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THE JEROME CHAZEN CASE SERIES

Equity Bank

ABSTRACT

By inspiring a passionate culture around its compelling social vision of bringing financial services to the "unbanked" poor and using IT to scale its high-volume, low-margin business model, Equity Bank transformed itself from an insolvent building society into Kenya's top-performing bank and one of the most powerful brands in Africa. Amidst exponential growth, a regional expansion plan, investment in a mortgage provider, and a strategic push to generate more transaction fees through alternate banking channels, how can Equity deliver on their growth strategy and still ensure they maintain their pivotal brand loyalty and customer service? Will it be able to fend off competitors seeking to enter the previously "unbanked" market segment?

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This case was prepared as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation.

Introduction

James Mwangi, an Equity Bank executive since 1994 and CEO since 2004, was returning from three days of meetings in Kampala, Uganda. Equity had recently acquired Uganda Microfinance Limited ("UML"), that country's leading microfinance institution, and had been transitioning UML's systems and procedures to the successful and effective Equity model. If successful, Equity's expansion into Uganda--as well as Southern Sudan, and likely Rwanda and Tanzania in the near future--would have a similar life-transforming effect on these nations' lowest-earning populations as it had in Kenya while generating superior earnings for the corporation's shareholders.

However, Dr. Mwangi's thoughts were on the Nairobi Institute of Business Studies (NIBS) and its CEO Lizzie Muthoni Wanyoike. In under a decade, NIBS had grown from a small diploma-granting institution with just 25 secretarial students to an accredited college offering degree programs in business and health to hundreds of students. Ms. Wanyoike, an individual Equity Bank account holder, has grown her business with *fanikisha* ("It can be done" in Swahili) loans. These loans are specifically for women business owners; Ms. Wanyoike used her first to purchase manual typewriters not available at that time in Kenya. In addition to the loans and Ms. Wanyoike's hard work, the business advice and moral support provided Equity had brought NIBS such great success that it would begin operating as a university in 2011.[1] A number of NIBS graduates had also gone on to become Equity Bank employees.

By pursuing the fundamental Equity mission of providing banking services to the poor and disenfranchised, and opening a pathway out of poverty as well as towards greater dignity and self-worth, would Equity be able to serve adequately its remarkably successful customers such as Ms. Wanyoike? Or would she and others be lost to commercial banks that specialized in business clients?

Managing regional expansion and expanding services for business clients represent only two of the myriad challenges facing Equity as it enters this latest phase of evolution—a quarter-century journey in which it matured from an insolvent building society to a reputable local commercial bank into a publicly traded corporation that attracted one of the largest private equity investments[2] in Africa. How Equity chooses to deploy its extensive capital base, manage regional expansion, and meet the needs of its "graduated" customers will determine its capacity to continue to deliver returns for its shareholders and to remain its clients' "listening, caring partner."

[1] Information on the Nairobi Institute of Business Studies "Courage Under Fire", a DVD produced by Equity Bank and the United Nations Development Program, focusing on the successes as business-owners of some of Equity's female clients; and "Transforming lives of millions of Kenyans", an article by Evans Ongwae which appeared in

[2] Cite?

The Equity Bank Story: Evolution and Revolution

Equity has made a name for itself by addressing the needs of the low-income population, who comprise a segment of the market traditionally neglected by large commercial banks. With the majority of all bank accounts in Kenya and an astounding referral rate of 72%, Equity doesn't have to advertise.[3] The bank's history is firmly entrenched in the collective consciousness, and it is virtually impossible to find someone in Kenya who does not know the story of how the bank has grown from a simple building society -- one of the last indigenously owned, Kenyan building societies, teetering on the brink of insolvency -- into a banking powerhouse. The key was to remove the minimum balances and ledger fees, demanded by the incumbents, which had essentially precluded most Kenyans from entering the banking system. Historically, the larger commercial banks required minimum deposits of several times the monthly salary of the average Kenyan worker, a policy born out of a belief that the unbanked segment could not be profitable. During the economic downturn of the late 1990s, many banks had even withdrawn from many up-country rural areas, closing branches and issuing formal notices of termination to many existing customers.

Equity chose not to ignore this market, and the needs of those who comprise it. The bank's business model focuses on high volumes and low margins and aims to simplify and demystify financial intermediation. The majority of its liabilities are funded by customer deposits, and about two-thirds of its revenue comes from interest income and loan fees. It pays 1% interest on customer deposits over 10,000 Ksh, but since the average deposit is about 12,000 Ksh, its cost of funds is only 0.7%, one of the lowest in the industry. Its loans are mostly unsecured and generally priced at about 15%, along with a 3% underwriting fee. The rest of its revenues come from riskless transaction fees, but Equity plans to grow this "slice of the pie" by pushing more of the business out of the branches and onto the firm's new technological delivery mechanisms (Alternate Banking Channels). Equity also employs rigorous credit analysis, which uses techniques devised for low-income borrowers to reconstruct the profit and loss accounts and balance sheets of households, rather than individuals.[4]

Mary Wamae, the firm's Director of Strategy, recounts the bank's phenomenal growth (Exhibit 1 – Financial Performance). "Equity is now home to 52% of all bank accounts in Kenya, and captures 7 out of 10 new accounts in the country, which are being opened at the rate of [x] per day. Profits, deposits, loans, revenues, and staff have all essentially doubled in each of the past eight years. Over the same period, the number of branches has grown from [x to y] and the firm has deployed the most extensive ATM network in Kenya, provided an innovative mobile branch service to remote villages, and rolled out Eazzy 24/7, a suite of banking services available on mobile phones. Some people say there are only two banks in Kenya: Equity, and everyone else.[5]

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[3] Cite?
[4] Financial Times. http://www.microcapital.org/news-wire-kenya-equity-bank-runaway-profits-from-banking-the-poor/
[5] Cite?

Equity converted from a building society to a commercial bank in December 2004, and listed on the Nairobi Stock Exchange in August 2006. Since then it has sold a 24.9% stake to Helios Investment Partners for $125 million in what was the largest private equity investment in Kenya. It is also expanding vertically - having purchased a 25% stake in Housing Finance Corporation ("HFC"), a local mortgage provider – and horizontally - having acquired UML, a leading microfinance institution, in an all-stock transaction valued at about$25.5 million.

