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with the Boulder Institute of Microfinance

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Friday, November 20, 2015
1:30 p.m. – James Mwangi Keynote Address

JASON REINDORP: We have a good afternoon, a great afternoon actually lined up for all of you and we are going to start with the story of Equity Bank.

Now the first time I heard Equity Bank's incredible story, it was directly from James Mwangi. I was very lucky. It was over dinner and Reeta was there, and I think Equity's Head of Strategy was there as well. I'm pretty sure I forgot to eat most of my meal because I was just so fascinated with all of the different chapters that went into making Equity into what it is today. They've really, in my opinion, they've really achieved what a lot of organizations can really only dream of and hope for. Under James' leadership, Equity has grown to become a brand which is associated with trust and relevance, and the highest levels of customer service. They've been able to expand access to financial products and services to millions of new low income clients.

Because of his work on Equity Bank, James has been honored several times by the government of Kenya. He has received the Chief of the Order of the Burning Spear which is the highest Presidential award given to a civilian and this was for outstanding contribution in economic development. He's also currently Chairman of Kenya's Vision 2030 Delivery Board. So James is going to deliver his keynote, and then after that, he will stay on the stage and we are going to shift into a panel discussion. So please join me in welcoming James Mwangi to the stage. (*Applause*).

JAMES MWANGI: That's what you call being set up. Jason comes and Reeta raises the bar, talks of how you talked over dinner for hours, and then gives you 30 minutes. (*Laughter*). I thank you very much. It's a real pleasure. Let me on the outset really thank Boulder and MasterCard Foundation for the opportunity to be here. It's not only learning and renewing knowledge, but it has been three good days of being with great friends.

The story I tell of Equity Bank is not about a story of James Mwangi, contrary to what Jason has said, but a lot of people in this room, whether it's the people in the '90s who were really initiating. So Equity has a lot of contribution from what you could call the gurus of microfinance. We have worked with them. I don't know whether they are shy, but if I asked them to raise their hand, can you read it. Are they shy? I can see they are shy. That's okay. So it's a good contribution of what one would call technical knowledge. What we are good at is execution, but knowledge to a great extent is in the people in this room.

My job was made very difficult by being given a few questions to answer, not to tell the story of Equity. So to a great extent, I will disappoint most of you because I will not be able to tell the story of Equity Bank; I will answer the questions I've been given. But a couple of references that you can ... in the room are two of my colleagues, John Staley who is Director of Innovations and Mobile Payments, and [inaudible] worked with [inaudible], and that's what I've been asked to talk a lot about; and Dr. [inaudible] who's the managing director of the Foundation that does most of the work for the bank and also created a platform for collaboration.

Most of our collaborations are through the Foundation. So if you pick any of them, they will tell you the story. If you are unable to pick them because they are just two, there are about 21 case studies that have been done on Equity Bank. The first one was done by Gerhard Coetzee. He's in the room. He named the case, "Understanding the Rebirth of Equity Building Society." We were not even a bank. It was about 15 years ago. So you can see it's an old story, a long story, and that is the genesis of our customer-centric organization, "Understanding the Rebirth," and it was simply by changing approach towards the customer that gave the ... and another case, Stanford has done three case studies; Columbia University has done nine; Harvard Business School has done nine. I think all the public universities have done two or three, so any of those, they are on our website and that will help you. So if I don't measure to your expectations because of the way I was set up by everybody today, those case studies will help you to really understand this.

But let me go back to "Understanding the Rebirth of Equity Building Society." Equity, what we acquired was a license that had been in operation for 11 years. That was in 1993. That had been in operations for 11 years, but was technically insolvent. It had been started with one million Kenyan shillings as capital, but had accumulated losses of 33 million. So you can see how bad it was. Total deposits were only 22. So even today, I don't understand how our losses could have been higher than 30, total 30. And loans were only nine million. So that was the Equity of 1993 after 11 years. And then the turnaround is what then caused the rebirth.

