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Taking Banking Services to the People: Equity's Mobile Banking Unit

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Executive Summary

Equity Building Society is a unique institution, which faced with virtual bankruptcy in 1992, has turned around into a very successful microfinance institution. A key element within this turnaround has been a demonstrated commitment to providing excellent customer service and to delivering products and services which clients' desire.

Equity serves some customers that live and work in remote rural areas, through a network of rural branches and through a system of mobile banks. In addition to providing services the mobile banking units are used for public relations and marketing purposes. Whilst banks such as Barclays and Kenya Commercial Bank closed their mobile services, Equity is rapidly expanding its mobile services.

The study explains the structure of each of the mobile units and their further evolution. Lessons from the mobile banking project are considered, and the performance of the units is explained. Client perspectives are aired.

Equity's approach is simple. Each mobile banking unit is attached to an Equity branch. A village satellite is established in a simple rented structure that is served once or twice per week by a mobile banking unit. Customer data is downloaded at the beginning of each day from the branch server, and staff, cash and armed security are transported to the satellite. At the end of each day the mobile unit returns to the hub branch and transactions are downloaded.

Refinements are currently being made to the service. With support from the Financial Deepening Challenge Fund of the Department for International Development, Equity is gradually networking its mobile units using VSAT communications and adding VHF radios to provide voice based communications. DFID is financing fully equipped units designed as complete banking units with cash-dispensing outlets, using solar panels, inverters and rechargeable batteries which can power laptops, printers etc.

Equity's experience suggests that technology can be used to deliver a significant range of services in rural areas and that donor support can accelerate the process. Convenience, accessibility and liquidity are clearly valued by clients.

As at July 31st, 10,028 clients were served through mobile banking units serving of which approximately 65% held loans. Seven branches serviced 28 locations. A branch costing showed that three out of seven branches had profitable mobile banking units. Although the overall mobile banking programme is profitable, the programme is clearly in its growth phase and the current infrastructure can accommodate many new locations. Profitability is clearly related to volume of business whether this is reflected in portfolio size, savings balances or client numbers.

Clients were positive about Equity's service particularly the ability to transact locally, which was considered quick and easy. Clients were less positive about the transaction fee imposed by Equity, though many realised that it was expensive for Equity to provide the mobile banking service.

Equity's principle challenge is to continue to enhance the mobile banking service to enable Equity to manage competition from SACCOs, Family Finance and Cooperative Bank.

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1. INTRODUCTION

1.1 Focus in this report

Equity Building Society is a unique Kenyan financial institution. Faced with virtual bankruptcy in 1992, this institution was turned around to a very successful microfinance institution today. How did they achieve this? In a recent study by ***MicroSave*** this process was described in detail and this will not be repeated in detail. However, we will draw from the earlier report, and by using a specific example (the mobile banking project in Equity) explain how this innovative institution goes about providing their services.

Equity is focused on providing access to banking services to poor customers. In fulfilling this objective they also serve customers that live and work in remote rural areas. Over and above their range of rural branches they have implemented a system of mobile banks to serve these remote areas. Their objectives with these mobile banking units were two-fold. They wanted to improve access to their services, especially since a large proportion of their clients and potential clients reside and work in remote areas. They further wanted to use it for marketing and public relations purposes illustrating that they are present and accessible in these areas. Presence of Equity Mobile Units in areas where there competitors withdrew (commercial banks), or have a permanent presence (SACCO's) keep Equity present in the minds of their clients. Combined with the superb customer focused service culture in Equity, this is a strong marketing method and initial indications are that clients are reacting positively to this venture.

The mobile banking unit was started nearly four years ago, but since October 2001 it received new and focused attention towards improving the efficiency and security of the system. In this study we will describe and explain the mobile banking project in terms of origin and justification, products provided, technical description and also provide an initial assessment of its cost and revenue. The full mobile banking project is yet incomplete as we write and final results and conclusions will only be possible once the full effects of the project are being felt.

1.2 The Context

During Equity's initial years, the Kenyan economy grew, albeit in a repressive climate of too much control and regulation. It is in this climate that Equity experienced its worse times. In the early 1990s, the economy was liberalised and many controls were removed. During this time Equity started its turnaround. However, at the same time the economy started a slow decline, and is only now reviving. The decline did not impact negatively on Equity, as it focuses on an under banked market with tremendous scope for expansion before this market could be saturated.

Since 1990 the Building Societies Act has changed considerably and so has the way the building societies have been regulated over the last 10 years, resulting in minimal differences between the Banking Act and the Building Societies Act today. Equity and their operational realities on the ground played a significant role in influencing the changes in the building societies legislation. Equity's interaction with the Central Bank of Kenya regarding the latter's supervision and legislation gained it a reputation as a "financial institution that has touched many Kenyans in a special way", a factor that explains why Equity still survived despite them having 'pushed the boundaries of legislation.' This reputation has clearly been demonstrated by Equity's objective and practice of increasing the institution's outreach to the remote parts of their regions of operation.

