# The MasterCard Foundation Symposium on Financial Inclusion:

# Clients at the Center

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# Closing remarks day one: Reflections on clients and the institutions we need to build to serve them well

**Speaker:** Marguerite Robinson

**Marguerite Robinson**

Well, it's a great pleasure to be here with all of you today. I think this first day of this symposium has been remarkable—thoughtful, innovative, creative, insightful, and in multiple ways, I think ground breaking. Now, this talk is going to be centered on clients for obvious reasons, but it's going to come from a wide variety of different perspectives. It's not a linear kind of a talk where something follows something else. It's putting clients in the center and looking all around to see what is affecting them, and what they are doing. So, these include some of the main drivers of financial inclusion, as well as current issues with clients, because we want to anticipate as much as possible future client needs as well as the current ones.

So I want to start by talking about two perspectives on clients. The first one is client demand. Some of the things I'm going to say are quite possibly controversial. I'm sure people may have different opinions. So I'm just going to tell you what I think and then we can talk afterwards and see where we are. My view is that commercial microfinance demand, and I'm going to use CMF for commercial microfinance, to be a little speedier. Commercial microfinance demand tends, I think, not to differ greatly throughout many of the world's developing countries. There are, of course, some differences, but overall, I find that demand is typically high for the following formal sector microfinance products and services. First and almost always first in the list that people give you is security, then convenience which refers both to location and to timing, then liquidity, choice of demand-driven products, customer care, helpful, friendly, honest, respectful, and knowledgeable. And I have to say that all these adjectives are needed. I'll come back to this later. Also, confidentiality and returns.

Over the last decade or so, CMF customers have, I think, increasingly been gaining access to their high priority demands for products and services, and after using these, many are recommending them to others, is that continues. So, I think that there's still a long way to go, but we've also come a long way.

The second piece of what I wanted to say about current clients is their understanding of CMF, and there's no simple answer to the level of client understanding of CMF as we have heard all day today. But drawn from a variety of countries, my view is that many clients, and even just people who are potential clients, understand quite well the basic concepts of CMF and often much more.

It's interesting that Claudio talked about BancoSol. I mean, of course, he does, and he knows so much about it. I thought that I would add a story about BancoSol clients because it fits right into what we have been talking about, and also to the wonderful background that we have from him. So this is about the difference between BancoSol's staff and clients' understanding of savings in Bolivia. This took place in the 1990s when BancoSol was a new bank. And during the 1990s, I was asked to run a two-week training program at BancoSol on voluntary savings mobilization. And this was then a new bank created from PRODEM, a highly successful NGO at the time, a Bolivian NGO. But NGOs in Bolivia were not permitted to collect voluntary savings, and BancoSol, once it became a bank, really needed to learn this crucial aspect of commercial microfinance.

So I thought that this training would be important for BancoSol, that this program would be a really good start. But, it did not work out quite that way, at least not in the beginning. And here it's very interesting. We're going to have on the one hand the clients, and on the other hand the staff. The first two days of this, this was a two-week program, the first two days the staff were all present, and I knew many of them. But they were unanimously uninterested in discussing anything about voluntary savings. I tried everything I could think of, but literally nobody was paying any attention. Finally, on the afternoon of the second day, after being really wondering what to do, I stopped, and I said, "What is going on here? You are very experienced in microcredit, and now you're a bank. Mobilizing savings is crucial for you. Why aren't you interested in learning about voluntary savings?" "Oh," they said, "that's simple. None of our clients have savings, so what's the point?" Then they went on. "Maybe poor clients have savings somewhere else in the world, but not here in Bolivia."

I asked why they thought that, and they all said essentially the same thing. "Our clients are poor. They are borrowers. We give them loans because they don't have any money. If they already had money, we would not be giving them loans. So how could they have savings? None of them have savings." I asked if anyone had different thoughts about this. No one did. To myself, I said, "I'll bet every one of their clients has savings." I then changed the program, and we spent the rest of the two weeks doing field work with their long-term clients who had begun at PRODEM and were now at BancoSol. What we found was indeed that every client with whom we talked had savings. Because we were coming from BancoSol, the clients were willing to show us and tell us where they kept their savings. The BancoSol staff/team, now remember it was a new bank, they were astonished at the substantial information on savings that they had so quickly acquired. They learned very fast. The bank soon had many savings accounts, and as you know, it continues today as one of Latin America's leading banks that serve many commercial microfinance clients and others.