So, imagining that position, you have no money because you are technically insolvent. Board members are not supportive. They had stayed for two and a half years without having a board meeting, so they had abandoned the institution. And of course, shareholders have negative net worth of 32 million. They had put one, all that they could share was 33. So they had no interest of putting more money. So you can imagine. So the only thing, and of course, staff for 11 years had never had a salary increment because there was no money. You are just making losses, so there's no money. And of course, you could imagine how the [inaudible]. We couldn't even manage to collect to the national grid because paying bills was a challenge. That was Equity Bank then.

So the only thing we had was only the customer. But 80 percent of the customers had become dormant. And then total number of customers was 26,000 and 80 of them dormant. So we said, how could we change this organization? There was no other way but to go to the customer and try and find out why had they abandoned their accounts.

Then, there was nobility in setting out Equity Building Society. It was set by some boys from the village who were being bothered by people in the village for lack of success. So it was not of inclusion, but of their village, and that's why they failed because they went to do banking in their village without understanding business models and case studies, or what you talk about business case. So they could never reach economies of scale. For eight years, they didn't even have enough in the capital city of Kenya. So essentially the mission was right, the [inaudible] was right, but the business case was weak and for that reason. So we said, what do we do? Then we said we'll talk to the customer. Let me try and brief what we did.

We went to the customer and said, "They brought to you this bank to the village, why are you not banking with it?" That was the first question. So it was more about research on the customers. Essentially, if I summarize "Understanding the Rebirth of Equity," Equity became demand-driven. Demand is driven by customers, so it became customer-centric. So the first thing we got from the customers is, "You don't have product for us. You give us products, but they are not solutions." And so I liked what we learned last night about tools. Don't give customers your products, give them tools to manage their needs, or give them solutions to their challenges. That's the one thing. So the design of product should never be from the back office. It should be from the field where the customer is.

The second thing they said, "There are so many barriers. You don't put into account our circumstances and our situation." And truly, there were many barriers. They are low income people, but the model was a cut and paste of international banks, and international banks if you take Citibank, Citibank was never crafted or by that time was not for the poor people, but the model was exactly the same. There was something called "minimum balance" but minimum balance was two times my salary as a university graduate, and at least three cows for a farmer. So the farmer would say, "Why would I keep three cows in the bank that I don't milk?" (*Laughter*). Then the wife says, "And you always ask us for security, but we don't have securities." And the mindset of a banker is give me land. Women didn't have land. Their succession didn't allow women to own land in the country, yet the Building Society's law said you could only borrow against land. So you can see the barriers.

The second one was, "We keep money with you, you don't restrict us to keeping money with you, but when we want to withdraw, you tell us we can only withdraw once every seven days, and then you tell us a maximum of 10,000 shillings. It is only part of the amount we have. So if I want to buy a piece of land, I have to really keep on withdrawing for six consecutive weeks to build up the amount." So I realized how ridiculous bankers we were, because we were imposing, it was completely supply driven, the products take or leave. So the people chose not to take them because they were not appropriate for them, and then we're asking why are their accounts dormant. We still keep on asking that question. Accounts are dormant because the products are not appropriate.

So we removed what the customer said were barriers. The first one we removed was ledger fee. They couldn't understand, and every time they came to see us, you have withdrawn some money, and they say that is ledger fee. So they kept on asking, who is this person called "ledger fee" who always withdraw money without our approval. So we removed "ledger fee," we removed the minimum balance, and we removed restrictions on the amount you could withdraw, and the frequency. That was the beginning.

The second then we asked them, "What do you value most?" We realized the bulk of our customers were Christians, and particularly women were very, very spiritual. So we realized that what they treasured most was going to heaven after leaving here. And the bridge is their bishop. So we said, "What about if we asked women to have a letter of recommendation and guarantee from their bishop?" And we went to the bishop and said, you have no obligation; if they don't pay, you have no obligation, but psychologically they believe they can default because you ex-communicate them. And essentially that became the biggest security in Kenya (*Laughter*). The thought of being excommunicated in church was sufficient security because they valued going to heaven more than they valued land because they would leave land here.