It is in this context that Equity has demonstrated commitment to provide an innovative and diversified product menu for its clients, and not to bind itself and its clientele to the traditional microfinance products. Added to this is Equity's objective to extend its services deep into the rural areas from where major commercial banks are withdrawing. Equity has been doing this motivated by the slogan "taking banking services closer to the people." Indeed, Equity's list of success factors includes, high on the list, the institution's excellent service delivery to its clients (Coetzee et al, 2002).

1.3 The Local Financial Landscape

Geographically, Equity's mobile banking project was intended to cover the unserved and underserved hinterlands of the existing formal branches in Thika, Murang'a, Maragua, Nyeri and Kirinyaga Districts of Kenya's Central province. These districts have a combined population of over 2 million people.

Although commercial banks withdrew from most of these areas other financial institutions, SACCOs and NGOs are still active in the same areas.

Mainstream banks like Kenya Commercial Bank, and Barclays, that formed part of Equity's competition and that were previously operating mobile banking services in these areas made a decision to not only discontinue rural branches, but also these mobile services. This gap has proved to be an opportunity that Equity has chosen to take advantage of, both in terms of branches and mobile services.

Other institutions operating in these areas such as SACCOs and NGOs are under pressure to enhance the quality of their products and services, which will result in a more satisfied clientele. SACCOs are quite popular in Kenya measured in the number of people that are members, but they suffer from many internal governance and management problems.

2. THE MODEL

2.1 Products and Services

2.1.1 Broad product range

Equity has a broad range of savings and loan products that are offered through all its branches. However, these products were substantially refined over the last few years to ensure proper product differentiation and focus. As a result of a market survey and subsequent research done in the closing months of 2001 and early to mid 2002, Equity addressed perceived exorbitant price and attendant charges of the loan products. Equity sought to reprice and repackage its loan products in order to counter and overcome the threat from SACCOs and other competitors. Equity moved fast to implement changes in order to contain the negative emotions of clients in the market.

Following this Equity constituted a marketing team to carry out the changes and transform Equity's image in the market – all these were formulated out of client responses as a result of the market research that were executed using the market research techniques promoted by ***MicroSave***.

Annex 1 and 2 show the refined savings and loans product menu that Equity presented to its clientele after the market research. Annex 1 includes the Jijenge and SAKO Plus products – new products Equity was keen to launch, primarily to address the threat posed by the SACCOs.

To test the effect of the market research, Equity decided not to market the new refinement measures aggressively, but instead to see what responses would ensue that could be attributed solely to the market research exercise. Soon after the market research, the number of accounts opened in a day jumped from an average of 20–30 to about 200.

2.1.2 The mobile banking service

The history of the service

Equity's mobile banking service is over four years old and was initiated with the objective of increasing outreach and making available commercial banking services in densely populated rural areas, with difficult terrain, that are hardly served by formal financial institutions or where formal financial institutions withdrew their services. Each mobile unit centre serves a radius of 30 – 40 kilometres of areas that have poor accessibility and high levels of insecurity. Equity was motivated by the desire to 'take banking services closer to the people.' The target clientele for Equity's mobile banking units are small and micro business entrepreneurs and smallholder farming households in rural centres lacking in infrastructure such as accessible road networks, telephone and electricity and cost-efficient transport services.

The fact that Equity promoted its mobile service initiative with the attitude of caring for people contributed a great deal in marketing Equity Building Society as an institution. The customers appreciate the direct benefit of cost reduction on their part, although some as well as the opportunity afforded by Equity in contributing to the development of the rural economy. On its part, Equity has enjoyed branches that are less congested as the mobile unit serves a significant number of the customers at their villages. Most of these branches would otherwise serve an average of ten thousand customers with end-of-month peak seasons. The operational efficiency of these branches has been greatly enhanced as a result of the mobile banking services.

The following is a short description of the mobile banking service approach, before the implementation of the new project to improve the service:

- In each rural centre a village satellite is established in a simple rented structure. This satellite is served once or twice a week by a mobile banking unit. According to Equity clients prefer using the simple rented structure than accessing the mobile banking unit directly for reasons of privacy.
- Each mobile banking unit is attached to one of Equity's existing branches. The formal branch acts as a hub serving up to five or six village satellites. Data on all customers' transactions at a village satellite is stored in a laptop and thereafter uploaded into the database at the branch.
- On each village banking day, the respective customer data is downloaded to a laptop. A customized vehicle carries the laptop, other hardware equipment, cash, staff and armed security personnel to the satellite. Upon arrival, the mobile banking staff provide computerised banking services by connecting the laptop and hardware to a solar or vehicle battery driven power source.
- After the day's work at the satellite, the mobile unit returns to the hub branch. The transaction data is uploaded immediately to the main database. This is done on every mobile banking day to provide accurate, timely and reliable information for management's decision making.

