MicroSave Briefing Note # 63

The Market Led Revolution of Equity Bank

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Today Equity Bank is a remarkable institution. But in 1993, the Central Bank of Kenya confirmed that, as Equity Building Society, it was technically insolvent, had poor board supervision and inadequate management. Non-performing loans were 54% of the portfolio, and accumulated losses totalled KSh.33 million ($500,000), on a paid up capital of KSh.3 million. Equity's liquidity stood at 5.8%, far below the required 20%.

Contrast this to the situation today. As at March 2008, Equity Bank had become the most highly capitalised bank in Kenya with total shareholders funds more than $250m, serving more than 2 million customers, through 76 branches, and more than 350 ATMs, with continued expansion planned. This Briefing Note outlines the success factors underlying this remarkable change.

Managing Continuous Change

Change is the most notable feature of Equity Bank. In year 2000, this saw the introduction of an IT system, "Bank2000", and the strengthening of the Board of Directors. With technical assistance from *MicroSave* and others, products and procedures were refined, and new products developed. Credit expertise was drafted in, which caused Equity to rethink and redevelop its credit strategies. A major development for Equity was the development of strategic alignment approaches. Stepwise Management, a German consulting firm, guided Equity through this process. Months of staff time was spent developing mission, values and vision and preparing a "structure tree" outlining critical success factors, "stretch goals", targets/activities and measures. By the end of 2004, all senior and middle management had played a role in developing and internalising the strategic plan. By the middle of 2005 everyone within Equity knew, and had bought into, the institution's plan and understood the roles they played in achieving it.

A further defining moment for Equity was the introduction of its current FINACLE banking system, and building a highly talented IT team. The seriousness of the strategic alignment process was seen in the level of investment and focus placed on IT development. Within six months Equity bank had migrated hundreds of thousands of accounts to the new system. It now had a platform for the future, capable of handling millions of clients, and electronic banking channels.

Lesson 1: Commitment to Customer Focus

From the beginning of its renaissance, Equity has been customer focused. Initially this was a basic survival strategy, focused on grass-roots, relationship-based banking. Strategies included: market place marketing; social and community based activities; and inside the branches, the introduction of Bank2000. The new IT system significantly decreased service time, from 20 to 5 minutes. Armed with insights from market research conducted by the bank with assistance from *MicroSave*, Equity re-priced its products and conducted a customer communications campaign. From 2002, Equity upgraded its banking halls; despite this with the rapid growth in customers banking halls were becoming congested. In response, Equity introduced floor managers who interacted with customers in the banking hall; it lengthened its operating hours, and began to streamline its operational processes. It developed a customer service strategy that employed service quality questionnaires, focus group discussions and mystery shopping.

Lesson 2: Harnessing the Market-led approach, Word of Mouth and PR to Stimulate Growth

The strength of word of mouth marketing has meant that Equity has not had to conduct any significant above or below the line promotion or marketing activities since September 2003. It has simply relied on the "buzz" around Equity and its operations that pulses through the market and periodically supplements this with carefully planned public relations activities. At the community level, managers and staff remain involved in local activities, present at "*baraazas*" community (meetings) and committed to building relationships with opinion leaders around their branches. At the national level, press releases are used to build the image of the institution. A lower key approach is used when the Managing Director or senior management attend key events in Kenya or abroad. For example, when the Managing Director attended the African Business Leaders' Forum that preceded the G8 Gleneagles conference and the concluding conference for the UN Year of MicroCredit, the local media were encouraged and assisted (through carefully crafted press releases) to report Equity's participation as a matter of pride for Kenyans and more broadly Africans.

Lesson 3: Maintaining Corporate Culture

"*That when years turn our vision dim and grey we shall still be seeing beauty in the tired wrinkles of our faces. We will find comfort in the wisdom and knowledge of the fact that, we did all that we could in our power to achieve our goals.*"

This inspiration statement emerged from, and is engrained with, the dust, sweat and tears of the door-to-door, market-to-market selling that Equity's staff and management undertook in the period 1993-2001. This period defined much of Equity's culture that combines the professional demeanour and dress code of a traditional banker with a commitment to serve each and every customer – however poor – with the same care, respect and enthusiasm. As part of its strategic planning process, Equity collectively defined its core values. These values are the "PICTURE" that Equity wants to present: **P**rofessionalism, **I**ntegrity, **C**reativity and innovation, **T**eamwork, **U**nity of purpose, **R**espect and dedication to customer care, and **E**ffective corporate governance.