Still, Equity remains focused on capturing as much of the unbanked population as possible, and does not spend its resources trying to lure the business of large corporate clients away from its competitors. There are an estimated 15 million adults in Kenya who live on less than $2 a day, of which only 5 million enjoy access to banking services. 3 million of these are Equity customers, leaving plenty of room to grow. The high rates of the population lacking basic financial services are similar in Uganda and throughout East Africa (Exhibit 2–Penetration of Banking Services).

But can Equity maintain this breakneck growth as it embarks on regional and vertical expansion plans? How will the new technological delivery mechanisms (Alternate Banking Channels), designed to bolster the growth, be received by Equity's traditional customers? With Equity's phenomenal success in "banking the unbanked," will Equity be able to fend off competitors now seeking to enter this market? And how will Equity continue to provide excellent service to "graduated" business customers such as Ms. Wanyoike?

The Kenyan Banking Sector: Fragmentation, Growth & Competition

While Equity has been very successful in filling a vacuum that was left by the larger banks, the competitive forces coming into play will make it much harder than it has been to achieve the same returns. The first-mover advantage and the technology that Equity has leveraged more quickly than their competitors could be under threat as there has been a massive recapitalization of banks in the last couple of years and other banks plan directly to target its customer base by attempting to replicate the Equity business model.

The Kenyan Economy

Kenya realized an economic growth rate of 7.0% in 2007 from 6.4% in 2006. The perceived resilience of the economy was tested with the civil strife that beset the country during the disputed elections in January 2008, which briefly affected the confidence of local and foreign investors. The global economy has been weakened by the ensuing recession in the West, which has affected the foreign exchange, tourism, and agribusiness sectors. As a result, the economic growth targets have been revised downwards to about 4%.

Economic liberalization has been underway since 1980 with the first structural adjustment program, however progress has been patchy. Financial liberalization commenced in 1991, with the removal of interest rate controls. Exchange rate controls were finally abandoned in 1993. However, the government remains heavily involved both directly and through regulation with a number of key sectors. While the basic legal and regulatory framework is largely supportive of a liberalized market, two of the four largest banks remain state-owned, including, notably, the largest – the Kenya Commercial Bank ("KCB").

The Financial Sector

Despite the political violence at the beginning of 2008, Kenya's banking system remained stable through June 2008. The overall performance of the banking sector was rated "strong" an improvement from the "satisfactory" rating attained during the same period in 2007.[6] Total assets in the banking sector stood at Ksh978 billion (~ USD 1.3 billion) by December 2007, while total liabilities were Ksh845 billion. Combined sector core capital increased tremendously from Ksh99 billion in 2006 to Ksh188 billion on the back of sector-wide earnings retentions, a couple of rights issues, and the massive private equity injection into Equity Bank[7].

The Kenyan banking sector is densely populated with 45 commercial banks (in addition to two mortgage finance companies, and 105 forex bureaus), but at the same time highly concentrated with eight of the 45 banks controlling 70% of the sector in all aspects. The Central Bank of Kenya ranked Equity Bank, Citibank, Standard Chartered, I&M Bank, and Barclays as the top 5 Tier 1 banks in Kenya.

Sector-wide revenues look encouraging: all traditional revenue sources have trended upwards in the five years between 2003 and 2007. However, interest income continued to top all other revenue sources despite unflagging interest margins contraction. Not only has interest income grown immensely as a source of net revenues for the sector, but the margin between it and fee income has continued to widen each year. Fees income has, however, also grown as banks charged a fee for loan origination and processing. Foreign exchange revenues have also generally grown gradually[8].

In general, administrative expenses have controlled the majority of total spending for banks over the past five years. This has been attributed to the searing pace of expansion, growth, modernization, and the strategy overhaul of major banks. Administrative expenses mainly stem from new branch opening expenditures, increasing the number of ATMs, the development of more modern and scalable core banking systems platforms, introduction of new points of sale (POS) networks, and the establishment of card businesses. In short, the Kenya banking scene has been dressing up for growth,

[6] Kenya Banking Report 2008
[7] Kenya Banking Report 2008
[8] Kenya Banking Report 2008

scale and modernization.[9] Consequently, the return on each unit of investment has been improving, making it a hugely attractive destination for new capital.

The Kenyan banking sector has recently seen the entry of several African foreign banks that would pose a threat to Equity's market base, specifically Ecobank of Nigeria and CFC/Stanbic of South Africa. Their entry into Kenya is expected to intensify competition in the financial services market, where recent acquisition deals have added muscle to previously small players.

Thus while opportunities in the sector remain, the prevailing competitive environment could soon bring a wave of consolidation to the banking sector that may present a threat to Equity's profits (Exhibit 3 – Equity Stock Price and Timeline).

Responding to Competition: Regional & Vertical Expansion

Addressing competition, Director of Operations Gerald Warui first notes that Equity has established a brand loyalty that would be nearly impossible for either foreign or traditional domestic banks to replicate. In addition, he felt these banks would need time to understand the market and customize their operations to focus on low-income clientele, which are typically not their typical base.

Regional Expansion

In order to combat increased competition, mitigate political risk, deploy its huge capital base and grow on the phenomenal success in Kenya, Equity is pursuing an aggressive regional expansion, both organically and by acquisitions. The expansion strategy was given extra impetus by Kenya's post-election crisis. Equity's customers were among the 300,000 forced from their homes by violence. "In January we realized we had too much risk in one country," says Mr. Mwangi. The UML acquisition represented the first international investment, and Equity is also expanding operations into Southern Sudan by opening five new branches with mobile van capabilities there (Exhibit 4 – Mobile Branch). In five years time, he says, Equity wants to be in Rwanda and Tanzania too, and aims to have cut the proportion of its profit that comes from Kenya from almost 100% to just 40%[10]

The UML acquisition generated ripples in Uganda's banking industry, where 21 institutions currently operate. Equity will become the third bank with Kenyan roots to function in Uganda, four months after Fina Bank and fourteen months after KCB set up shop in Kampala. KCB has plans for further expansion in East Africa, and Ecobank – a pan-African commercial bank based in Nigeria– is set to launch its operations this year. Building onto an already established institution with 15 branches nationwide, 83,000 depositors and 29,600 borrowers with loans totaling over Ksh41 billion, Equity is

[9] Kenya Banking Report 2008
[10] Financial Times, Oct.ober, 2008. http://www.microcapital.org/news-wire-kenya-equity-bank-runaway-profits-from-banking-the-poor/

expected to have an upper hand over the other new entrants.[11] Ultimately, Ugandan borrowers will be the winners as the increased competition will further reduce interest rates but also trim margins for lenders.