So some of those. Eventually we went to groups and we saw the social security of groups. You guarantee one another. Then we discovered the best way of notifying the others one is defaulting was to go with this Land Rover, the debt collection unit. You only needed to park the Land Rover outside somebody's house, and then drive off. Then the social support of the community's withdrew. And the only way it can be reinstated is if they paid their loan. So essentially we realized that in cohesive societies, the interdependence in rural areas is so high that the biggest value is to belong, the sense of belonging. So we used that a lot.

Essentially, for a few, we [inaudible] for women from a personal perspective. They are never allowed, or they assume they should never allow another party to enter into their bedrooms. So we decided, this is a culture, you don't allow people to get into your bedroom. So what we'll do is we'll ask you to give us your matrimonial bed as security. A matrimonial bed has no value. It would not be bought by anybody. But psychologically, no woman would be able to explain to a husband how they allowed a stranger to come into their bedroom, and more importantly, carry the bed. So essentially, that became a very powerful security. The psychological culture.

And then those who understand, particularly the African culture, the most important person to a man in African culture, and especially in Kenya, it's not, is a paternal uncle. Your mother's brother. You can't go through from teenager to adulthood without the approval of your uncle. You can't marry before the approval of your uncle. That's the only person in our culture who gives consent. Not your parents. So essentially, we realized if we got young men, youth, to be guaranteed by their uncle, they will not default. Why? Because they will still need to seek the approval of the uncle in the life-cycle events, the most important event. And essentially we realized this is a very good security. Of course, we did a few other things on product.

What happened? From two thousand customers, today we have ten million customers. I think for that first 15 years, we grew at a compounded growth rate of 126% compounded for 15 years. That was a phenomenal growth.

So just to bring you to speed today, from the two thousand customers then, from deposits or balance sheet of 22 million, we have a balance sheet of nearly half a trillion Kenya shillings, five billion US dollars. And from number 66 out of 66 banks, we are number one bank. We compete a little bit with some, but last year we were Kenya's most profitable bank, and by extension eastern/central Africa, and more importantly, we have the highest/largest number of customers in eastern/central Africa. So essentially, that is more customer-centric.

Let me close by saying we always forecast on products. But what we discovered, what customers look for most is not what you give them in form of products and services; it's how you treat them when they come to the banking hall. "How do you treat me?" It's the issue of honor and dignity. So what we did was to build the culture of the organization and allowed dignity.

Then we said, hmm, we should not actually be a bank. Eventually because of building that culture, we have seven values on which the culture is built. Only two related to banking. The other five are soft factors. They are about teamwork, about respect and honour for the customers. They're very, very soft factors that will make a customer feel. What did we say? We said we are giving banking a human face. Then eventually as we moved on, we said it's no longer a face, let's give banking a soul. S-O-U-L. And when a bank has a soul, it becomes a human being and is able to coexist with other human beings, and they don't run away from each other. You can see the way you are sitting very close to each other. So we sit very close because of that culture. Culture took a lot of time.

The second thing was empowering customers, and more importantly, through staff. We realized you can't empower customers if you have not empowered the staff. So we created an inverted organizational structure where the most powerful person in the bank is a business unit leader, what we call branch managers. Branch managers are the most powerful people because they are the only people who have authority as individuals within the organization. So decisions are made very promptly at the business center. They very literally follow a known process a [inaudible] process you followed. Did you follow the right process? Did you make the right, did you undertake the right risk? So that inverted authority which is at the front has helped Equity a lot.

However, we hold them to account, and we developed a most very powerful tool where we reward winners, and winners is building unique emotional bonds with your customers. It's not about selling. It is unique emotional bonds with the customer. That is the winner, and whoever is ... so what happened is that the most soft people, the most outgoing and most helpful people, the most friendly people tended to be the people who were promoted. So everybody wanted to be warm to customers so that they can be promoted. So in a sense, essentially we pitted really personality types in hope of never [inaudible] see it because he has helped us do those [inaudible]. Ninety eight percent of the customers of Equity say they are in Equity because of helpful, friendly staff. They don't talk about anything else. They don't know about product, they don't care about pricing.

