

“Can a Value-driven Business prosper in a competitive environment?”

The experience of Bangko Kabayan, Inc. – a Philippine rural financial institution following the Economy of Communion principles

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Good afternoon, Ladies and Gentlemen. My topic this afternoon is “Can a value-driven business prosper in a competitive environment? Allow me to answer that question by sharing the experience of Bangko Kabayan, a rural financial institution, which began in 1957 as a traditional one-unit rural bank in the Philippines, with the mandate to provide simple deposit and loan products to our people in the countryside.

I took over the management in 1978, shortly after my wife and I got married and moved to the countryside to help out in the family businesses there. Over time, we understood that to be able to bring a different direction to the operations, we needed to buy out the other family members and in this effort, we were helped by a minority partner who believed in the same vision of running an enterprise along principles of our faith.

In 1991, Chiara Lubich, foundress of the Focolare Movement of which we were members, launched the idea of the Economy of Communion. In one of her visits to the community in Brazil, she was struck by the great inequity starkly represented by the favelas surrounding the skyscrapers of Sao Paulo. Though not an economist herself, she understood that the existing major economic paradigms of capitalism and communism had not served to fulfill the needs of mankind, the great majority of whom remained poor. A third way, based on the Gospel, relying on the basic capacity and need of man to share, to give of himself, could provide the balance needed in the economic world.

Chiara proposed a new economic paradigm which she termed the Economy of Communion – and presented the basic idea that a business does not exist mainly or solely for the good of its owners –but needed to serve the common good and all other stakeholders. Unlike the consumer economy based on a culture of having, the Economy of Communion is based on a culture of giving. Chiara believed that human beings, made in the image of God who is LOVE, find their fulfillment in loving and giving.

She challenged entrepreneurs, beginning with those of the Focolare movement, to set-up new businesses or re-orient existing ones – keeping an eye using the profits for those in need, to support the continuous building of the culture of giving and to also reinvest back to keep the such a business sustainable and growing.

“Give and it will be given you, a good measure, pressed down, shaken together, running over, will be put in your lap.” Chiara believed that these words could offer a remedy, restoring balance to our planet.

My wife and I were intrigued by the idea that we could live our faith, not only in our personal lives but in business as well. So we launched ourselves into transforming our small enterprise (then just a single-unit rural bank) into and Economy of Communion business. Though we lacked capital and enough management expertise that time, we saw how God intervened and with the help of a management consultant who also set up a company adhering to the economy of communion principles, as well as a minority partner who gave us a liberal credit line and small stockholders who agreed to put in more capital, we embarked on an expansion program.

In 1991 – 1996, we opened 8 branches...

In 1997, celebrating the bank's 40th anniversary, we changed the name from Ibaan Rural Bank to Bangko Kabayan. In just 6 years from the time we adopted the EOC paradigm, we had grown the resources of the bank 20x over, from P50

Million to P1 Billion pesos (\$1M - \$20M) and our employees numbered 120 from the original team of 20 people we started with.

What are the guiding principles of the Economy of Communion? 1) Resource sharing, as an offshoot imbuing of the culture of giving, 2) pursuing long-term and deep relationships among all stakeholders – employees, clients, regulators, community – and yes, even competitors, 3) engendering reciprocity which allows and recognizes the ability of others to give back or respond to our efforts to love and 4) respect and adherence to ethical values.

In practice, we consciously reinvested part of our profits to support expansion and provide more jobs as an answer to the poverty around us. We also set aside a sum for direct help for those in need, as well as committing to invest more in building the culture of giving within the bank. Today, among other skills and technical training, we have created culture circles and trained volunteer personnel who conduct and facilitate after work meetings centered on understanding our core values deeper and how to weave them into our daily lives as workers in the bank.

We hold at least 3 general assemblies during the year, to keep our workforce feel more united. As one of our core values is commitment to community development, we also have annual events aimed at helping the communities, either through environmental projects or social outreach activities.

What has the effect of these activities been on the organization? We happily discovered that employees began to practice the culture of giving on their own. One loan officer who received incentive pay for good performance, shared it with her co-workers, believing that she could not have achieved her targets without their help. Once, when the client in a certain branch suffered from a fire that destroyed his home, the manager of that branch called up his colleagues even from other branches and they came together to help re-build his house – and

collected clothes and other needs for his family. This led to the client asking “Why do you do this? Are you a bank or an NGO?”

