Barclays in an orderly retreat from Africa

Barclay's Plc's retreat from Africa is not a "sudden divorce" that will leave subsidiary Barclays Africa and its operations picking up the pieces, says departing corporate and investment bank CEO, Stephen van Coller.

Stephen van Coller. Photo: Absa

"(The two banks have) been separating slowly since 2009," he says.

Barclays Plc bought 55% of the shares in the then-Absa for $5,5bn in 2005, but the global financial crisis of 2008-09 led to a number of regulatory reforms, which ultimately led to its decision in 2016 to sell down the shares in its African unit to avoid having to hold capital against it.

Too unwieldy for its parent company

A string of scandals, including a conspiracy to rig benchmark interest rates during former CEO, Bob Diamond's tenure, resulted in hefty fines, which further drained capital reserves.

After the 2013 merger of Absa's businesses with Barclays Plc's African businesses, the combined entity, Barclays Africa, became too unwieldy for its parent company, following regulatory changes and multimillion dollar fines.

But Barclays Plc's decision earlier in 2016 to sell down its 62,3% stake was difficult. The Barclays Africa group as a whole delivered a 17% return on tangible equity in 2015, ahead of most of Barclays Plc's other businesses. Only Barclaycard performed better with a return of 17,7%.

Mutuall beneficial relationship

Van Coller indicates the relationship was mutually beneficial. When Barclays Plc bought Absa, it was "a R2bn business. Now it's a R15bn business."

Institutional investors had an opportunity to buy a 12% slice of this business in an overnight bookbuild process earlier in 2016, with the Public Investment Corporation walking away with the largest block of these shares.

The corporate and investment bank, which Van Coller now heads, was formally founded in 2012 after various incarnations. He joined the unit as the CEO of Absa Capital in 2009, overseeing its integration into Barclays Plc.

"We built the business," he says. "It used to be nothing. At some point, we have to let it get independent."

A child who has reached adulthood

The corporate and investment bank has acted as a countercyclical buffer for the retail and business bank.

During periods of weak earnings performance or decline for the retail bank, the corporate and investment bank picked up the slack. And vice versa. Barclays Plc boss, Jes Staley, has used this argument to placate irate shareholders who wanted him to sell off the transatlantic investment bank instead of disposing of Barclays Africa and cutting dividends.

Van Coller compares Barclays Africa to a child who has reached adulthood, and says it will use the two- to three-year timeframe Barclays Plc has set to sell down its stake to ensure it obtains independence from its parent.

Preparing for life without Barclays

Analysts, however, are worried about Van Coller's departure for telecoms company MTN during this period.

36One Asset Management analyst, Nico Smuts, has said the corporate and investment bank has close ties to Barclays Plc, and Van Coller's departure would complicate the separation.

"The upcoming results presentation will provide management with an opportunity to update the market on how they are preparing for life without Barclays. It would also be good to find out whether the board has made progress in its search for a new head of corporate and investment banking," Smuts says.

The results presentation is expected to be held towards the end of July.

Not worried about successor

Van Coller is not too worried about his successor. For now, Barclays Africa deputy CEO, David Hodnett, is gradually taking over his duties.

"He needs to wait for Peter (Matlare) to arrive, and between them they have to work out what happens with cross-border business," he says.

Matlare, the former head of Tiger Brands, will take on his new job as deputy CEO in August.

He will be in charge of the rest of Africa operations, while Hodnett focuses on South Africa.

Source: Business Day