

# **FMB**

## **Financing Agricultural Forum 2012**

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**Kampala - Uganda**

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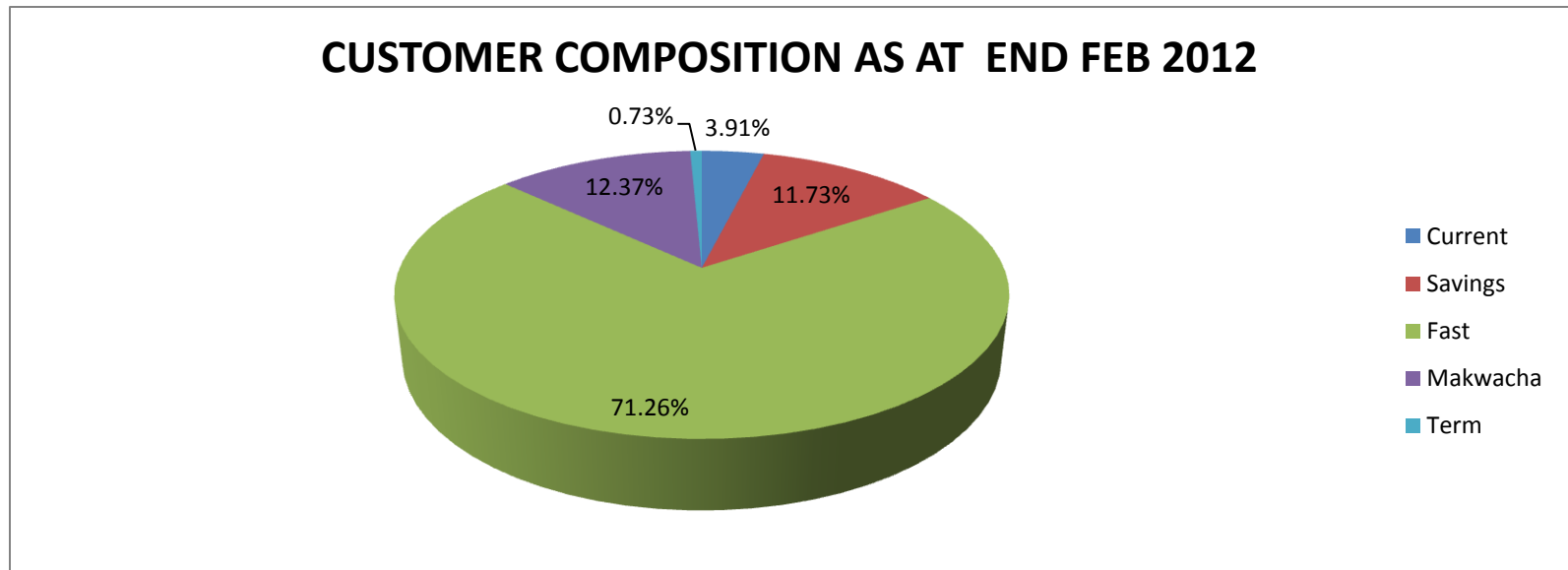
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# About FMB

- 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.



# 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 maintenance 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**

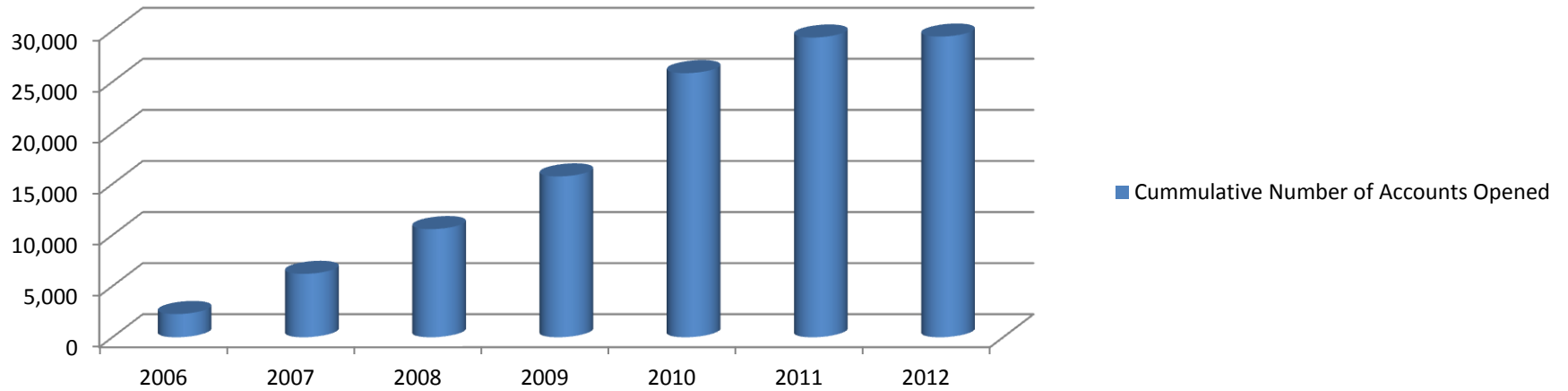
- ✓ Additional service to its members
- ✓ Share of commissions (1/3)
- ✓ Other fee income (storage, transport e.t.c) from increased membership

- **The Grower**

- ✓ Low cost bank account
- ✓ Convenience of access to account
- ✓ Simple account opening procedures

# Makwacha cont...

## Makwacha Accounts Uptake





## 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.