Vertical Expansion

The bank is also gradually introducing products and services—brokerage services, mortgages, and business credit--for clients beyond its traditional base. The strategic investment in a large minority stake (20%) in Housing Finance, Kenya's leading mortgage finance company spawns tremendous revenue opportunities, cost synergies and scale advantages. While traditional mortgages are out of reach for most of its clients, Equity sees a huge demand for low-cost housing products. Its strategic investment in HFC will help it to innovate in this area and allow Equity to deploy its deposit base more effectively by lending larger, medium-term deposits to HFC at a much higher interest margin than attainable from treasuries or deposits with other institutions. It will also be able to realize cost synergies through shared service delivery channels and joint marketing efforts.

In Feburary 2009, Equity also acquired Juanco Investments Limited, a little-known local investment bank in Nairobi. Equity already has a custodial license, which allows it to hold funds and securities on behalf of clients, and has received an avalanche of account transfers from brokerage outfits to its custodial services arm. Mwangi has been considering a move into the investment banking arena for some time. He senses an opportunity for Equity in the estimated two million investors who are seeking direction in the face of harsh economic times, and Equity's buyout of a licensed investment bank would allow it to provide structured financing, unit trusts, and financial advisory services to its clients.

Equity's vertical growth is also driven by the need to expand its services as the financial needs of its existing clients mature such as Ms. Wanyoike. But despite the exceptional regional and vertical growth, concerns have arisen regarding Equity's ability to transmit the same sense of brand loyalty and customer service that attracted its traditional customers to UML and HF.

Leading Culture, Managing Change

Charged with managing the assimilation of UML and HFC, Winnie Kathurima-Imanyara, Equity's Director of Change, Leadership and Corporate Affairs, acknowledged that the changeover to the "Equity Way" was a delicate process. "Different organizations have different work ethics, different ways of doing things, so we try to start gently, and spend a lot of time listening and observing, letting them teach us about how things work before we change anything. We choose our first moment

[11] Cite.

carefully and begin by offering a solution at their weakest point, which they themselves will identify. That's how we establish ourselves as different, as someone to accept and admire. But at the same time, it's very important that our first solution works."

To facilitate this process, Ms. Kathurima-Imanyara identified 50 key people at UML as "champions" and brought them to Kenya for a month of immersive training in Equity's branches. The emphasis was on creating a mindset of performance and productivity around Equity's mission, and exposing UML's employees to the firm's value system. This initial training period with Equity was so positive that at the end of the month, the champions – honored at having been part of the pioneer group – wanted to stay longer. They returned to Uganda with infectious enthusiasm, and were able to speak with conviction to others about what they had learned. According to Ms. Kathurima-Imanyara, "We're driving performance by creating role models, inspiring people by connecting them to a higher cause."

While UML shares the same client base as Equity, HFC operates in a completely different market, a far cry from the traditional retail banking halls. HFC's work environment has a much slower pace and typically deals with wealthier clients. But there remains a dearth of low-cost housing products in the saturated mortgage industry. Ms. Kathurima-Imanyara says Equity's approach to HFC will be the same as it was with UML: "We are strangers there, so we should tiptoe and move very slowly, let them be teacher and guide. Our biggest challenge at HFC will be to convince them that the bottom of the pyramid has money. There is such a huge demand for low cost housing, that if we can create the right products for this market and tap into it, the rewards could be huge."

Transitioning HFC out of its identity as an exclusive, high-end mortgage provider and merging it into Equity to begin serving a low-income, mass market clientele will be challenging, to say the least. Cultural change is a long process, and it may take years to completely integrate acquisitions like UML or HFC. Given its ambitious expansion plans, Equity is likely to be confronted with additional mergers in the future, and if it continues to open branches and hire new people at its current pace, the opportunities for cultural disintegration grow with it. Ms. Wamae and Ms. Kathurima-Imanyara both agree that the bank's growth prospects rest largely on its ability to inspire passion in its employees, whose energy and drive are the essence of its culture and brand appeal.

The Role of IT

The success of Equity's business model has been largely enabled by technology, which has provided the process efficiencies and economies of scale that have sustained its exponential growth rate and given it a competitive edge in servicing the mass market at the base of the pyramid. With its ability to handle the tremendous volume of accounts and transactions in the mass market, Equity has capitalized on a very low-cost source of deposits that its competitors have been unable to match. Its new integrated IT platform has also provided the centralized reporting, tight governance controls and

level of transparency required of a publicly traded company, and helped facilitate the speedy assimilation of UML. With a new strategic push to expand its reach further into the unbanked population and grow the business through transaction fees, the role of technology remains squarely situated in Equity's future. As its operations become increasingly automated, Equity is focusing on new ways to enhance the customer experience while maintaining the personal touch and feel for which it has become known.

Dedicated to this challenging task of transforming the informal, cash-based economy at the bottom of the pyramid into a cashless society, Equity's Alternate Banking Channels (ABCs) team is the first of its kind in Kenya. With just over 130 staff, it was built from scratch by Sam Kamiti in 2005. As a result of its mission to "bring banking services to the people round the clock", it has succeeded in developing the non-branch banking through ATMs, points-of-sale (POS) and mobile and internet banking. Equity's ABCs currently handle 78% of the bank's transactions; the team's objective is to reach 85%.

Technology is also part of an elaborate concept to transform the cash-based economy into a "cashless society" through an ecosystem-based marketing approach. As Ms. Wamae explains, "We want to identify all of the actors in a market sector, like education for example – all the schools and universities, the students, the parents, the teachers, all the different suppliers – and position Equity at the center of the system, link them up, design products for them, and handle all of their accounts, salaries, remittances and payments electronically." With the Ministry of Education handling more than 30% of the national budget, capturing even a portion of this market could generate massive transaction fees and provide a huge source of new deposits.