For us, imparting this gift of having “new eyes” with which to understand that what happens around us are fruits of relationships, both human and divine, is proof that we are in the right direction.

Relationship-building for us began with our nearest neighbor – our employees. We adhered to the social principle of the church that it is man – not capital or profit – that is the center of the enterprise. In the late ‘70s where it was unheard of to have benefits in a rural enterprise, we tried to give above-average wages and provide benefits which included profit-sharing and stock options schemes for all our employees.

Personalized service became the foundation of our client relationships – from teaching an illiterate farmer to open and maintain a checking account, to advising a borrower about taking just the right amount of credit he could service, to attending family functions such as baptisms, fiestas, and similar celebrations.

In turn, we experienced what reciprocity meant.

In 1998, when we all suffered from the Asian Financial Crisis, many banks went under in our country. Businesses that suffered were unable to pay back their loans and customers were prone to panic withdrawals whenever they would hear of a bank closure.

In our case, though many of our loan assets turned sour and many foreclosures happened, our bank was saved by a stable deposit base, loyal clients who believed in us and with whom we had nurtured genuine relationships of reciprocity. So we did not suffer from the illiquidity that led other rural banks to close shop.

And when public confidence was further weakened and we were affected, we tried to seek solutions based on communion or being together with other stakeholders, even our competitors. In one instance, all of the rural banks in one town were affected by another rural bank closing down while a much bigger commercial bank opened a branch almost simultaneously. It then became a marketing line for the manager of that bigger bank to sow further distrust of smaller rural banks among his clients.

We felt we needed to confront the issue – which we could have done by ourselves as we are the biggest rural bank in our province – but which we thought, in the spirit of communion, was better addressed as an industry. We called for a meeting of other rural banks which had branches in that town and proposed to request an audience with the local officials – mayor and the town council – where we could explain the function of a rural bank in a community. We were aware of the risk of standing in public with other rural banks, the financial standing of which we were not absolutely sure could stand the stress of the present situation. We knew that if any other rural bank closed after this effort, we would suffer from the damage of association with them.

But with full faith, we believed that finding solutions together with all stakeholders was consistent with being an EOC company and we went ahead with this public meeting. It went very well and the public confidence returned, stemming the tide of panic that was affecting us all.

One problem in our country is that of endemic corruption which you will hear most businessmen excuse as “a necessary cost to doing business”. From securing normal business permits, to registering mortgages, to dealing with tax authorities – there is just so much corruption that many businessmen learn to accept because they say nothing can be done if one is to survive or continue their business, but to live with these practices.

On the other hand, we knew that to be a faith-driven, value-driven company, we could not accept this as a way of doing business. We cannot, in one moment, pray for Divine Providence in difficult moments of our personal and enterprise lives, and in the same breath, accept bribery as a way of doing business, as if to say that well, not even God can solve this situation.

After surviving the financial crisis with our liquidity intact, we were faced with the problem of which loans to go into as many of the business loans we lent out previously, turned past due. A colleague of ours, head of one of the biggest rural banks in the country and a good friend as well, advised us to go into salary loans to public school teachers. The collection was simplified because there was an automatic payroll deduction scheme through the department of education which had centralized the payroll accounts. There was a big volume of teachers (we have about 500,000 public school teachers) and the credit program held the promise of big profits and little costs of delivery.

As we got ourselves accredited as a lending institution and complied with all the requirements, at the last step – which was to work out the payroll deduction with a particular office, the one responsible for encoding the deductions asked for a percentage of whatever collections would be made. There was already a fixed collection fee payable to the department but this bureaucrat wanted a separate one for himself. In discussing this problem, one manager said there was no other way and we can anyway absorb the cost of what this man was asking for, in the interest income we would earn from the loan.

But we decided we did not want to engage in what would be institutionalized bribery – and looked for some other product to develop.

We heard about microfinance – small, unsecured loans from \$50 - \$3000 and learned it could be a program we could adopt in the bank. After piloting it, we decided here was a product that would be more consistent with our value system,

that would be more developmental for the community as it would serve the unbanked sectors and definitely be aligned to the EOC paradigm.