As each mobile centre is linked to and managed through a main branch, the financial management systems and controls set for the branch apply for each centre. It is clear that the service still has a shortfall in that most branches are still not linked real time to their mobile units. This means that currently Equity's customers accessing their accounts through mobile units have access to their account at the branch blocked on the day the mobile is visiting.

Further development of the Mobile Service

The mobile banking venture, which was started from the onset with the aim of making it commercially viable as well as an innovative marketing strategy needed further inputs and development. This was the basis of an application to the Financial Deepening Challenge Fund of the DFID. The DFID recognised the potential of the services and that with enhanced technology, the venture could be supported to deepen and broaden access for financial services to even poorer members of the rural population.

DFID launched the Financial Deepening Challenge Fund (FDCF) in Kenya as part of a policy to create effective linkages with the private sector in order to help stimulate economic development in selected emerging economies. In August 2001, Equity succeeded in obtaining a grant of 277 500 pounds Sterling under the FDCF, to be implemented over a period of two years, starting October 2001.

The objectives with DFID support were:

◙ To complement Equity efforts to reach more Kenyans currently marginalized.
◙ Efficient delivery of services through technological innovation that will cut costs and makes it easier to expand in the future.
◙ Internally generated resources can be allocated to other key areas, for example, the expansion of the conventional branch infrastructure.
◙ The building of the mobile service on an acceptable IT platform will ensure smoother integration of the planned wide area network.
◙ The creation of an online communication network between the mobile center and the Branch via the use of VHF communication facilities.

Equity's proposed to DFID undertook to *"widen outreach and accessibility of commercial banking services at rural villages in a sustainable manner through mobile banking units."* In their proposal to DFID, Equity aimed at providing commercial banking services to twenty rural village centres through cells or mobile units attached to existing branches. Equity's full range of financial products and services (see Annexures 1 and 2) are potentially on offer at each village satellite. These products and services include cash deposits, withdrawals, loans, inter-branch transfers, account statements and financial advice.

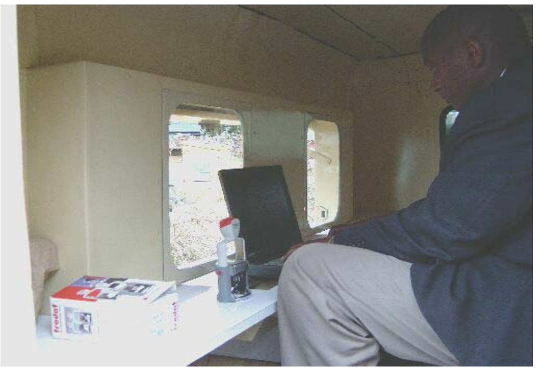
The innovation

When the grant from the FDCF is fully utilised it will enable Equity to link all its mobile units to full-time branches via VSAT communication facilities. This will facilitate the transmission of both data and voice messages between a mobile centre and the branch it is linked to. After the project is fully operational Equity argues that commercial banking services can be provided to the poor in a profitable and sustainable way using appropriate Information Technology. In theory, the simplicity and cost-effectiveness of the programme will enable it to be replicated in order to reach more of the rural population with affordable financial products and services.

Increased economic activity and higher disposable incomes in the rural areas is expected to improve the standard of living of the rural population which will in turn reduce migration to urban centres. This will necessitate a reaction to the demand for a range of financial services. Equity's combined approach in the form of fix location and mobile branches will provide an efficient reaction to the current and envisaged demand for services.

How does the system function?

Communication between branches, the mobile banking unit (cell) and the village satellites is via VHF/GSM communication facilities. Voice communication is by use of 2 Motorola GM340 146-174 MHz VHF radios. One is fitted at the branch and the other is fitted on the mobile banking vehicle. The branch radio is further connected to a TDD Larsen 136-230 MHz antenna while the banking vehicle is fitted with a Zara 130 mobile antenna. Communication between the mobile unit and the base station is excellent. The branch managers are now effectively monitoring the status of the mobile unit at any given time. This is especially important when considerations are made for cash replenishment and management, as well as the general security of the staff and the vehicle.



The original data transmission model was redesigned due to low transmission speeds and data throughput by the VHF modems. Data transmission is by use of two

GSM/GPRS 1800/900 modems. One modem, fitted with a GSM SIM card and external antenna is connected to the branch server. The other modem, fitted with a GSM SIM card and an external antenna is configured for connection to the mobile services laptop. The data transmission method is fully compatible with the mobile banking software.

Equity implemented three out of the five mobile banking units under the DFID-FDCF village-banking project. The remaining two will be fully operational by end 2003. The vehicles are Toyota Land cruisers that have been designed as complete banking units with cash-dispensing outlets. They are fully secured with bullet proof panels, car tracking devices and double-sided panels. Further, they have been fitted with solar panels, inverters and rechargeable batteries that can power a laptop, a printer, an MICR reader and a scanner.

