



THE WWB GLOBAL NETWORK FOR BANKING INNOVATION IN MICROFINANCE

INNOVATION BRIEF



REMITTANCES: EQUITY BUILDING SOCIETY BUILDS A SUCCESSFUL ALLIANCE WITH A MONEY TRANSFER OPERATOR TO OFFER REMITTANCE SERVICES

I. BACKGROUND ON THE INSTITUTION

Equity Building Society (EBS) was founded in 1984, and is registered under the Building Society Act Cap 489 Laws of Kenya. EBS is a public company that is 84% owned by over 2,400 indigenous shareholders and 16% by AFRICAP.¹ EBS offers a range of financial products similar to commercial banks in Kenya. It has identified its market niche as micro, small and medium enterprises, salaried persons and small-scale farmers not receiving services from mainstream financial institutions.

Snapshot of Institution as of March 2004

Indicator	Number/Amount
Number of microborrowers with outstanding loans	75,461
Number of savers	295,687
Total number of international remittance transactions in March	2,495 ²
Average amount of international remittance transactions per month	US\$890,000
Average amount of domestic remittance transactions per month	US\$2,000,000
Outstanding loan portfolio	US\$27,922,462
Average loan size	US\$370
Size of savings portfolio	US\$50,243,205

II. BACKGROUND ON REMITTANCE PRODUCTS

The remittance business in Kenya is mainly channeled through Western Union, which controls approximately 60% of the market share. In September 2003, EBS entered into sub-agent³ agreement with Western Union and is one of many such agents in Kenya. Since then, EBS has increased its market share to about 12% of the remittance market in Kenya or 20% of the local Western Union business. EBS has a regional presence in Kenya with 18 branches, ten of which offer remittance services.

¹ AFRICAP is a consortium of international development investors, principally the International Finance Corporation, the private sector arm of the World Bank, and the European Investment Bank.

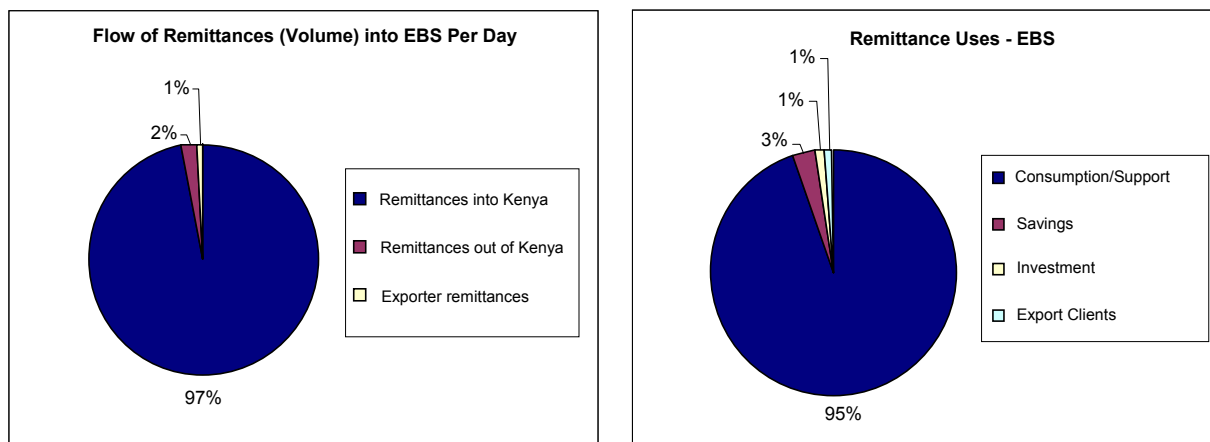
² International remittances have shown an increasing trend, growing by approximately 400 transactions per month.

³ EBS is a sub agent of a bank in Kenya that is the direct agent of Western Union.

Presently EBS serves as a distributor as well as sender of remittances. The largest volume of its remittance business is from Kenyans living in Europe and the United States who send money home mainly to save, invest or support their families. EBS is also involved in money transfers out of Kenya for clients that send money to support children studying abroad. EBS can route international remittances out of Kenya through Western Union or through bank telex transfer (traditional wire transfer).

EBS offers internal or domestic remittances services from urban to rural areas through the Wide Area Network (WAN) and Mobile Village Outlets as well as remittances for processed salaries, pensions and farmers.