But the challenge lies with the fact that Equity's customer base generally falls into one of two categories: the first being its traditional, low-income and often technologically unsophisticated customers, and the second being non-traditional customers who tend to be more tech-savvy and generally have greater demand for more sophisticated financial products. Among this second type are customers such as Ms. Wanyoike who were originally in the first category, but whose businesses were so successful that Equity sees them as "graduated".

Although ABCs are a boon for non-traditional or graduated customers, traditional customers accustomed to a personal touch may find the new delivery channels less attractive. Whereas ease and efficiency are important for non-traditional customers, it is the personal customer service that lay the vital groundwork in attracting traditional customers.

ATMs

Equity's ATM network is the largest in East Africa, and has been instrumental in increasing the speed and volume of transaction processing, which in turn permits Equity to provide its services to a greater number of customers. To encourage ATM usage, Equity began to charge a Ksh 20 fee for

over-the-counter transactions (such as balance inquiries and deposits), which could be handled by an ATM. However, Equity's personal touch has been sustained throughout this transition by posting bank "champions" in branches, who would let customers know that using the ATM was not only cheaper, but available to them 24 hours. Advertisements on the walls depict a clock with a 20 shilling coin on its face, which is about the cost of a matatu fare home for many people (Exhibit 5 – ATM Poster). In this way the message is clear that encouragement of ATM usage is motivated by the bank's desire to provide ease and convenience to its customers, rather than turn them away from personal contact with tellers.

With Equity's success in selling the idea of convenience to its customers in a way that put their needs first, ATM usage increased significantly. ATM technology itself also continues to improve. With the most extensive ATM network in Kenya, 14% of transactions are handled outside of Equity's branches. However, deposits made at the ATMs still need to be processed and verified by hand before they post to a customer's account. A new line of ATMs, which are able to count cash automatically and credit the depositor's account in real time, will soon eliminate this time-consuming process.

But the tension remains between the bank's need to be able to provide service to a rapidly growing customer base, and its desire to preserve the culture that have allowed it to attract those customers in the first place. Champions are also responsible for identifying customers who had brought ATM cards with them but had opted to queue up in the banking hall instead. Such customers were often those who made up Equity's traditional base, and sometimes suspicion or discomfort prevented them from using ATMs. More often though, it was the event of going to a branch and standing in line with others, and enjoying the personal interaction with a teller which drew customers into the banking halls.

In addition to the social benefits of waiting in line, there are practical business-oriented reasons as well. As James Mwangi put it, Equity customers are not secretive about what made them successful, and time spent waiting in line can create opportunities to discuss and share business strategies. In this way, a banking hall does not only provide financial services but an "environment for social mixing that drives economic growth".

Points-of-sale

Equity's strategy increasingly depends not only on providing automated functionality through ABCs, but also on its network of informal agents who operate points-of-sale devices. The majority of the ABC group is comprised of acquiring teams who select and recruit merchants and retailers based on their ability to generate transaction volume, such as vegetable sellers in a local market. Equity has introduced over 2500 points-of-sale through more than 1000 merchants in its plan to promote cashless distribution. In rural areas, Equity plans to transform what are currently cash-based societies into "cashless ecosystems", in which virtually all transactions would be electronic.

Small purveyors of goods and services, such as vegetable sellers in a local market, would be identified and registered as such by Equity. Customers paying by mobile fund transfer would be able to do so free of charge, thus both replicating the debit card function and lifting the fee burden which would result from doing these transactions as mobile fund transfers between individuals (which could be prohibitively high considering that rural markets are usually not one-stop shops).

But since regulatory restrictions prevent POS agents from opening new bank accounts and originating loans, their role in the customer service equation is mostly one of providing convenient access to a commoditized payment service. This transfer of the customer experience from committed and carefully trained bank tellers and credit officers to gas station attendants, grocery store cashiers, university registrars and village shopkeepers presents a serious challenge for Equity in managing its culture beyond the formal boundaries of the organization.

For the staff of one large retailer, Equity conducted a specialized training program; the improvement in service over just one month was significant. But as James Mwangi concedes, truly maintaining Equity's culture through agents merely executing commercial transactions is not possible.

Mobile Banking

Of the existing ABCs, the volume of mobile-phone banking ("m-banking") transactions will likely exhibit the most rapid growth in the near term. Broadly defined as the delivery of the range of financial services—including electronic transfers, bill payment, banking transactions, and brokerage services—through mobile devices, m-banking radically reduces the cost of delivery and increases convenience for customers. James Mwangi is keenly aware of the potential: "The mobile phone has laid down a strong base for low cost banking…a well designed service can go a long way in encouraging not only the under banked, but the underserved customers."[12]

Equity rolled out its own m-banking product, Eazzy 24/7, in December 2006. A more advanced USSD-based system supplemented the initial SMS-based system in September 2007. The service facilitates transactions via a menu-driven mobile phone interface and a voice-activated (IVR) phone menu service on a VISA and MasterCard certified platform (Exhibit – 6 – Wireless Penetration Rates and Eazzy 24/7 . Eazzy 24/7 allows Equity customers to transfer money between accounts, pay utility bills, purchase airtime, access statements and perform 13 other banking inquiries in real time.

For existing clients, the advantages of using Eazzy 24/7 as opposed to counter are convenience, security, and lower costs. M-banking offers a fast, user-friendly means of transacting from anywhere around the clock. In addition, the reduced dependence on hard currency limits the risks of carrying physical cash. Finally, m-banking is cheaper than branch banking. Most m-banking transactions cost

[12] Equity introduces mobile phone banking services pdf

Ksh 35 — a Ksh 30 transaction fee plus a Ksh 5 access fee payable to the mobile operator. This is more economical than the Ksh 50 fee for identical transactions completed over the counter.

For Equity, m-banking has the potential to boost operating profit and expansion while advancing Equity's mission of bringing financial services to the poor. The convenience of around-the-clock access could significantly increase the transactions per customer. Operational costs would also fall, as customers that bank on their phones would require less frequent interaction at branches. The bank estimates that each transaction that involves a teller marginal cost of Ksh 46; the same transaction completed on the phone costs almost nothing. For a bank built on transaction-based model, these margins are not trivial.

