FirstRand has R7bn for Africa deals

Banking group FirstRand says it has R13.8bn to spend on growth strategies including developing investment products for its domestic customers and acquiring banks in Nigeria and Kenya.

Image by 123RF

FirstRand had set aside R7.5bn to acquire predominantly corporate and commercial banks in Kenya and Nigeria, CEO Johan Burger said on Thursday. It was carefully analysing the banking market in Nigeria, and engaging with the regulator in Kenya, but had not yet found a suitable platform. It had R2.4bn for its existing organic strategy in the rest of Africa, he said.

The group, which owns FNB, RMB, and WesBank, had set aside R2bn to capture a larger share of profit from the domestic financial services market. This involves growing FirstRand Insurance, Ashburton Investments, and its value-added insurance business MotoVantage, which is a joint venture between WesBank and Hollard.

For the year to June, FNB had sold 500,000 policies, mostly funeral, on the FirstRand Life licence. Its unit trust funds, called the FNB Horizon Series, had attracted R100m of client inflows since July.

FNB would use its knowledge of customers' spending habits and risk profiles to sell them insurance and investment products, said CEO Jacques Celliers. Its execution would be more efficient, since compliance requirements were already met through the banking relationship.

"Banks are under pressure in terms of returns on lending and are looking to diversify," said Harry Botha, an analyst at Avior Capital Markets. To grow meaningfully in insurance and investments, FNB would need a strategy to win business from independent financial advisers, Botha said.

Neelash Hansjee, a senior investment analyst at Old Mutual Equities, said FNB had a strong customer franchise to sell more products to. He said it was positive to see the rapid uptake by FNB clients of new products such as funeral policies, adding: "It shows they trust the brand."

FNB's retail business in SA grew 6% to R14.3bn for the year to June, as bad debt began to trend upwards in line with a worsening economic cycle. FirstRand's credit loss ratio, or the percentage of losses it was making on its overall loan book, grew from 0.77% to 0.86% during the period.

This was still below its expected charge of about 1%, but Burger expected it would increase as the current credit cycle fully emerged. More of FNB's customers were opting for debt counselling, Celliers said, which was a function both of financial pressure and more advertising by debt counsellors.

"The credit loss ratio at 0.86% was a slight damper, given the high levels of provisions the group has. Perhaps, more could have been released to manage the rising credit loss ratio," Hansjee said.

FirstRand has R8.4bn in provisions for potential future bad debts as a cushion, which is about 1% of its total performing loan book. "FirstRand maintains levels of capital that are higher than what other banks have reported," Hansjee said.

Given such high levels of capital, some investors might have expected a higher dividend, he said. FirstRand declared a dividend of 226c a share, an 8% increase from the previous period. Surplus capital had been earmarked for opportunities that would support future growth, Hansjee said.

The risk of a sovereign debt downgrade towards the end of the year also made it prudent to safeguard capital, he said.

Source: Business Day.