I want to move on to financial inclusion, the main drivers, because I think it's really important to look at the present in the context of the future, and vice versa. So, first is appropriate regulatory environment, then we talk about exceptional institutional leadership, deep knowledge of clients. This is really important as you know. There's the crucial role of technology which I'm not going to talk about much because there are people who know much more about it than I do. But it will come up in the context of other parts of the discussion. And then finally, the low margin, high volume approach. These are all, of course, main drivers of financial inclusion, and they're interdependent in multiple ways.

I'm going to mention here only briefly the regulatory environment, as there are many people, again, who know more about that than I do. But it is really important because if you don't have the right regulatory environment, and you can't go ahead, then you're really stuck. So the regulatory environments and roles of central banks in different countries, regions, and environments are complex. They're often controversial. They sometimes require crucial changes; other times they remain uncertainly benign. I mean, there's a lot of different things happening, and it's one thing if you're working in one country. Even that's difficult enough. But if you're working across a region or large numbers of countries, that can be really very complex. So a wide range of issues concerning financial inclusion may well arise from different countries. These can range, for example, from the size of the institution. I mean, we're talking now about what regulators are looking at. It could range from the size of the institution to issues of hybrid systems, and apex oversight, to market scale limits on regulatory policy and capacity, ability to cover costs, and on to non-prudential regulatory bodies and the roles of prudential regulation and supervision. So there are lots of things to be considered there, but beyond that, there are many people who know more about it than I do. I'm just raising it because it is a tricky and difficult issue.

I want to talk about exceptional leadership, and this is really crucial. I think the exceptional leadership in organizations for poverty reduction has been profound in the last several decades. I can only give a few examples. There are many more, but starting in the early 1970s, Sir Fazle Hasan Abed—he wasn't "Sir" yet, but he sure is now—he created BRAC as you know, and which in my view is the best overall poverty reduction organization probably in the history of the world. In the 1980s, Indonesia's finance minister, Ali Wardhana with Kamardy Arief and Pak Sugianto, turned around a completely failed unit banking system in a very large country and made it consistently profitable while reaching the largest number of CMF clients in the world.

And we've heard a lot about James Mwangi in the 1980s, James Mwangi, the founding CEO and the managing director of Equity Bank and the Chairman of the Equity Group Foundation. He took over, as a lot of you know, a failed building and loan society about to be closed by the Kenyan regulatory authorities. Practically nobody understood his decision at the time. In 2005, however, after working on it for ten years, it became a bank. In 2012, Equity Bank consistently and continually profitable has the largest number of clients of any bank in Africa. And again, as you probably know, Dr. Mwangi received the Ernst & Young Entrepreneur of the World 2012 award. And he and Equity Bank have received so many major awards that they are having to build new cabinets. (Laughter)

Let's take a look at the Equity Bank numbers from 2005 when Equity became a bank to 2012. I think this suggests what has been accomplished. Basically, here, this is pretty simple to look at. This is in US dollars, and for those who might want the Kenya shillings rate, it's also there. But the numbers are all in US dollars. So if we look at the customer numbers, 2005, the beginning of 2005 is when the bank opened. Before that, it was a building society. So they had 556,000 clients in 2005, it and had taken ten years to build that up from when James took over Equity Building Society. And in 2012, you're up to 7.8 million customers. Assets, from $152 million up to $2.9 billion. Customer deposits, $120 million up to $2.0 billion. Gross loan portfolio, $78 million up to $1.7 billion. Total staff numbers from 884 up to a little over 7,000. Profit before tax, $7 million up to $206 million.

This is not a very typical account of this number of years, from 2005 to 2012. This is very special, and the reasons that it's very special are many. First of all, that's leadership. Equity Bank has some of the best leadership that I have seen anywhere. And in addition, they have a very strong corporate culture. They have very, very strong feelings about how they have to help poor people. The aim is to help people. The aim is to help their poor people not be poor, and they really, really work on that.

