Ivan Mbowa
CEO, Umati Capital

ABF: How did you become CEO of Umati Capital?

IM: My background is in banking, and my partner, Munyutu Wagi, has been a management consultant and an entrepreneur. We launched Umati because we saw a gap in the market around the provision of credit to small businesses, and we thought we could create a technology platform that would serve clients more efficiently and faster. We were looking to be collateral-free, so we decided to focus on invoice discounting, or factoring. We launched in July 2013, all with our own funding, before we started to accept external capital at a later stage.

ABF: Can you tell us more about Umati Capital?

IM: Umati Capital is a start-up financial services company that aims to revolutionize access to finance through the consistent and innovative use of technology. We are a non-bank financial institution focused on the provision of credit and related payment technologies. We are currently focused within agri-business supply chains, retailer value chains and fast moving consumer goods manufacturers. We leverage proprietary technology to provide branchless financial services to small scale suppliers, trading companies and industrial processors.

ABF: How was your board formed and how has it evolved?

IM: We formed a board when Accion, through their Venture Lab Fund, invested in us. Prior to that it was just two co-founders thinking about what we wanted to do. The first board we formed was quite informal. It could be quickly formulated when we needed to discuss something. We could ask our board rep to get on a Skype call, thrash out a few issues, and just get things done. We entered the ABF program when we were expanding from a board of three to a board of five. That small transition changed pretty much everything. The new board members expected a degree of formality and process. The fellowship program was quite timely in helping us to understand these dynamics. Beyond the five permanent members we also have two board observers (shareholder representatives with no voting rights). So all of a sudden it became a very crowded room. There's been a lot of learning as we figure out the gap between the expectations of board members and what we've been used to.

ABF: Kenya's government introduced an interest rate cap for banks, but not for non-bank financial institutions like Umati. How has Umati been affected?

IM: At Umati we're seeing a lot more interest in our services. About half of our clients are new to formal finance. They could never get money from a bank in the first place. The other half are coming to us for additional financing, because they don't have the collateral to get more from banks.

The funny thing is the clients don't always understand the nuances between a non-bank financial institution and a bank, so when they see our rates, the first impression is, 'you guys are just flouting the law—it's supposed to be capped.' We have to explain it (that the cap doesn't apply to Umati). A good outcome has been that there seems to be a lot more awareness and questioning from clients on, "What is the cost of your product?"

It's also been easier to make the argument that even if you can access bank credit, it's good to be multibanked, so that the next time there's a freeze or a crunch, you're not fully exposed. Savvy clients understand that working with Umati can be a hedging mechanism.

ABF: What lessons have the board gleaned from the experience of the cap?

IM: It's better to prepare before it comes to you. We're having the conversation: if our interest rate spread were to shrink to 7 percent, how are we preparing now for that future? So we're looking at products related to FX and payments, which are tied to our core business but have no correlation to interest rate spread.

ABF: What were your takeaways from the experience at ABF?

IM: We learned that as much as we are chasing growth, not to put sales above risk, or you will derail the institution. It caused us to really look at a separation of functions to ensure strong controls.

We discovered that we have a need for independent board members. We all come from different perspectives. As founders we're thinking about preserving the vision. Investor representatives have the frame of thinking, "I've got to get my exit in seven years." There's a need for some impartial voices and someone who can just look at it objectively, without the subjectivity of an ownership stake.