Initial lessons from the Mobil Banking Project (based on Equity's own assessment)

- ❒ Technology can be a tool for reaching out to the poor and not to alienate them.
- ❒ Donor support accelerates outreach efforts for viable/sustainable ventures. For instance, the DFID sponsored mobile unit attached to the Kerugoya branch is serving 3 newly launched village satellites. These are located in the hilly tea growing zones on the slopes of Mt Kenya as well as the horticulture and rice farming lands under the Mwea Irrigation Scheme.
- ❒ Demand for secure and convenient financial services is high. Poor people have resources to save in attempt to smoothen their expenditure patterns. The conventional perception of low savings capacity and low demand for deposit facilities, particularly in developing countries is not matched by Equity's experience.
- ❒ The initiative has effectively provided an appropriate institutional framework and setting for the provision of demand-oriented deposit facilities. Households will make deposits if an institution is appropriately structured and offers its products that meet client needs.
- ❒ This initiative has brought computerized financial services closer to rural households hitherto un-banked. For instance, smallholder tea farmers receive their monthly remittances from KTDA (Kenya Tea Development Agency) at the Equity mobile centres, which are walking distances from their homes. This has reduced the effective transaction cost of accessing financial services by clients.
- ❒ The concept provides the target group with security, convenience, liquidity and returns. Further, due to affordable pricing, the mobile savings instruments have contributed to institutional self-sufficiency and to increasingly wider market coverage. Germane to financial self-sustainability of mobile services is the adequate levels of deposits mobilized.
- ❒ The experience has shown that the same quality service provided at the normal branches can be provided through the mobile branch unit.
- ❒ The automation of service deliver has led to better use of existing services. Average transaction time has improved by 70% to three minutes. The morale among mobile banking officers has increased tremendously due to the automation of service delivery and the realisation that they are responsible for the provision of top class banking services.

- ❒ Equity also realised that they can serve all the centres en-route to the farthest village satellite for maximum utilization of personnel and the vehicle.

2.2 Organisational Structure: Ownership, Governance and Management

Equity was founded in 1983 under the Building Society's Act. Unlike most other MFIs that originated from development programmes without a profit motive, Equity was started as a for-profit business venture. The founders saw an opportunity to do banking business and went ahead to structure and capitalise it. Owing to his extensive exposure to parastatal financial institutions while working for the Kenyan government, Peter Munga, the Chairman of Equity's Board of Directors, became fascinated by the way these institutions mobilised deposits and offered the same as credit. This triggered his entrepreneurial mind and he soon began noticing gaps in the access to financial services, especially for small-scale farmers.

The Agricultural Finance Corporation (AFC), the then leading financial institution for subsidised supply-led agricultural credit, introduced the "Seasonal Credit Scheme" in the early 1980s. Under the scheme, a farmer's loan, or part of it, could be written off in the event of a crop failure. However, to qualify for this soft arrangement, one needed to own at least 30 acres of land. Given the severe scarcity of land in Central Province, where Munga comes from, he realised that such a requirement excluded the majority of the people in his community. However, Munga saw more than this – he saw a business opportunity to provide a financial service to people who are financially so "small" that they are excluded. Munga shared his dream with four friends, who teamed up with him to start Equity Building Society. Thus, Equity's beginning was inspired by an entrepreneurial vision of a potential demand for financial services in an underserved section of the market. The five friends pooled their individual resources to capitalise Equity and to drive its operations in order to maximise returns on their investment. Though embedded in management, these five persons constituted the first governance body of Equity and determined its leadership.

While the composition of ownership in Equity has changed over the years, its governance and leadership have continued to be determined by its core investors. To date, Equity has a share capital of Ksh 50 million and is owned by 2 363 shareholders coming from the areas in which Equity operates. Governance is in the hands of a Board of seven directors who, together, own 37% of the shares. The public – principally Equity clients – owns 54%, while staff owns 9.4% of the shares. Equity's management team comprise the CEO, the Finance Director and Head Office and Branch managers. The emphasis on customer service is evident throughout the organization and part of the attraction of the mobile unit to its customers is the high quality of its customer service. The bank is seen to be efficient and caring.

3. Analysing and explaining performance

3.1 Introduction

We start this section with a short overview of international experience with mobile banking services. This overview is not exhaustive and is used to provide a framework with which to analyse the performance of the Equity, in a way to provide main pointers for the analysis.

International experience

Mobile banking comes in many variants. This could be the Grameen loan officer visiting villages and Grameen groups on a bicycle or motor cycle. It can also be the banking officer bringing the banking service to an office or branch in a remote village for an afternoon a week. Another example is the mobile automated teller machine visiting remote villages to pay out social pensions and provide savings facilities (in South Africa). Although there are may examples and variants there are limited publications on describing and evaluating mobile banking services. From the limited studies on mobile banking we summarised the following in terms of benefits and disadvantages of mobile banks.

The benefits of mobile banking

- Frequency of contact with clients
- Minimization of physical distance between MFIs' offices and their clients.
- Helps in mobilizing savings

Mobile banking is not only used as a tool for reaching the more remote microfinance clients. In the larger market places of West African countries, market vendors argue that mobile bankers offer the convenience of bringing banking services directly to their place of activity, during working hours, and the possibility of opening a line of credit under better conditions for them than at a formal bank. Furthermore they see little risk with depositing their money with someone who comes around daily or quite frequently.

