FMB

Financing Agricultural Forum 2012

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About FMB

• Commercial Bank, started operations in Malawi in June 1996 and listed on Malawi Stock Exchange in 2006.

• Has a broad geographical coverage, with 155 points of representation across Malawi (27 branches/agencies, 128 ATM and POS machines).

• Current Customer Base: 260,000 (some 5% of adult Malawi population).
Evolution of FMB

• Original focus on corporate institutions and high net worth individuals.
• Evolved to incorporate all bankable economic groupings including moving into Low Income Retail Space.
• Launch of Makwacha Accounts in 2006 and Launch of Fast Accounts in 2010.

CUSTOMER COMPOSITION AS AT END FEB 2012

- Current: 71.26%
- Savings: 11.73%
- Fast: 12.37%
- Makwacha: 3.91%
- Term: 0.73%
Makwacha Accounts - Overview

• Card based transaction/ savings account targeted at smallholder tobacco grower sector.

• Tobacco is single largest economic sector in Malawi
  ✓ 30% of GDP
  ✓ largest export crop
  ✓ > 80% produced by smallholder growers
  ✓ mainly sold through centralised auction system
  ✓ growers must have bank account to receive auction proceeds

• Collaboration between FMB and:
  ✓ Tobacco Association of Malawi (largest grower representative body) (TAMA)
  ✓ Farmers World/ Agora (major rural based chain of agricultural input supplies)
  ✓ Operates through a permanent secretariat
Makwacha Account – Product Features

• Marketed through pre-season roadshows, accounts opened by dedicated selling teams.

• KYC simplified because growers already registered with TAMA and Tobacco Control Commission.

• Personalised debit card (with photograph) providing ability to transact and access account information in real time through ATM and POS network (approx. 1 week turnaround for account opening)

• Linked to FMB Mobile (mobile banking platform)

• Main income from Commission on proceeds and forex trading
  ✓ No account opening cost or maintainance charge
  ✓ ATM withdrawals free (normal charge for POS withdrawal)
  ✓ Account bears interest at normal savings rate.
Makwacha Account – Who benefits?

• FMB
  ✓ Interest Spread on balances held
  ✓ Commission on proceeds collected from auction floors
  ✓ Foreign exchange trading income
  ✓ Proceeds – 2011: $21m, 2010: $32m, 2009: $22m

• The Merchant (Farmers World)
  ✓ Fees for POS withdrawals
  ✓ Increased throughput at stores
  ✓ Assists cash management
  ✓ Guaranteed access to foreign exchange (1/3 of total proceeds)

• TAMA
  ✓ Additional service to its members
  ✓ Share of commissions (1/3)
  ✓ Other fee income (storage, transport e.t.c) from increased membership

• The Grower
  ✓ Low cost bank account
  ✓ Convenience of access to account
  ✓ Simple account opening procedures
Makwacha Accounts Uptake

Makwacha cont...
Fast Accounts - Overview

• Simple card based, interest bearing transaction account targeted at lower income unbanked urban and rural individuals.

• Linked to FMB Mobile

• All account opening and KYC procedures performed “on the roadside” by sales agents.

• Almost 200,000 new accounts opened since launch in July 2010.
Fast Account – Product Features

- Pre-packaged card and pin mailer sold on roadside by direct sales agents (DSA’s).
  - DSA’s paid commission on accounts opened
  - DSA’s receive stock of cards (10 or 20) and may only accept $6 ($3 account opening charge, $3 opening balance) per card ‘sold’ and account at end of day.
  - Account opening and KYC documentation, and customer photographed by DSA and uplifted into main database at end of day.
  - When documentation vetted by back office, account is activated (currently takes 24 to 48 hours).
  - At first attempt to transact on account, customer must change PIN number.

- Low cost account
  - Monthly maintenance fee < $1
  - Withdrawal at ATM, US cents 40
  - Cash deposits, US cents 60
  - Balance enquiry free
FMB Mobile

- Mobile banking platform linked to all individual savings and transaction accounts – registration is voluntary and free

- Capabilities
  - Balance enquiry, ministatement
  - Purchase of airtime, payment of utility bills
  - Funds transfer to account holder
  - Funds transfer to non-account holder (card-less ATM withdrawal using transaction specific PIN number)

- Cost of operating account
  - Most services free
  - Commissions earned on airtime and utility payments
  - Transfer to non-account holder at $1

- Restriction on account
  - Maximum balance $1500
  - Maximum ‘cardless’ funds transfer $10
  - Maximum daily withdrawal $300
Critical Success Factors (Makwacha and Fast Accounts)

• Market/ sell (not just ‘advertise’) the account where the potential customers are i.e. not in the banking halls

• Reduced complexity and speed of account opening procedures

• Affordability

• Value added services (bill payment e.t.c)

• Variety of channels on which to transact
Challenges

• Although successful in increasing penetration/financial inclusion with transactional/savings products, it is more challenging to develop lending products for the lower income market.

• Remaining challenge in growing liabilities is to viably expand outreach of deposit taking activities due to cost of conventional branch infrastructure.
  ✓ Being addressed through ‘Bank on Wheels’ and agency relationships (but awaiting regulatory clearance).

• Most cost efficient technology not suited to most successful small scale agricultural lending models.
  ✓ Successful lending models based on groups such as Farmers Clubs and cooperatives.
  ✓ **But** Card and mobile phone based solutions are individual specific and not easily adapted to group situations.
Challenges

- Other challenges in the lending space (some of which may be Malawi specific):

  ✓ No national identity system
  ✓ No credit reference bureau
  ✓ “side-marketing” of produce to avoid repayment of debt. Can only be addressed with co-operation of all players in the value chain.
  ✓ Lack of formal collateral. Warehouse receipts may cater for post harvest credit but what about input financing.