Further, m-banking could also accelerate growth in its number of clients without the capital outlay required to open new branches. Of the 13 million Kenyans with mobile phones, already half of them have used handsets for transferring money since the introduction of m-banking technology in 2006. Mwangi explicitly parallels the development of the mobile phone industry with Equity's social mission: "The telecoms industry has shown that the future of mobile telephony lies with pre-paid services purely because of its appeal to the masses. Equally, Equity Bank's model broke the myth that the low income earners are not bankable by offering convenient services with a mass appeal."

As Equity increasingly conducts a lower portion of its business in branches and depends more on ABCs in general and m-banking in particular, they can achieve lower unit costs for basic transactions. But as Mwangi concedes, it cannot provide the same range of services and cannot duplicate the customer experience. However, the risks of such a trade-off can be limited if the bank continues to offer a range of delivery channels that will attract new customers and retain its traditional and "graduated" customers.

Challenges: Bridging the Customer Service Gap

Ms. Wamae identifies ABCs as one aspect of Equity's greatest potential as it grows, but the other as the unbanked population in East Africa, numbering 14 million in Kenya alone. But a recent Equity customer survey showed that 85% of customers feared that Equity as Equity grew, it would become like "them": other banks which did not treat traditional customers with respect, charged prohibitively high fees and had a culture of exclusivity. As Ms. Wamae says, it is not so much what Equity is offering but how they are delivering it – the intangible of how the bank makes people feel. It cannot afford to lose its competitive advantage in what customers identify as warmth and humility.

To accommodate the expanding scope of its product range and customer universe, Equity recently embarked on a rebranding exercise to broaden its message and build a more inclusive image (Exhibit 7 – Branding). Ms. Wamae uses Maslow's hierarchy of needs to illustrate Equity's market-led and customer-centric approach, which brings the firm's ambitious goals of societal transformation down to the level of individual psychology. In Equity's model, by offering loans, asset financing and other

commoditized banking services to households and small business owners, the bank helps its customers provide for their basic needs of food and shelter. But by focusing on the customer experience and carefully managing the way that its employees interact with their clients, Equity goes beyond providing capital and affordable, convenient financial transactions to an underserved market. By cultivating its role as "Your Listening, Caring Partner" and reaching out to people who have felt neglected or excluded, Equity provides its customers with a sense of understanding, belonging, and self-esteem which are the necessary prerequisites for all personal change. In doing so, it begins to deliver on the promise of its vision and stated purpose: "To transform the lives and livelihoods of our people…to give dignity…to be the champion of the socio-economic prosperity of the people of Africa…and empower our people to realize their full potential."

In addition, Equity seeks to balance the divergent needs of its customers so that it may stay loyal to its original customer base by pursuing a strategy of retention, i.e. growing the business by acquiring new customers in its core market, and holding onto them as they develop, until their needs for larger, more sophisticated products emerge. As Ms. Wamae notes, "We may not be able to be everything to everybody, but we would be foolish to act as the incubator for these people, and then, when they grow enough to require additional services, to say goodbye. We will not alienate our traditional customers."

Among the ranks of such customers are ones like Lizzie Wanyoike, exemplary because of her trajectory from individual Equity Bank customer to large business owner. Ms. Wanyoike had taken the opportunities provided by Equity Bank's fanikisha loans, specifically marketed to female business-owners such as herself. The growth of the Nairobi Institute of Business Studies was not only a success story for Ms. Wanyoike, but for women business-owners worldwide, and for Kenyan economic prosperity. Ms. Wanyoike attributes her business relationship with Equity Bank as critical to this success, but holds the encouragement and moral support given to her as equal in importance to financial advisement. It is in this way that Equity sets itself apart from its competitors.

The Road Ahead

The exponential growth and IT challenges lies, then, in cultural retention: will expanded electronic services enhance the Equity brand, or undermine it? Can strong technology be reconciled with customer service? Can Equity's regional and vertical acquisitions maintain the same brand loyalty and customer service that Equity is famous for? Can Equity be what it aspires to be to both its traditional, new and graduated customers? Finding ways to effectively balance this tension between human empathy and technical efficiency is at the heart of the debate around Equity's growth strategy as it has moved away from its roots as a local building society to become a big commercial bank.

James Mwangi, the charismatic and iconic CEO of Equity has frequently encountered these criticisms. "We are providing an enabling platform for transforming society, and technology is part of

that, it extends our reach. Our core customer base is unsophisticated, but they are very aspirational. Mobile banking is particularly popular with young people, and it is very prestigious to use your phone for banking in the villages. We may be losing some face-to-face interaction because of new technology, but we will never lose our relationship with our customers. We will continue to expand farther into the unbanked market, where almost all of our customers will still require one-on-one service and a personal touch, and we will continue to pursue our strategy of retention."

He also considered the prospect of other banks entering the unbanked market in Kenya and the region. "With regard to competition, I would love for more competitors. It will serve a higher purpose as banks now focus on the unbanked population that they previously ignored, thanks to our efforts – but let them try, it's a lot harder than it looks. Gaining people's trust in this market does not happen overnight. We've spent a lot of time building that trust with our customers, and the sense of community we've created will not be easy to duplicate." He believes that Equity has a clear and sustainable growth strategy and the regional and vertical expansion will prove that Equity can compete with the large commercial banks but retain its focus on its traditional customers.

But widely celebrated as the inspirational leader behind Equity's vision, brand, and passionate culture that have transformed the African banking industry[13], there are also concerns that the Equity brand may be too dependent on the charismatic persona of James Mwangi. The eventual succession will need to be a considered and smooth process.

Nevertheless, for James Mwangi, the legacy of Equity Bank is clear and steadfast: "The single biggest challenge we have as we grow is to get everybody on board, to internalize the mission of the organization. We must focus on our vision, focus on the customers. Ultimately, the competition is about the customers – it is not about the technology. We are part of this movement that is transforming people's lives, a real African success story. We are giving dignity to the poor, creating hope, and empowering Kenyans to believe in themselves. We are bringing back their courage to dream."

[13] In 2007, Dr. Mwangi accepted a Global Vision Award from the Global Economic Network alongside Nobel Peace Laureate Muhammad Yunus as one of the "initiators of the concepts of the future that will shape the world economy."