In Countries such as Vietnam, where the World Bank has sponsored rural finance initiatives, the benefits of mobile banking are viewed as exceeding the costs, highlighting the need to provide more and better banking services to people in remote areas who until now have had no formal banks to serve them.

An analysis of management practices and modes of operation underlying the success of three rural financial institutions in Thailand, Indonesia and Bangladesh lists mobile banking (innovative and low-cost distribution system) as one of the main features of successful outreach.

It is therefore clear that there are areas where mobile banking is an accepted and advantageous service.

Disadvantages of Mobile Banking

- Risks (e.g. security)
- Instances of frauds by agents which put the banks and depositors at loss (collectors vs cash vans)
- Costs of operation are uneconomical given the volume of business generated.

On the other hand, mobile banking is viewed by some MFIs as a costly delivery mechanism. For example, most Agricultural MFIs in Malawi discontinued mobile banking services due to the deterioration in security in rural areas and law enforcement. Private security companies are still experiencing difficulties in providing adequate security for the safe-keeping and transit of cash within the rural areas which has lead to the closure of commercial bank mobile services and limitations on the amounts of cash held and used by traders, lenders and micro-finance institutions in all outlying areas.

In the case of Equity they focused specifically on the outreach component of mobile banking services, and on improving service efficiency and proximity for clients. In the next section we do largely a qualitative appraisal of the success of Equity's mobile banking service.

3.2 Analysing Equity's Performance

The data collected on Equity's mobile banking as at July 2003 given in Table 1 indicated that there were 10,028 mobile banking customers with deposits amounting to Ksh. 41.1 million and Ksh. 62.1 million in loans.

Table 1: EBS Mobile Costing July 2003

	Kangema	Kiriani	Murarandia	Kangari	Othaya	Thika	Kerugoya
Total clients in Branch	18,382	12,813	9,969	10,658	8,319	24,692	12,767
Mobile clients	2,670	1,703	279	1,030	465	3,257	624
Savings balance – Aug 2003	13,255,572	10,580,493	465,309	4,475,152	1,349,105	8,714,926	2,256,353
Mobile loan clients	2,068	1,343	265	514	68	2,018	243
Mobile loan portfolio	20,925,632	15,480,367	1,966,156	4,539,860	790,397	15,332,827	3,093,963
Locations serviced	9	7	1	2	2	4	3
Staff on mobile services	4	2	3	3	1	4	3
Total staff in the branch	18	12	11	18	10	24	15
Transactions to July 2003	11,184	7,934	1,201	4,611	1,477	11,350	2,537
Profit / Loss July 2003	1,293,523	1,363,442	(455,546)	(111,198)	(45,180)	532,872	(433,700)

3.3 Financial Performance

Equity's hopes are that the partnership with DFID under the Financial Deepening Challenge Fund would prove to be the innovation that would transform their initiative into a profitable and beneficial rural banking project.

An allocation based costing using ***MicroSave's*** costing methodology for the seven months ended July 2003 indicated that Equity made a profit of Kshs. 2,144,212 from mobile operations. The contribution of mobile banking to each branch's profitability after allocating centrally controlled income and expenses and applying a transfer price to savings was as follows:

Table 2: Contribution of Mobile Banking to Branch Profitability

Branch	Contribution in Kshs.
Kangema Branch	1,293,523
Kiriani Branch	1,363,442
Thika Branch	532,872
Othaya Branch	(45,180)
Kangari Branch	(111,198)
Kerugoya Branch	(433,700)
Murarandia Branch	(455,546)
Total	**2,144,212**

From the information presented in Table 1, profitability is clearly related to portfolio size, savings balances, and numbers of clients. It would appear that for a branch to run mobile operations profitably, it should have at least 1,100 depositors, a savings portfolio of not less than Ksh. 5 million. The mobile bank should also develop a significant loan portfolio, at July 2003, 65% of all mobile depositors had loans.

Appropriate pricing is an important aspect of the profitability of Equity's strategy to recover the full costs of its mobile banking operations. Equity raised a total of Ksh.8.3 million in income from fees, commissions and loans.

A further factor is the maturity of the branch operating the mobile centre. It is quicker and easier to build numbers in branches, which are themselves more mature and have a larger customer base than in newer branches. Hence Thika a mature branch, with only 4 mobile locations has relatively strong performance than Kangari, which is a much newer branch.

Table 3 details the centers served by each branch by days of the week. This shows that the branches returning profits from mobile banking serve a larger number of locations, Kangema serves 8, Kiriani 7, and Thika 4.