Let me lastly say, channels were very important. It's not just about product; it's how do I access? Initially, we are done through branches, but customers told us these branches are too far from where we live, and we spend a whole day and it's not just that day, but we spend more in public transport than the cost of your services. So the cost of banking was not what the bank was charging, it was the total cost of accessing the bank.

So what we did, the first one, was to have these Land Rovers that used to go to their villages, and we termed it, taking banking services to the people or to the client. So you take the banks to the client. The second thing they talked about that was a huge constraint other than physical distance was on infrastructure, was that the bank closes. It closes, yet our needs don't close. We need money as a child gets sick and sometimes emergencies come up. Eventually, the second thing we did when we realized the mobile Land Rover was too expensive, we made the shopkeepers the first line customer service officers of the bank and we called them agents. So they do withdrawals, deposits, account opening, and such things. I believe we have the highest and most successful agency network in banking in the world.

In new countries, like Rwanda, agency does 70%. In Kenya, agency which is only five years old, does more than 51% of all bank transactions. Why? Because what does agency do? It demystified banking. Banking, when you look at a banker, he's always in a suit and a tie. The shopkeeper looks exactly like the customer. So the customer feels this is somebody who understands my state and my situation. Banking was explained in very different languages. Instead of saying, "you store," they say, "Instead of storing your wealth in your granary, why don't you store it in a better granary called banking where there are no weevils and insects?" So you start to see, "Oh, so I can sell my grains and keep the money, and whenever I want the grains, I buy." That's the interpretation.

So banking was demystified and explained in the language of the customer. I think that's what Ignacio was calling "mental models," the way they think. Then we realized things like the chicken were the savings account of customers. It's the thing you lash to. Then, they called deposits the goats, and the cow become a fixed deposit of six months. That's how they do it. They match their financial needs with their asset holding. They don't think of them in money. So the shopkeeper became a very powerful agent of changing the language of banking. So today, agents do most of it.

The second thing they kept on saying, "But the agents are still close." That explains why we bought an MVNO license and with an MVNO, we got ability to give every customer their own branch. They can do it 24 hours, 7 days. We now see in that channel, because there's a question about digitization, how do we reduce dormancy in digitization, is using the channel not for just the banking product but to support lifestyle. So like Ignacio did, what we did is we put the savings account there, we put insurance there, we put borrowing there, but more importantly, we put the curriculum for class, for school, on the phone. So when you go home, the phone becomes the textbook for your children. They can use it, there's a quiz every evening that the answers are given. We put something with encyclopaedia on the phone, so if you ask that question, you quickly get into your phone. So it became a lifestyle, and eventually we made the payment gateway. Instead of saying it's payment, we said you can send money from your account to anybody else, but it was a formal payment. And then we made that facility free. So there's a temptation that, why carry a card, when paying is free. So essentially, that made the use.

The banking transaction moved from two transactions per month if you used the branch or the agent, to 24 transactions per month because it's lifestyle. And then we called the channel, the tagline for the channel is, "Freedom, choice, and control." You have your freedom, you have a choice on what to do, and you have control. You do it whenever you want. And then we formed the tagline of the bank, "The listening, caring, financial partner." Now, caring is empathy. So when you are selling somebody's asset because they have failed, they always ask you, "Really, do you care? Why can't you listen to me?" So essentially, the staff became supervised by the customers because the customer would simply ask you, "You're not listening. This is not what I'm telling you; this is what I'm telling you." So essentially, and then the commitment of the bank was only one thing.

My time is up, so I need to stop. The only commitment of the bank is corporate philosophy. We said we'd only exist for one thing—to empower our customers to change their lives. And the question we measure is not how much profit you have done, it's how many customers you have empowered. Thank you very much. (*Applause*).