Exhibits

Exhibit 1 – Financial Performance (in Ksh)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
# of Deposit Clients (000s)	61	105	155	252	413	556	1,014	1,840	3,018
Volume Customer Deposits (mm)	978	1,500	2,191	3,368	5,081	9,047	16,336	31,536	50,397
# Borrowing Clients	9,033	18,000	41,000	67,000	94,566	165,213	252,147	392,822	700,238
Loan Portfolio (mm)	450	860	1,189	1,734	3,099	5,885	11,428	22,228	45,180
Profit (mm)	35	55	111	142	218	501	1,103	2,379	5,016
Total Assets (mm)	1,260	1,881	2,576	3,924	6,707	11,456	20,024	53,129	80,606
Shareholders' Funds (mm)	105	227	324	478	1,271	1,594	2,201	14,917	26,429
Staff	117	165	210	354	585	884	1,395	2,418	4,536

TOP 15 COMMERCIAL BANKS IN KENYA

2008 Rank	Bank	Total Assets (KSH)	Profit Before Tax (KSH)	Return on Average Assets (%)	Return on Average Core Capital (%)	Cost of Funds (%)	Efficiency Ratio (%) (Cost Income Ratio)	Total NPL/Total Advances (%)	Loan Loss Provision/Operating Income (%)	Core Capital/Total Deposit (%)	Quick Assets/Deposit Liabilities (%)
1	Equity Bank	53,129	2,338	6.39	29.48	0.68	59.84	4.44	3.53	43.34	80.84
2	Citibank	47,301	1,782	4.19	27.92	1.92	41.55	2.39	5.13	24.02	68.34
3	Standard Chartered Bank	91,213	4,910	5.70	56.65	2.07	46.21	3.26	N/A	N/A	55.40
4	I&M Bank	29,420	1,294	5.00	41.92	4.18	39.77	1.63	3.00	15.87	27.48
5	Barclays Bank of Kenya	157,656	7,079	5.14	48.16	1.72	58.83	5.00	13.82	15.60	16.54
6	Stanbic Bank	34,469	1,198	3.97	41.15	2.51	50.15	1.44	N/A	N/A	20.77
7	Bank of India	10,344	474	4.97	44.93	5.50	29.46	4.49	10.39	13.56	74.96
8	Habib A.G. Zurich	6,206	204	3.54	29.40	1.81	50.74	4.30	8.31	14.79	83.61
9	Diamond Trust	35,998	1,076	3.73	31.61	4.65	51.47	0.75	4.62	14.70	28.41
10	Bank of Baroda	14,709	497	3.75	44.93	4.21	42.68	3.19	13.07	11.57	54.50
11	Family Bank	8,569	268	6.25	46.71	0.53	72.94	10.85	37.34	19.03	55.05
12	Commercial Bank of Kenya	42,011	1,416	3.57	43.66	2.91	52.15	4.46	14.40	9.93	48.22
13	Victoria Commercial Bank	4,131	151	3.59	25.26	4.95	49.25	0.31	N/A	N/A	43.76
14	Kenya Commercial Bank	120,480	4,226	3.97	43.99	0.92	63.46	11.16	39.23	10.64	28.45
15	NIC Bank	31,281	1,050	3.66	31.07	4.38	51.97	4.23	N/A	16.36	28.93

*** Please note that the above statistics are from 2007 data**

Source: The Banking Survery Kenya 2008, Think Business Publication

Exhibit 1 – Financial Performance (cont'd)