Table 3: Distance from branch and days when centers are serviced

	KANGEMA	KIRIAINI	MURARANDIA	KANGARI	OTHAYA	THIKA	KERUGOYA
MOBILE CENTRE 1	Kihoya 16km Monday	Gacharageini 14 km Friday	Ichichi - 15 km Wednesday	Gikoe10 km Mununga 6 km Tuesday	Kagicha-10 km Thursday	Gakoe-45 km Monday	Karumandi-25 km Wednesday
MOBILE CENTRE 2	Wanjerere-23km Monday	Mioro-17 km Friday		Ndunyu Chege-26Km Ndakaini-10 km Thursday	Kairo-20 km Thursday	Mundoro-60 km Thursday	Kagumo 7 km Friday
MOBILE CENTRE 3	Kanyenyaini-9 km Tuesday	Kihoya 16 km Monday				Ituramiro-65 km Thursday	Kimunye-17 km Thursday
MOBILE CENTRE 4	Gacharageini 21km Friday	Wanjerere 13km Monday				Gatura-40 km Wednesday	
MOBILE CENTRE 5	Mioro 20 km Friday	Gikoe-10 km Wednesday					
MOBILE CENTRE 6	Ichichi-16 km Wednesday	Kagicha - 8 km Thursday					
MOBILE CENTRE 7	Kiruri-14 km Wednesday	Kairo - 17 km Thursday					
MOBILE CENTRE 8	Gikoe-12 km Wednesday						
Vehicle serving the branch.	Vehicle A	Vehicle A	Vehicle A	Vehicle B	Vehicle A	Vehicle C	Vehicle D

The analysis above also shows that sharing vehicles between branches is an important strategy in covering costs, Kangema, Kiriani, Murarandia and Othaya use the same vehicle, vehicle A, which serves 17 locations. Vehicles B, C, and D appear underutilised as they are used on average for only two days per week and serve only 2-4 locations each.

3.3 Equity's Plans

Equity notes that the mobile programme is still in its growth phase, and accepts there is a need to increase business volume on the three underutilised vehicles. At the time of writing Equity has plans to increase the utilisation of vehicles, Equity intends using a vehicle to take the pressure off growth points currently Nakuru. Equity also plans to grow in its business in the coffee sector and in processing rural salaries and business loans.

The factors driving the profitability of mobile banking should be no surprise, however, they are worth restating they are:

- Ability to cross sell products to maximise income
- Servicing a large number of clients from each location
- The available hinterland to offer loans
- Serving sufficient locations from a single branch
- Controlling costs through planning the efficient utilisation of assets
- Pricing the product to reflect the additional costs of service

4. Clients' Perceptions of the MFI and its Services

Equity's success has also been attributed to the sheer efficiency of its service delivery and its exemplary customer service. Since its inception, Equity had already determined to be close to its customers. Numerous positive comments from customers, staff and other stakeholders confirm that, to Equity, the customer is truly the king or queen! This commitment to its customers is evident throughout its branch network.

The mobile banking unit is a further expression of Equity's commitment to its customers. Established at a time when other commercial banks were withdrawing not only their mobile banking services but their entire presence in the rural areas and in some district headquarters, Equity is seen by the rural community as a caring bank and dependable friend.

> *"The Equity staff are friendly and are usually out to help whenever you have a problem"*

However, while the rural customers appreciated the convenience and cost-saving nature of the mobile units, it is the trademark strengths of Equity's products and customer service that stand out in their order of preferences. In other words, the mobile banking brings the bank to the customer, but that will not be worth much if the bank does not have a comprehensive range of financial products and good service.

> *"If you can tell your son to wait out here while I go into this building (Equity mobile bank centre) and when you come out you give him money to go to school, where else do you find that?" - mobile unit customer"*

Asked to list and rank the attributes of the bank that they like, three different focus group discussions of mobile unit customers generated surprisingly similar lists and ordering.

Attribute	Rank	Comments
School fees loans	1	♦ "The poor's biggest benefit – children will not miss school" ♦ "I have educated my children to overseas with their loans. You too (addressing the researcher) would not be here if you did not go to school" ♦ "Proximity is not as important as a loan. The bank could be here and not lend you" ♦ "The school fees covers everything, we could disregard all else"
Emergency loans	2	♦ Touches many things that are sensitively and critical too. And Equity helps
Customer Service	3	♦ Clean bank. Clean staff. ♦ No problems, no delays, not bothered, respected and satisfied ♦ Good, served quickly and first come first served
Listening bank	4	♦ They even redeem your loan from other banks and take you with your loans
Proximity of the bank	5	♦ We come relaxed walking and go back walking to our work. ♦ No travel costs
Employ local people	6	♦ Give employment to our children ♦ Give open information about employment opportunitites
A/C balance / opening amount		♦ Affordable sh.400 ♦ You can withdraw your small money

Inevitably Equity still faces challenges although the mobile service is appreciated clients had differing opinions on mobile fees. Currently Equity charges Ksh.50 per mobile transaction. Clients gave mixed reactions - the fee is unpopular with clients who make small transactions

> *"The Ksh 50 charged every month is not fair for people like us who just make savings deposits and do not make any withdrawals."*

However, Still other clients emphasised the time and money saved on travelling.