There's an interesting point—this is a little vignette in a sense—there's an interesting point about microfinance leaders that I read about only fairly recently. It came out in the 2011 Microcredit Summit Campaign Report. There were 3,589 institutions worldwide surveyed, and they served, those 3,589 institutions, served 64 million of the poorest clients living on less than a $1.25 a day. This was in 2009. So you've got these 3,589 institutions serving 64 million of the poorest clients. This I find interesting. Of these institutions, ten reported, a million or more clients. That made nearly 52% of the total clients. So you've got ten institutions with 52 percent. ..... the other 30.5 million poorest clients were served by the remaining 3,579 institutions. So I want to suggest here that it would be useful to think about, what does that suggest about financial inclusion? To me, it suggests that roots to financial inclusion are unlikely to come through thousands of institutions. I don't have the recent numbers. But BRI in Indonesia alone has about 25-30 million clients. So I don't think you need 3,500 in order to deal with this. So there is a real issue here. You know, relatively small numbers of institutions that really have great leadership, that are run right, and so on, are making a big impact.

So now, I want to look at clients using examples from Equity Bank. I want to go now to the clients and let them speak in their own words. Customer care, and this cannot be said enough, is at the heart of Equity Bank. Whatever they do, whatever successes they have, it comes from customer care. I have known them for many years, and I can see very well how the clients are cared for, and from the client's perspective, why they are so loyal. It really is a major focus for the bank.

An important point here, which is not often considered, is that at Equity, people are simultaneously clients and members. As clients, they are helped with exceptional personalized customer care by the bank. As members -- different roles, same person -- they feel a responsibility to notice problems that arise, and bring them to the attention of the bank. This is their responsibility. They're a member of the bank, they have to go and tell the right person. And the bank pays careful attention to their concerns and makes necessary improvements, innovations, and so on. So let me give you a few quotes from the clients. This is about their views on Equity.

"Equity is a bank where everybody fits regardless of who they are."

"The bank is not the building, it's the people inside."

"I've seen many lives transformed on receiving Equity loans."

"My experience at the bank has been awesome."

"Conditions for getting a loan are easy."

"Equity Bank goes out of its way to help young people."

"Even old people have a special place in the bank. They don't have to stand in line. Everyone is comfortable."

"When I see Equity, I feel like smiling."

"The difference between Equity and other banks is the way Equity treats all its customers. The difference is big."

And then this is a question that somebody asked this client: "What would make you leave Equity Bank?" "Where would I go? I would not leave because of a problem, because I know the bank will listen and change. Equity Bank is like your mother."

What I want to do now is to use the client's views on technology to show two aspects of Equity. It's important to know that in late 2010 and early 2011, Equity began agency banking in a few areas. There were a great many problems in the early stages. I was in the field a lot with them, and oh my goodness, there was every kind of complaint that you can imagine from the branches, from the agents, from the clients—everybody was complaining.

Now, here's some complaints from the clients who in their role as members, there is their job as they see it, and as the bank sees it, to point out what is needed. So when all of this just broke, and nothing was working, the members were going and explaining, you know, this is wrong and this is wrong and this is wrong. And some of the things that they said I will now quote:

"The agents are not well trained, and they have trouble with the technology. They can't do it."

"It's a good idea, but it doesn't work."

"Network failures are common. We have them all the time."

"The agents don't have enough float."

"The ATMs often don't work."

"There are security problems."

"There are many delays."

"There are uncertainties in the transactions. We don't know what's happening."

All of this was in the role of being a member and helping the bank to get fixed. Equity Bank then moved very quickly to change the situation, and they did. Agents were well selected, they were well trained, they learned their jobs, and it was amazing. The technology worked, all of it. I mean, they put a huge amount of effort into this. And by mid to late 2011, clients were full of praise for agency banking. And here's some more quotes:

"I love the Equity agents because it is a brand that one can trust, and the agents are accessible, affordable, and everywhere."

"If I had a trophy, I would give it to the person who brought agency banking near me."

"I used to have difficulty sleeping with my money in the house. Now, I stop by the agency, and drop off the money, and I can go home and sleep like a baby."

I want to move to conclude here in talking about democratizing finance because I think this is an extremely important part, both of equity, and of the entire microfinance industry of the future for commercial microfinance. Democratizing finance, the low margin, high volume approach.

In most of the business world, profitable banks are considered to be primarily for wealthy and upper middle income people. The MFIs of the world are typically thought to serve mainly low and lower middle income people. The SMEs are sort of some here and some there. But the MFIs are thought to be basically for low and lower middle income people. Their interest rates are, of course, typically higher than those of the banks because the costs are higher. Some are subsidized, but both leadership and profitability are a challenge for most of these institutions, and there are often lots of problems and uncertainties.