Adopting the microfinance as a bank product was a big challenge because it meant hiring more people, giving extensive training, developing procedures adapted to microfinance's small and frequent transactions, investing in computer hardware and additional software aside from the core banking software. But more than all this, it was shifting mindsets from the traditional emphasis on hard collateral like real estate -to recognizing other forms of capital such as social capital that could likewise aid and ensure repayment of clean loans.

We began offering microfinance in 2001 and since then, persevered where many other colleagues in the rural banking sector have given up. Our inspiration was deeply rooted in the desire to help the neighbor in need and to develop the community. Through the years, the **EOC philosophy** helped us go ahead and keep our faith amidst these challenges. And today, we have 10,000 new clients and a loan product that has remained viable with a 96% on time repayment rate inspite of being collateral-free, while contributing to the profitability of the bank's operations.

In sum, **adopting the EOC paradigm** means carrying out its principles in the products and services we develop, in choosing the market sector to serve and in the strategies we employ in the pursuit of our business.

"Beyond the personal transformation of the entrepreneur, in the economy of communion, the enterprise itself discovers it has a vocation as well – of serving as a laboratory from where its life and experiences, the theory of EOC is further developed."

To return to the original question of this session – can a value-driven business survive in a competitive environment?" Bangko Kabayan is located in region 4, the region next only to the national capital region or Metro Manila in terms of the

density of the banks to population. It is, therefore, one of the most competitive arenas even for a rural financial institution.

Because the region is also progressive, commercial and unibanks have entered into the rural space, driving the rates of credit down. One has to be efficient in the delivery of service, has to be able to differentiate and brand itself to set it apart in some cities where there are 60-70 banks lined up along the main street. We are subject to the same business realities in our industry and in business in general.

Yet it is precisely our adoption of values that have set us apart, that have made clients stay with us inspite of a 2-3% difference perhaps in rates offered by bigger commercial banks. It is the atmosphere of family, unity and being God-centered that have brought back employees who transferred to these big banks – or even gone abroad in search of bigger and more substantial compensation – when they felt the difference between us and a “normal” bank.

Today, we have 20 branches and 320 employees, and have gone beyond our province of Batangas to two other neighboring provinces. We continue focused on a steady path towards further expansion – slowly but surely.

The next slide will give a quick illustration of how we have fared in terms of important performance indicators for a financial institution vis-à-vis the industry and our regulator, the Bangko Sentral ng Pilipinas. As you will note, we have been above average in performance in all quality rations except perhaps in cost structure – something which is not a surprise as we have chosen to invest in more many activities to strengthen the EOC culture – which other banks do not spend on. We are happy that we make enough to sustain the expansion while providing shareholders a decent return on their investment.

Challenges remain, of course – as corruption still exists in our environment and its difficult to keep resisting as we sometimes lose business to competition because of such refusal. We need to continuously invest in culture-building at the cost of lower margins – but need to remain within acceptable ratios in a business

that is highly regulated by government and financial authorities. We train a lot so that our people become attractive to bigger, higher-paying financial institutions. And as we pursue expansion, we often ask ourselves how much we can retain the personal touch, both for our clients as well as our employees, while the demand is for more standardization.

But in all this, we remain certain of the presence of a Silent Partner, of One whom we can rely on to give us the light and the strength to overcome every challenge, Who remains the guiding voice and Master Strategic Planner in our company. We have felt accompanied by Divine Providence, from the day we answered to the vocation to be EOC entrepreneurs and found the help we needed to grow our company – all the way up to everyday we continue to operate, seeking to be value-driven, faith-driven and God-centered in our personal and enterprise lives.

In conclusion, allow me to flash the beginning paragraph of the Vocation of a Business Leader – summarizing the points we have to continuously benchmark our businesses on.

Do we meet the needs of the world with goods that truly serve?

Do we keep in mind the needs of the poor and vulnerable in our society?

Do we respect human dignity in our work places and encourage initiative and innovation, making our employees feel they are co-entrepreneurs, co-builders of the company?

Finally, do we share from the returns on our businesses fairly with all the stakeholders?

Thank you and good afternoon.