> "*Going to Kangema costs me Ksh 60 and this cannot compare with the Ksh 50 that I have to part with in a month*".

Occasional service related issues emphasised the need for Equity to continually monitor levels of customer service.

> *"They are irregular in opening the mobile unit for operations. Sometimes they come in at even 10.00 am. This is not good"*

4.1 Achievements of, and Challenges Facing, the Model

Equity is expected to maintain its client-focused culture, even with growth and possible conversion into a commercial bank. Although, since computerisation, Equity boasts of a quick customer turnaround time of five minutes, the Fourways Branch in Nairobi in particular still experiences long queues during end-of-month peak times. This will remain a challenge to Equity's image and quality of customer service. In addition, Equity needs to enhance the capacity of its front office cashiers to deal with multiple services (payments, receipts, etc.) at one counter. Although these aspects are relevant for the fixed branches it will also be relevant for the mobile branches. However, it is clear that the mobile services operate in areas where rural branches experienced long queues and mobile services reduce these pressures.

Equity will need to continue to manage its competition, especially from SACCOs and Family Finance. Other competitors include Co-op Bank with its microsavings product *Haba na Haba* and the *Biashara Plus* business loan. Co-op Bank has proven its ability to offer a microcredit product with very flexible collateral requirements. Legislation on microfinance that will soon be tabled in Parliament will enable stronger microfinance programmes to accept deposits. The mobile services will and are good counter measures for the competition by other institutions in especially the rural areas.

The fact that Equity is operating mostly in Central Province and in Nairobi – regions with the highest agricultural and economic potential – is a strength on the one hand and a drawback on the other, as it is viewed as a *Kikuyu bank*. Equity faces the challenge of extending its services to other less economically active parts of the country. This process started in September 2003, with the opening of a branch in Nakuru, and will continue in October 2003 with the opening of a branch in Meru.

Another aspect that is difficult to include in the benefit calculation is the marketing benefits emanating from the presence and visibility of the mobile units. This is a core part of the Equity motivation in launching the mobile service

5. CONCLUSIONS

5.1 Strengths and Weakness of the Model

The fact that Equity has responded to the withdrawal of commercial banks from the rural areas by strengthening its presence further is its greatest strength in line with Equity's vision to serve the low-income population. Equity is strongly focused on providing good services in close proximity of clients' place of work or near their homes. This is indeed a strategy focused on achieving these objectives.

It is also important to note the use of technology in solving the problems associated with the provision of banking services in remote areas. This is not the only example of using similar technology; however it is a good African example reflecting solutions for African circumstances, and more specifically the reality of providing banking services in remote rural areas in Kenya.

Another strength is the fact that Equity started with a more rudimentary model and then automated this model. It meant that the staff and management involved in the service had experience in the shortcomings of the "old" system and therefore there was great acceptance of the technology of the new system.

5.2 Lessons for Mainstream MFIs and Banks

Equity's model in endearing itself to its customers and seeking to develop product delivery systems that respond to customer needs is a lesson to mainstream MFIs and banks who largely provide products and delivery systems that are either "imported" or that concentrate on only the institutions' transactions costs, rather than both the client and the institution's transaction costs. It is possible to profitable serve customers by providing products and services that better serve their needs.

It is also important to note the appropriate use of technology in improving services to clients. The application of technology in this example is focused on providing "on-line" services and emphasise security issues. The security question is very real and often not discussed.

It may be too early to determine lessons that MFIs can learn in so far as the mobile banking initiative is concerned specific to overall outreach and the cost of the units. Once the mobile units are fully operational with enhanced technology, Equity may be able to prove that modern technology could be the answer to deepening outreach to the rural clientele. However, initial indications are that clients react positively to the initiative, and that it may have a positive impact also on the income side of the bank.

5.3 Recommendations for Donors

It is important to note that the enhancement of the mobile banking system is financed by a donor. The identification of the project was by Equity itself who then approached the donor to finance the initiative. Two aspects are of importance; that the identification of the problem was the responsibility of the client and that the initiative focused on enhancing an existing endeavour. This makes sense as Equity has the most information on what are important areas where outside support is needed. Further, as it was the enhancement of an existing initiative it meant that staff and systems were in place and that it was not a concept that was started from scratch which always entails a lot more training and start-up time.

The above arguments do not imply that all donor assistance should be for existing institutions or endeavours, thus only focusing on enhancement. In this case the matching of a specific donor programme, the FDCF and the specific needs of Equity, worked right fine. On the other hand, it is important to note that Equity is a mature institution with experience in working with donors. This made the whole effort seems easier than it would normally be.