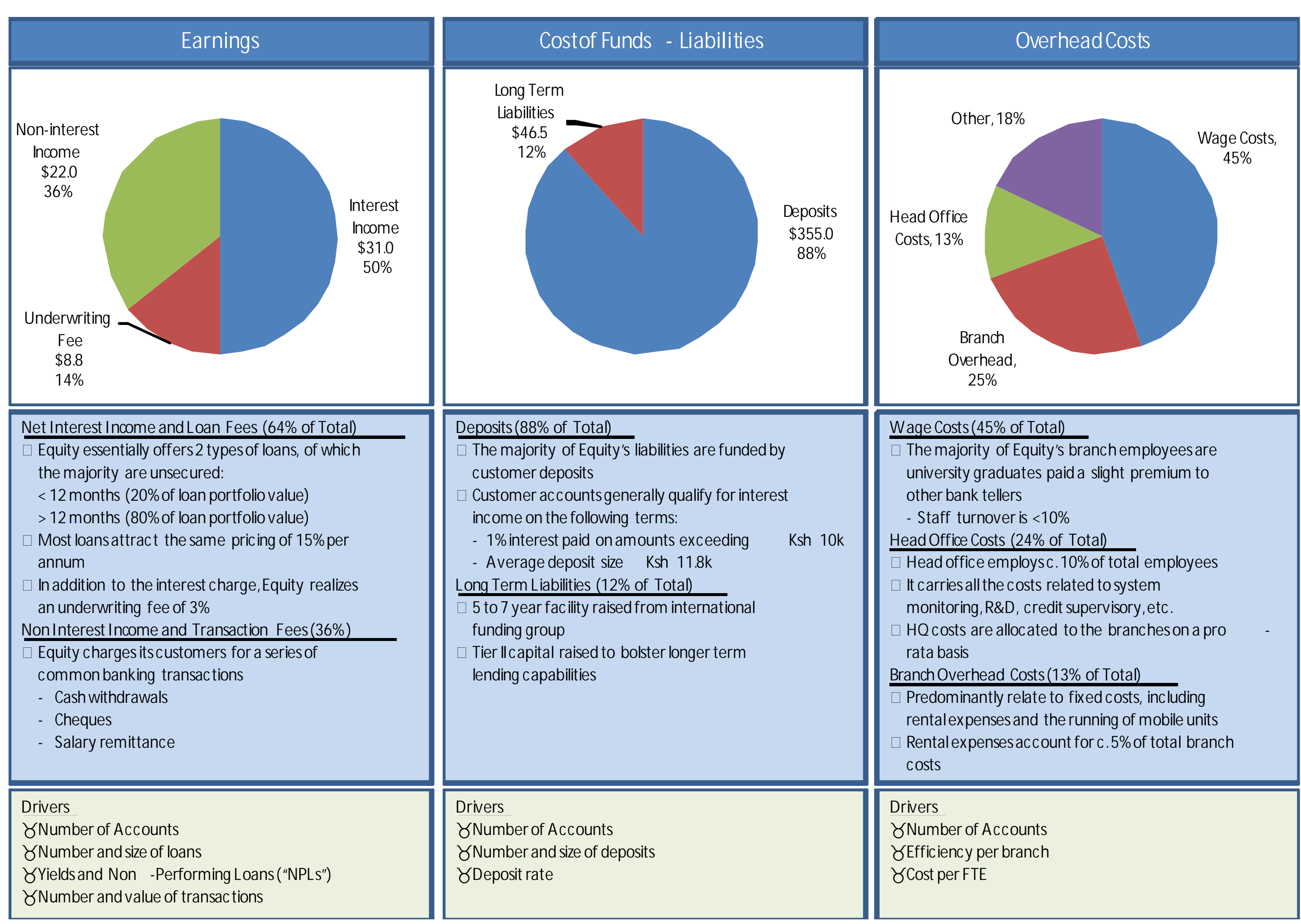
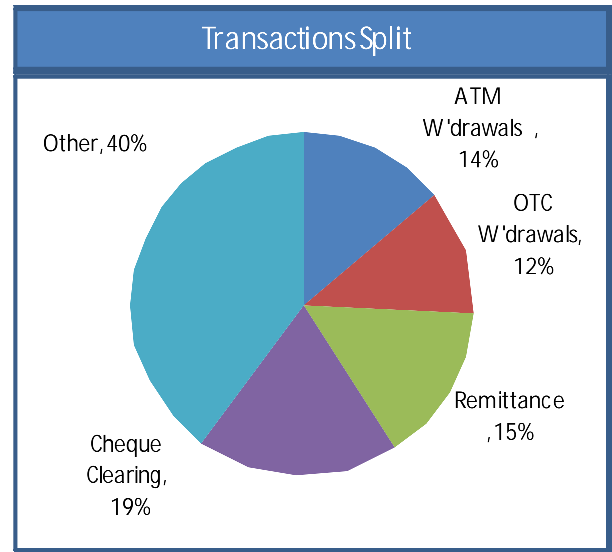
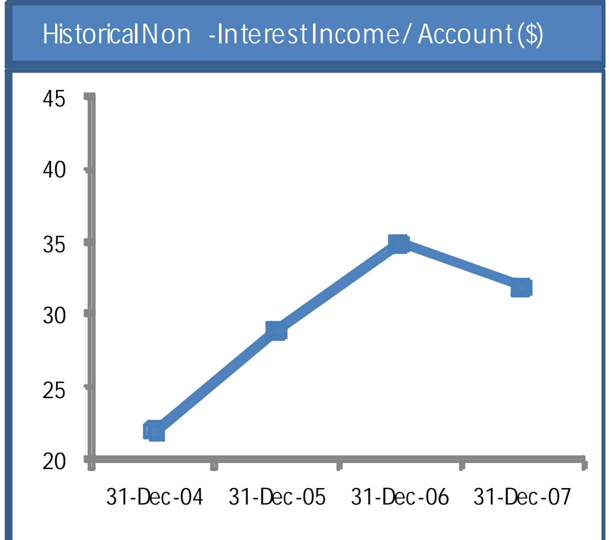


Exhibit 1 – Financial Performance (cont'd)





Cash Withdrawals (26% of total)

- OTC (Ksh50; US$0.75 per transaction)
- ATM (Ksh30; US$0.45 per transaction)

Cheques (19% of total)

- Average commission per check of Ksh200

Remittances (15%)

- Generally for receipt of salary paid by employer, average charge Ksh100

Other (40%)

- Letters of Credit
- Money Transfers
- Commission on Banker's Guarantees
- Standing Orders
- Various other minor services including forex commissions, bills payments, e-banking subscription, SWIFT income, statement charges, etc.

