

# INTRODUCING A NEW AND DISRUPTIVE BUSINESS MODEL FOR HOME LOANS IN AFRICA

Achieving affordability in housing stems from efficiencies in the design and production of housing AND from innovations in the home loans business – the art and science of financing home buyers over a long period of time. The innovations we are suggesting must also be disruptive to the current way of doing this business.

## WHAT DOES “DISRUPTIVE” MEAN?

“Disruptive” upsets the status quo through a novel kind of innovation. Innovation has a positive connotation, especially in the business world. Innovation can be seen to drive growth and create competitive advantages. A disruptive business model can be appropriate and even sometimes needed. This may be nowhere truer than in the home loans business in Africa. It is needed to change an existing paradigm or business model and convert it – or expand it - to one that drives growth.

## TYPES OF INNOVATION

1. **Sustaining:** An innovation that does not significantly affect existing markets. It may be either.
2. **Evolutionary:** An innovation that improves a product in an existing market in ways that customers are expecting (e.g., fuel injection for gasoline engines, which displaced carburetors).
3. **Revolutionary (discontinuous, radical):** An innovation that is unexpected, but nevertheless does not affect existing markets (e.g., the first automobiles in the late 19th century, which were expensive luxury items, and as such very few were sold).
4. **Disruptive:** An innovation that creates a new market by providing a different set of values, which ultimately (and unexpectedly) overtakes an existing market (e.g., the lower-priced, affordable Ford Model T, which displaced horse-drawn carriages).

Disruptive innovation is not “breakthrough innovation” which makes good products a lot better. Rather, it

transforms a product and makes a product much less expensive, simpler, more affordable and accessible. Often, the change occurs quickly, even overnight. It makes the product – the home loan - more accessible to many more people and has the effect of democratizing home ownership. Disruption occurs at the low end of the market, not at the high end of the market.

In just about all countries of Africa, there are housing deficits and they are growing, not reducing. The populations are young and household formation is growing fast. The need for affordable, quality and resilient housing is clearly there and becoming more imperative. Yet nobody has devised a solution that works. That is because bankers and policy makers cling to an old business model that will never solve the housing deficit problem.

We are offering a solution through disruptive innovation. The existing home loans model relies on high margins and low volume. We offer low margins but with high volume – matched by high volume of home building. We propose to achieve high volume of home lending while lowering operating costs at the same time. In a short period of time, our competitors in the banking field will rise to the challenge, primarily because they will see this vision and understand the opportunity for higher returns on invested capital compared with existing modes of operation.

Innovation in the home loans business comes about through emphasis on the following five factors:

- a. Volume is King.
- b. Customer Service is King.
- c. Credit Quality is King.
- d. Utilization of High Technology is the bridge from one King to Another.
- e. Holding a mortgage portfolio is an inefficient use of precious capital for a lender.