Lesson 4: Optimising Corporate Governance

Equity has gradually strengthened its Board, in 2000, four new members were introduced. Today, along with the long term vision of the Chairman, Equity has a Board consisting of carefully selected members with specific talents and contacts drawn from the media, from insurance, from the corporate and legal sectors.

The Board of Directors is expected to foster the long-term business of the bank consistent with their fiduciary responsibilities to shareholders and depositors. It is committed to conducting the affairs of the Bank with openness, integrity and accountability and in accordance with the highest standards of corporate governance. To formalise this commitment, Board members have all signed and are expected to deliver on Equity's 86-page Code of Corporate Practices and Conduct, which developed over the year prior to March 2005. This outlines their duties and responsibilities, as well as the systems and forms for the formal annual evaluation of the Board as a whole. In addition there is a bi-annual individual assessment of each Director's performance. The Code also explicitly outlaws Directors conducting business with, or taking any loans from, the bank. Directors are given regular training and often attend retreats and workshop with some of the banks' strategic partners.

Lesson 5: Management of Donor Inputs

Since Equity has been able to attract donor funds, it has used these strategically to increase its credibility and profile within the market and the capacity of its systems and staff. Under the EU-funded MESP programme, Equity, in 1997 acquired a total of Ksh.70 million ($900,000) for on-lending to support start-ups and the expansion of micro-enterprises. An additional part of the grant was used to train staff and conduct study tours. Similarly the UNDP-MicroStart funds Equity received in 2000 were used to strengthen operations (particularly the IT systems). Relationships with MESP and UNDP were used as evidence that international donor agencies believed in and supported the organisation in order to strengthen its reputation in the marketplace. When discussing the Africap investment Equity often highlighted the key and prestigious donors backing Africap – particularly the IFC and the European Investment Bank. In 2002 DFID, though the FSD Kenya Programme and Africap joined Swiss Contact and *MicroSave* support to Equity. A Steering Committee was formed to coordinate inputs. This has proved an effective mechanism to ensure a commonality of vision, a prioritisation of inputs and that Equity remained in the driving seat to manage the use of the technical assistance grant funding made available by the donors supporting it.

Lesson 6: Commitment to Remain Broad Based

Equity continues to pursue a commitment to being a broad based bank. This is evident in the continuous evolution of mass market delivery channels, and in its products and services. After conversion to a commercial bank, while the savings product range has grown to include personal and business current accounts, consistently 80% of savings accounts by volume are Ordinary Savings Accounts – and these account for 50-60% of total deposits. Equity has managed its significant growth in client base to more than 2 million clients, through continually expanding the number of its branches and ATMs. Since 2006 Equity has introduced more ATMs into Kenya than any other bank. It had 350 ATMs as at March 2008, with more being installed. Over 70% of withdrawals are handled quickly, through ATMs.

Equity responded to the need for local, rural financial services by creating mobile branches. Mobile branches use secure vehicles to establish a branch for one or two days per week in a local town, typically coinciding with the day that the local market operates.

Equity's approach is characterised by careful market segmentation and product development, a move which has seen it develop a wide range of services for the mass market, including joint liability group lending, cashflow-based lending, finance for business women, agricultural and warehouse receipt products; as well as loans for larger businesses.

Lesson 7: Human Resource Management

Equity has grown successfully, in part because it has been able to manage the consequences of growth. Year on year increases in loans and deposits of more than 50% have forced rapid change in the institution; nowhere more so than in human resources. Growth has required Equity to carefully manage the recruitment and deployment of senior staff from outside the bank – often above the staff that have risen through the ranks. Many longer serving staff members were re-deployed, or additional layers of management were created, in order to allow the bank to place senior staff members recruited from outside in strategic positions. However, while bringing in required experience, not all outside recruits have been a success – many struggled to understand and fit into the Equity institutional culture. In particular Branch Managers recruited from mainstream banks have often simply not been able to readjust. Those unable to work the Equity way are given a limited period to adjust and learn, and if they cannot, are encouraged to leave the bank.