stage where some countries in the region are moving from LCs to open account. However, Deutsche Bank will always have a role, especially as Africa trades more with Asia and Latin America. It's a case of shifting risk. As the risk shifts, the basis on which you handle transactions also shifts. The stronger the balance sheets become, the easier it is for importers and exporters to opt for open account solutions. Global banks can act as facilitators, helping local banks to trade globally, but the business is always dependent on the importer and exporter.

How do you see the next three years for African trade flows – and the financing opportunities?

Peter Knodt: Very positive – and European banks like ourselves will have to focus much more on Africa than before. It is clear to us that, in general, the new opportunities far outweigh the extra efforts to control the risk. As Chinese and other regions' trade banks position themselves in African countries, we are equally keen to strengthen our commitment to engage and become part of the local landscape. A look at how the trade corridors have shifted reveals an increasing number of African nations are importing from Asia and Latin America. This is where we have offices and can play a meaningful role.

Ulf-Peter Noetzel: Yes, south-south trade is something we have been observing for some time and a bank with a truly global network – like Deutsche Bank – is well placed to handle these flows. Quite a few local African banks are moving into other countries to offer pan-African services and it is crucial to have strong relationships with them.

Charles Weller: You have a continent of 58 nations and 1.2 billion people. As individual countries progress and develop to the point where you can consider them for open account terms, there are others behind them that will be appropriate for trade finance business going forward. Peter is right – Africa is no longer the 'forgotten continent', it is attracting tremendous attention.

Deutsche Bank will be at SIBOS on Exhibitor Stand G41

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