Equity Bank has been developing a different approach to microfinance based on low margins, and high volume. As I mentioned, they have the largest customer base in Africa. High quality, committed leadership, which Equity has, is absolutely essential. They have it, and they're doing it. They have a deep knowledge of their clients, along with the outstanding customer care that helps clients improve their lives and livelihoods. This is at the center of the bank. The center that they really care about most is getting these people out of poverty. There's much more that could be said about it, but we don't have the time here.

But I really wanted to stress the fact that democratizing finance by being able to lower costs, low margins, high volume, that that is how they conceive, and it's working quite well, improving the lives and livelihoods of their clients. That's the aim. And many such clients—I've talked to lots of clients who have gradually moved out of poverty, and I must say they tend to be highly loyal to the institution that has helped them. And I've also met some very wealthy clients who were poor back in the very early days of the Equity Building Society, and they are as about as loyal as anybody could be.

So the bank, Equity Bank, serves everyone—low-income, small and medium enterprises, middle and high wealth clients—and it is consistently profitable. And I think ultimately, it is the low margin, high volume approach, along with dedicated client care, innovation, and an appropriate regulatory environment that will lead to global financial inclusion.

And there's just one last slide here which is simply sort of a wrap-up of the topics here, that sustainable, large scale, democratization of commercial microfinance is where I think it's going because Equity has proven that it can work, and the costs have come down, the volume is way up, and the profits are very high. A lot of it goes back into basically the Foundation and other charitable organizations related to the bank, or charitable issues and things related to the bank.

Innovative technology, Equity is full of innovations designed to supply the large scale financial demand. They're always thinking about the scale, how are they going to get the technology right to be able to meet the kind of scale they're thinking about serving. And they do have four other wholly owned subsidiaries in four other African countries, and they're planning on going into a number of other countries. So they're really working on scale and democratization.

Customer care, they want to get their clients moving from low to middle income, and they're working very hard on it. And the high quality leadership and the low margin/high volume CMF approach, all of that, these things all fit together. That's where they're going, and having observed them now since 1999, it seems to me that it's working really quite well. So I can only give you the example from this bank, but I think it is affecting a lot of other banks, and we talked about the many other leaders. This is just one. But they're pretty special.

This is the end of my formal talk, but I wanted to tell you just a little bit about a totally different topic. This is, because Boulder Institute was founded just about 20 years ago, and many people don't know how it started or where it came from. So I've been getting questions asked here, as well as a number of other places. And so it seemed like it might be a good idea, given this group, to just tell you very briefly something about how it did get started because it's kind of interesting.

Just 20 years ago in 1993, Bob Christen and I were both invited separately—we knew each other, we were friends, but we didn't know, each one of us did not know that the other one was invited to go to South Africa to advise a group of people on microfinance there. So we went separately about two weeks apart. Later on when we were both home, we realized what had happened and we talked about it. And it turned out that we had both been asked the same questions. We'd given very largely the same answers. And essentially, the next time we talked, we realized what had happened, and Bob said, "You know, these are the very early days of what's going to happen in microfinance." He said, "Many people in countries are going to get involved, and the demand for understanding and improving is going to be large."

So he basically said, "It doesn't make sense for us to go one on one here and there to talk with three people here, and then find out that somebody else is talking with the same three people and saying the same things." He was saying, you know, there really is going to be a large demand, and he was absolutely right on that case. He was saying that we really need to think about how to help the poor, and we better start now to organize how this can happen. So we need to begin getting people together to figure out how to improve formal microfinance, and how to think about how to move to scale.

Because he was really thinking about scale. And he was saying, "That's what we have to do. We have to bring the right people together, and instead of going in one here, and one there, one someplace else to talk to two people, let's bring them here, and let's think about how to do this."

So that's how the Boulder program began. In the first year, we had 18 people. You can see that over the years, things have changed. We now have 4,500 alumni. And we have a great partnership with The MasterCard Foundation. For many years, they have been providing Boulder with many scholarships for the students, and basically we have a terrific program, and The MasterCard Foundation and Boulder have just a wonderful partnership. And this The MasterCard Foundation Symposium I think is a really great example. Thank you. (Applause)