26% of Transaction Fee Income is derived from simple cash withdrawals

Exhibit 2 – Penetration of Banking Services

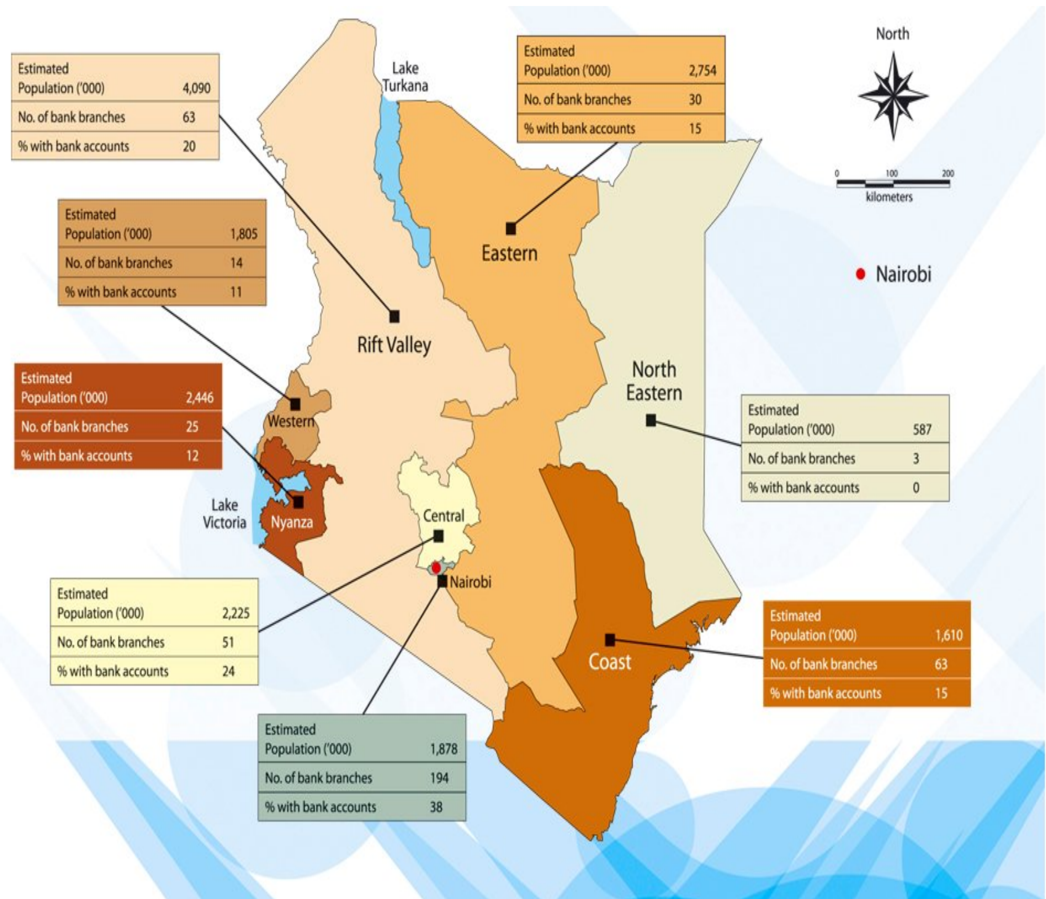
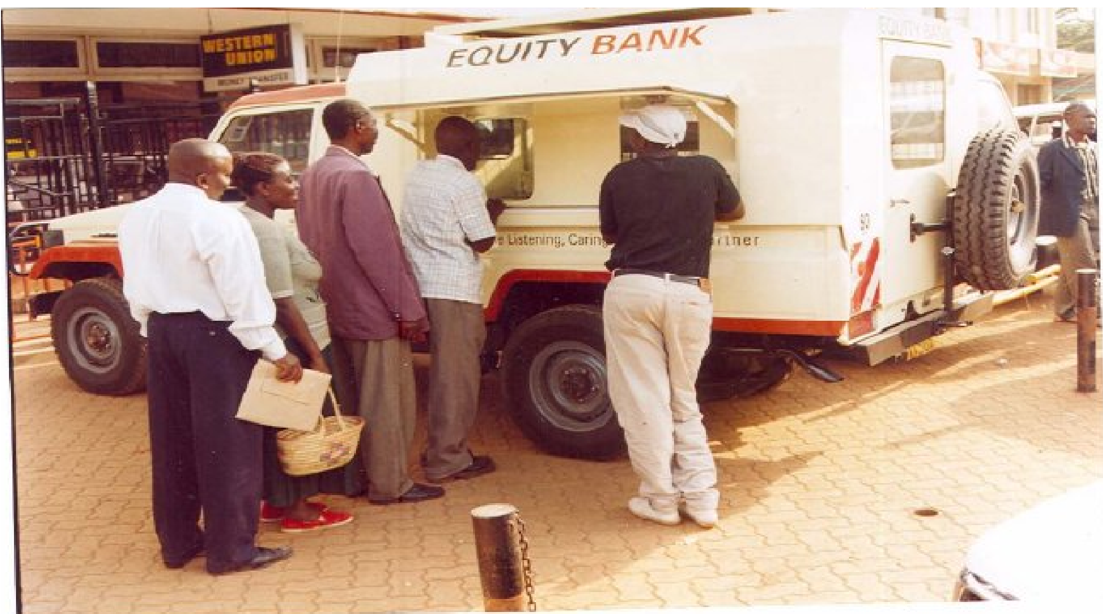


Exhibit 3 – Equity Stock Price and Timeline

(August 7, 2006 – December 31, 2008)

August 7, 2006:	Equity Bank's initial public offering on Nairobi Stock Exchange
June 2007:	Equity purchases a 20% stake in Housing Finance Company, a Kenyan mortgage bank
December 2007:	Helios invests approximately US$175mm for a 24.99% share of Equity Bank
August 26, 2008:	Equity acquires Uganda Microfinance Limited, the largest microfinance bank in Uganda, in a stock swap transaction valued at about US$25mm
September 2008:	Equity launches mobile banking services and expands operations into Sudan
December 2008:	Africap sells 15mm shares of Equity for Ksh2.5 billion, reaping one of the highest returns from equity investment in Kenya over a five-year period

Exhibit 4 – Mobile Branch



Mobile van capabilities to serve in some of the most isolated parts of rural Kenya and eastern Africa that have no access to commercial financial institutions

Exhibit 5 – ATM Posters

ATM Poster depicting the cheaper option of using an ATM

Exhibit 6 – Wireless Penetration Rates and Eazzy 24/7

Table 1. Wireless penetration rates for developing regions

	Wireless Penetration Rates (%)		
	2003 (Q1)	2008 (Q1)	2012 (Q1)
Africa	4.75	30.60	50.13
Asia Pacific	13.06	39.08	60.81
Eastern Europe	20.50	102.79	134.72
Latin America/Caribbean	19.74	70.40	90.84
Middle East	17.84	61.91	98.26

Source: Wireless Intelligence at www.wirelessintelligence.com.

Exhibit 7 – Branding

Evolution of branding messages designed to provide a broader and more inclusive image

Old Vision Statement	"To be the preferred MicroFinance services provider contributing to the economic prosperity of Africa."	***New Vision Statement***	"To be the champion of the socio-economic prosperity of the people of Africa"
Old Mission Statement	"We mobilize resources and offer credit to maximize value and economically empower the MicroFinance clients and other stakeholders by offering customer-focused quality financial services"	***New Mission Statement***	"We offer inclusive, customer-focused financial services that socially and economically empower our clients and other stakeholders"
Old Tagline	"The listening, caring financial partner"	***New Tagline***	"Your listening, caring partner"
Statement of Purpose	"We exist to transform the lives and livelihoods of our people socially and economically by availing them modern, inclusive financial services that maximize their opportunities"	***Positioning statement***	"Equity provides inclusive financial services that transform livelihoods, give dignity and expand opportunities"
Our Motto		"Growing together in trust"	
Our Inspiration		"That when years turn our vision dim and gray, we shall still be seeing beauty in the tired wrinkles of our faces and shall take comfort out of the fact and knowledge that when we were given the opportunity we did all we could to empower our people to exploit opportunities and realize their full potential on the road to economic prosperity"	

Exhibit 7 – Branding (cont'd)

Core Values

Professionalism
Integrity
Creativity & Innovativeness
Teamwork
Unity of purpose
Respect & Dignity for customers
Effective Corporate Governance

Critical Success Factors

1. Organizational culture that values people, enhances performance and supports the business
2. Market-led, innovative and customer-focused
3. Quality, effective and efficient operations
4. Growing a high-quality asset portfolio
5. Robust, effective and efficient systems and processes
6. Value Maximization for stakeholders
7. Execution of strategically planned expansion
8. Customer Experience & Brand Protection (NEW)

Customer-Focused Business Approach