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Annexure 1: Equity's savings products

Product	Purpose	Key features	Other features
Ordinary Savings	To provide a medium for remittance processing and savings.	No opening balance Minimum operating balance: Ksh 400/= No ledger fees No limit on the frequency of withdrawals No limit or notice on the amount of withdrawals No transaction charge for deposits 5% interest Interest credited annually	• No passport-size photographs • Free electronic photo captured • Free internal standing order • In-house cheque book • Free half-yearly statements • Earns attractive interest
Business Savings	Provides a medium for business transactions and savings	• No opening balance • Affordable minimum operating balance: Ksh 1 000; (Ksh 5 000 for corporate clients) • No ledger fees • No transaction charges for deposits • No limit on the frequency of withdrawals • In-house cheque book, 200/= • Deposits earn attractive interest rates • Interest credited annually	• No passport-size photographs • Free electronic photo captured • Free internal standing order • Free quarterly or (full page) statements

Product	Purpose	Key features	Other features
Super Junior Savings	Provides a medium for investing in the dependants' future	• No opening balance • Minimum operating Ksh 400/= • No ledger fees • No limit on the frequency of withdrawals • No transaction charge for deposits • Deposits earn attractive interest • Interest credited annually • Free school fees cheques	• No passport-size photographs • Free electronic photo captured • Free internal standing order from other accounts • Free half-yearly statements
Jijenge Savings Account	To provide a medium for contractual savings	• Disciplines one to save. • Flexibility in setting ones savings plan • Earns bonus interest depending on the contracts maturity period • No transaction charges on deposits • No ledger fees	• Deposits payable through free standing order from other accounts • No passport size photograph for opening account • Fast access to loans upto 90% of your deposits at low interest rates of 1.25% per month.
Call and Fixed Deposit	To provide a premium interest earning investment opportunity	• Minimum deposit Kshs 20,000/= • No penalties or loss of interest earned for premature withdrawals • Competitive interest rates offered.	• Automatic rollover • Free statement of account at rollover or uplift of deposit • Immediate borrowing of up to 80% of deposit

Annexure 2: Equity's loan products

Product	Purpose	Key features	Other features
Education loans	To build the society by providing financial solutions for investing in education at all levels	• Available to all active account holders • Affordable low interest rate of 1,3% p.m. • LACE of 300/= or 3% of amount borrowed • Up to 12-month term, repayment monthly • Flexible security requirements	• No additional charge (no ledger fees, no administration charges, no loan repayment s/o charges) • Free half-yearly statements • Quick processing and disbursements • No guarantors
Business loans	To provide enterprises with working capital for operations and expansion.	• Available to all active business account holders • Affordable low interest rate of 1.5% p.m. • Minimal loan application fee (LACE) of Khs300/= or 3–5% of amount borrowed • Up to 12-month term, repayment monthly • Flexible security requirements • Interest discount of 0,5% p.a. for every subsequent loan after the third on-time repayment (max. 2%)	• No additional charge (no ledger fees, no administration charges, no loan repayment s/o charges) • Free half-yearly statements • Quick processing and disbursement

Product	**Purpose**	**Key features**	**Other features**
Medical loans	To build mutual and lasting partnerships in both good and bad times by supporting customers meet healthcare needs	• Interest rate of 1.0 % p.m. • No LACE • Up to 12-month term, repayment monthly • Flexible security	• No additional charge (no ledger fees, no administration charges, no loan repayment s/o charges) • Quick processing and disbursement • Free half-yearly statements
Development loans	To provide support for acquisition of durable assets	• Available to all active account holders • Interest rate of 1.5 % p.m. • LACE of Kshs 300/= or 3–5% of amount borrowed • Up to 36-month term, repayment monthly • Flexible security requirements • Interest discount of 0,5% p.a. for every subsequent loan after the third on-time repayment (max. 2%)	• No additional charge on (no ledger fees, no administration charges, no loan repayment s/o charges) • Free half-yearly statements • Quick processing and disbursement
Salary advance	To support customers meet unexpected socio-economic needs	• Available to all active salaried clients • Affordable low interest rate of 1.4 % p.m. • Loan up to 4 times the average monthly net salary • LACE of 300/= or 3% of amount borrowed • Available for terms up to 12 months • Security – employer's undertaking for direct salary remittance • No guarantor	• No additional charge (no ledger fees, no administration charges, no loan repayment s/o charges) • Quick processing and disbursement

Product	**Purpose**	**Key features**	**Other features**
Farm input advance	To support customers carry out various farming activities	• Available to all farmers with active accounts • Low Interest rate of 1.4% p.m. • LACE of Kshs 300/= or 3% of amount borrowed • Up to 12-month term, repayment monthly • Flexible security	• No additional charge (no ledger fees, no admin charges, no loan repayment s/o charges) • Free half-yearly statements • Quick processing and disbursement
SAKO Plus Loan (On pilot)	To enable customers access credit using savings as collateral	• Available to all customers with active accounts • Low Interest rate of 1.5% p.m. • LACE of Kshs 300/= or 3% of amount borrowed • Up to 36-month term (graduated), repayment monthly • Loans of up to 4 times of locked savings. • Flexible security requirements • Loan amounts graduated.	• No additional charge (no ledger fees, no admin charges, no loan repayment s/o charges) • Free half-yearly statements • Quick processing and disbursement • No guarantors