

Titos Macie
Board Chairman, Socremo Bank



ABF: When did you join the Socremo board?

TM: To be exact, May 1998. I was representing the interests of one of the three founding shareholders of Socremo. In 2008, there was a shareholding re-organization and the institution I represented sold its stake, but I was asked to represent another stakeholder. Then in 2011, a capital injection diluted some shareholders and the institution I represented lost its board seat but I was again asked to remain on the board and to be the chairperson because I am the only board member living in Mozambique, and also because institutional memory is hard to capture in writing.

ABF: What happened to Socremo and its clients when Mozambican currency devalued?

TM: In September 2015, the exchange rate of the United States dollar to the Mozambican Metical nosedived from 1-32 to 1-80. In Mozambique we rely a lot on imports, so this currency devaluation increased the cost of living drastically. One digit inflation shot to 30 percent. For our clients, it was challenging to continue trading. Some clients defaulted. The general mass didn't have disposable income, and this affected their sales. Shops were empty, as it was expensive to buy forex to import goods. Violence was also escalating in the central provinces of the country, which cut off communications and supply routes from the north and center of the country. Both the economy and the political violence had a significant impact on client businesses.

Organizationally, many of our operating contracts, that is, branch leases, core banking software, etc. were pegged in dollars and euros but paid in meticaís at the invoicing date exchange rate. All expenses suddenly tripled. We did not incur losses, but we did not grow as fast as we wanted to. We had to defer projects like branch expansion and acquisition of IT hardware.

The deteriorating macro-economic fundamentals, along with the non-performance of two major banks, caused the central bank to increase minimum capital requirements. Initially, the central bank had indicated that the new capitalization requirements would rise to Mt 500 million from Mt 70 million, so the board made plans to meet that requirement within three years by forgoing shareholder dividends and using retained earnings. Then, in April 2017 the official decree was issued that the capitalization requirement would become Mt 1.7 billion (US\$26 million). Because of this requirement, the board took a decision to downgrade Socremo's license from a full commercial banking license to a micro-bank license. Socremo can still do almost all financial services except for forex business.

ABF: What is the outlook for Socremo?

TM: We are surviving and looking at a better future.

ABF: Did the Africa Board Fellowship have an impact in your response to this situation?

TM: Without ABF, I might have panicked more at the board level but, because of ABF, I was able to take the economic and regulatory issues in stride and took the time needed to discuss all the options and appropriate responses with the board, and to engage all of the shareholders. I am now well-equipped on governance best practice and can lead the board with confidence.

I have been following a couple of discussions on the virtual platform closely – related to technology cost, risk appetite and also staff retention. Technology is a challenge for institutions of our size because we are not resource-endowed as big commercial banks, and the IT products offered are very expensive. The discussions around staff incentives and retention have also been relevant to our situation. It is hard to compete with the market rates in terms of salary and benefits. We train many staff and then the bigger banks come along and offer them double the salary. We have to keep on training but what can we do to retain staff? We tried to offer staff loans at low interest rates but then faced the issue of what happens to these loans if the employees leave – do you switch the interest rate back to the commercial rate and risk that the loan may go into default?