FINANCIAL SERVICES

Boosting Socioeconomic Development in Africa

Is it profitable to invest in the Unbanked & Under-banked consumer?

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Business Development

BOTHO LIMITED

Botho Limited is an Africa focused market insight, strategy & investment advisory firm

Investing in the *Bottom of the Pyramid* has resulted in a Kenyan mortgage provider growing into Africa's most profitable bank with a return on asset ratio of 6.84 percent.[1] This has been achieved by servicing the unbanked and under-banked population in the rural and peri-urban environs in five Eastern Africa countries.

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SECTION 1

Financial Inclusion: Case Study of Equity Bank Group

General Overview

Equity Bank Group ("Equity Bank" or "the Group") was established 30 years ago and is now the second[2] largest retail and business bank in Kenya with a long and short term Global Security Rating ("GSR") reported at AA-(KE) and A1+(KE) respectively.[3] The Group reports a net asset base of KES 176 billion (USD 2.045 billion) and profit before tax ("PBT") at KES 12.103 billion (USD 140.685 million).[4]

Equity Bank's competitive advantage is achieved through its inclusive business model that seeks to develop financial products and services that are designed to serve the unbanked and under-banked population. The Group commenced operations as a provider of mortgage financing in Kenya for the majority of the so-called *Bottom of the Pyramid* ("BOP") based customer and now operates in five Eastern Africa countries - Kenya, Rwanda, South Sudan, Tanzania and Uganda by providing a variety of banking products and services.

RETURN ON ASSETS | Equity Bank Group has grown to become Africa's most profitable lender generating a rate of return of 6.84 percent. The financial institution is world's 990th largest bank. Specific to Africa, Equity Bank has the highest return on capital at 54.9 percent.[1]

[1] Business Daily, July 22, 2014, *Super Profit Earns Equity, KCB top Global Ranking*

[2] Business Daily, July 2013, *List of Banks in Kenya*

[3] Global Credit Rating Company, September 2013, *Equity Bank Limited, Kenya Bank Analysis*, Pg. 1

[4] Central Bank of Kenya, Forex Exchange Rate (Circa 2012)

SECTION 2

How has Equity Bank successfully grown its customer base?

Branding, Marketing & ICT Strategy

Positioning its brand logo as a modest home image enabled the lender to resonate with its target market demographics' determination to make small but steady gains toward a prosperous livelihood.[5] This marketing strategy has resulted in Equity Bank becoming Kenya's largest bank by customer base and the continent's lender with the highest return on assets generating a rate of return of 6.84 percent.

Equity Bank's large agent-banking network and robust information & communication technology ("ICT") platform further enables the the Group to access previously untapped customers particularly those residing and working in the rural and peri-urban environs. The Group's continued selective investment in technology that betters its back and front-office operations has enabled the leadership to score highly in the innovation category unlike its competitors who tend to invest first and ask questions later after rolling out expensive ICT platforms across much of their networks prior to fully comprehending the desired return on investment ("ROI").

The Group has now recently launched a paper-thin carry-on SIM card technology to enable its customer to simultaneously access the lender's mobile virtual network without changing telecom providers. The carry-on SIM enables Equity Bank customers to make mobile-wallet transactions. It also enables customers to make cheap international calls by diverting traffic from the parent network.

Equity Bank is now conducting a soft-launch of this new mobile-wallet technology and anticipates early and successful adoption from its Kenyan customer base of 9.2 million.[6] Accounting for the profitable performance of telecom market leader Safaricom in partnership with Kenya based Commercial Bank of Africa's mobile-wallet ("MPESA") transferring in excess of KES 1.4 trillion[7] (USD (USD 15.4 billion) in electronic funds in seven years since the joint venture launch of MPESA, Equity Bank is bullish about the performance of its paper-thin carry-on SIM card technology.

[5] Equity Bank Kenya, *Our History*

[6] Daily Nation, Thursday October 30, 2014, *More Sign Up for Equity Bank's thin SIM Card*

[7] Safaricom, 2012, *Lessons & Insights of Providing Financial Services to the Underserved through Mobile*

[8] Business Daily, July 22, 2014, *Super Profit Earns Equity, KCB top Global Ranking*

ATTRACTIVE RETURNS IN THE BANKING | Kenyan lenders have on average a higher return on asset of 4.7 percent[8] outperforming lenders in Asia, Central America, South America and the Middle East. The higher ROA is attributed to the high risk appetite in the local market.

SECTION 3

What next for the region's banking industry?

In the past, discussions have revolved around banking the unbanked. There is now a shift toward how to leverage on the new financially enabled Africa-based consumer. With banks and telecoms collaborating and agent banking penetrating into the rural and peri-urban areas, it is forecasted that annual mobile payments in Sub-Saharan Africa can reach USD 16 billion[9] in the coming years if current trends continue across the continent.

The biggest winners will be local financial institutions that expand the range of available projects that meet the daily needs of the larger underserved population while efficiently allow consumers to transaction cheaply through interoperability while protecting them against mobile banking fraud.

[9] Euromoney, August 21, 2014, *Taking Mobile Mobile Banking in Africa to the Next Level*

Mobile banking in Sub-Saharan Africa has achieved the broadest global success with about 16 percent of adults reporting using a mobile phone in the last 12 months to transact compared to less than 5 percent in other regions.[10] Accounting for the rapid diffusion of inexpensive mobile services in Sub-Saharan Africa it is anticipated that mobile payment transactions in the region can exceed USD 16 billion[11] in the coming years.

[10] Circa 2013, KPMG, Financial Services in Africa

[11] Euromoney, August 21, 2014, *Taking Mobile Banking to the Next Level in Africa*

Leveraging on the Newly Financially Enabled

Only 24 percent of adults in Sub-Saharan Africa have an account at a formal financial institution. This is less than half that of the adult population in East Asia and less than a third of developed economies. (Source: World Bank). Sub-Sahara Africa therefore offers attractive and profitable investment opportunities to locally based financial institutions that position their products and services to cater for the unbanked and under-banked who are financially enabled.

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