Volume of Transactions



The total value of remittance transactions at EBS is approximately three million shillings or US\$40,000 per day and the average amount remitted per month is US\$300 for regular remittances and between US\$400-1,000 for investment purposes.

III. INNOVATION IN REMITTANCES

In the Kenyan market, EBS is an example of a successful alliance between an MFI and a money transfer operator in offering remittance services. Through innovative marketing strategies, a wide offering of financial products, strong customer service and an average of a six month branch break-even period, EBS has been able to consistently increase its share of the remittance market in Kenya. In addition, EBS has been able to break even in a relatively short period due to the increase in volume which in turn took place because of the differentiated product and service offering. EBS is not driven by profit but is in fact looking to provide an additional service to its 295,687 savers.

EBS has adopted the following innovative strategies in launching its remittance services:

- **Marketing Strategies:** In the local community, EBS is promoting its remittance product through mailings and media advertising. In the Kenyan community abroad, EBS is promoting its products online by advertising in "The Nation," the virtual Kenyan newspaper which receives almost 40,000 hits per month.⁴

⁴ Statistics obtained from the Nation group of companies which hosts the banner for EBS.

- **Links to Other Financial Products:** EBS has a contractual savings product, Jijenge, through which clients can save a fixed amount over a pre-determined period of time. This product has been linked to remittances received; EBS clients include a number of Kenyans living overseas who have subscribed to this product. EBS also has an ordinary savings account which is where most remittance recipients save a portion of their remittances. Eighty percent of remittance recipients retain a portion of their remittances in savings. The process involves depositing the money into the savings account and withdrawing sums at gradual intervals.
- **Customer Service:** Compared to the other institutions and remittance providers in Kenya which take about 15 to 20 minutes to attend to clients, EBS services its clients in 3 to 5 minutes.

IV. CHALLENGES AND OPPORTUNITIES

For EBS, the easiest elements to achieve in its remittances program have been speed and efficiency. The more challenging aspects have been pricing and, more importantly, promoting the brand name locally, since EBS is one of many Western Union sub-agents in the country. Although Western Union pays for signage and promotion internationally, EBS does have to pay for the positioning and promotion in Kenya. Other challenges are increased competition from sub-agents, and sharing of the commission with the agent.

V. IMPLICATIONS FOR INSTITUTIONS OFFERING MICROFINANCE SERVICES

Remittances are a value-adding service to clients; they are service-driven and sustainable. Remittances complement microfinance services, since microfinance clients who require remittance service have to seek it elsewhere if their microfinance institution does not offer it. A relatively easy entry strategy for an MFI wishing to offer microfinance services is to approach the money transfer operator to be an agent, rather than a sub-agent.

VI. FUTURE PLANS

EBS is in the process of designing a loan product for housing, with remittances. A client can use the loan to purchase a house and then repay it from remittances received (which is different from the savings accounts). The low cost housing product is targeted towards the working population outside of Kenya who wish to assist families in constructing houses and supporting repayment through monthly remittances.

VII. IMPACT OF THE INNOVATION ON THE BUSINESS

The remittance business has impacted EBS' core business in the following ways:

- Enhanced brand image by association with a strong international brand like Western Union.
- Enhanced commission income due to remittance fee.
- Enhanced loyalty by establishing EBS as a one-stop shop for clients requiring remittances services.
- Enhanced savings, though this is not significant since the remittance product is still relatively new.

EBS CONTACT INFORMATION

Mr. James Mwangi
Finance Director
Equity Building Society (EBS)
P.O. Box 75104 Fourway Towers
Muindi Mbingu Street
Nairobi, Kenya
Tel. 254 (020) 311-164
<http://www.ebsafrica.com>

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This focus note was written by Celina Kawas and Harsha Thadhani. Nicola Armacost and Vanessa Ward provided editorial assistance. Sasha Laumeister provided desktop publishing.



For further information on the GNBI, contact:

Mercedes Benavides, GNBI Coordinator/Relationship Manager, at

Women's World Banking, 8 West 40th Street, New York, NY 10018, USA

Ph: (212) 768-8513, ext. 209 • Fax: (212) 768-8519 • E-mail: mbenavides@swwb.org • Website: www.swwb.org