

ENTREPRENEURS

MITCHELL ELEGBE

Spreading Tentacles Across Africa

As a precocious trainee, Mitchell Elegbe identified the opportunity to transform electronic payment processing in Nigeria's financial sector.

BY CHARLES IDEM



Observing Mitchell Elegbe, the founder and chief executive of Interswitch, it's hard to believe that his first encounter with an automated teller machine (ATM) left him feeling intimidated.

Before he led the technological development of Nigeria's financial sector by pioneering transaction switching among Nigeria's financial institutions, his card was seized by an ATM on his first attempt at using the machine.

The incident occurred while he was an expatriate in Scotland, at a time when technological innovations like the ATM did not exist in Nigeria.

Elegbe developed the idea to create the system infrastructure that would enable electronic payments in Nigeria while working at his first job where he was involved in a project to implement SWIFT—the network for global interbank financial telecommunication—for Nigerian banks.

He quietly nurtured the vision to establish an electronic payment system in Nigeria while charting a course for his fledgling career. On his return to Nigeria, Elegbe was employed by Telnet, a telecommunications company he had worked for before he moved abroad. He successfully pitched the idea of the transaction switch to his boss and was authorized to execute it, but the process did not go according to plan.

"I started by trying to sell the software for switching to traditional players. Most of them were not interested. I thought if I created an organization that would buy the software, I could meet my targets."

"We would get some other person to run that organization because I could see it was going to be a very viable business. So I went about creating Interswitch."

Elegbe and his team were able to get the assistance of Accenture in establishing the company. This was instrumental in getting local banks to put down a portion of the start-up capital. However, they faced a challenge with finding an experienced CEO to run the company.

“All the CEO’s we could get were expatriates and what they wanted to earn was more than the entire capital of the company. Somebody in Accenture said ‘Mitchell it was your idea, why don’t you go run it.’ For the first time I thought about it. I had just left school; I would say I became CEO of Interswitch four years after I finished NYSC (compulsory national service) and I didn’t really have a lot of experience. But somehow the shareholders and my former company were willing to take that risk.”

Despite the fact that the company was built on his idea, Elegbe began life at Interswitch as an employee with no shareholding. His priority was not ownership of the company, but rather to see out the execution of what he believed was a brilliant idea.

“I wasn’t fixated on being the one to run it, neither was I fixated on having a majority shareholding or even having any shareholding. I was just happy to see the idea blossom, and that my company, Telnet, got the value that I had promised would be created if they went in this direction.”

Elegbe’s stellar leadership of the company eventually earned him and his team stakes in the enterprise. With the benefit of hindsight, he is convinced that his decision to forgo ownership of the company at inception was the correct and had a significant impact on the company’s stable growth in its early days.

“I was willing to let go of the whole business and I think it was one of the best decisions we took because from day one Interswitch was never run like a typical one-man business. A formal structure was in place; the vision being delivered meant more to us than how much money we were going to make from the business.”

In 2004, Interswitch won a gold medal for innovation at the Computerworld Honors, an international award program which recognizes individuals and organizations whose achievements in ICT have impacted society.

Before receiving the award, the company had seven local banks on its network. Thereafter, the number increased to 13, and the first set of non-banks, including an ATM consortium and Globacom, a mobile telecommunications provider, were added. Today, the company has almost all Nigerian banks and 11,000 ATMs on its network.

Eight years after it was set up, Interswitch’s shareholders reached a decision to tweak the ownership model of the company. With the company valued at over \$170 million, a private equity deal was structured and two-thirds of the company was sold to a consortium.

The equity injection bolstered Interswitch’s balance sheet and paved the way for it to begin realizing its ambition for the continent, which was soon reflected by its acquisition of Bankom, Uganda’s leading transaction switching company. Elegbe points out that an expansion across Africa is a no brainer.

“You see a lot of players in Africa transcending more than one country and if you want to remain relevant you need to be able to provide a similar service. In Nigeria we do business with large organizations that have aspirations to expand to other countries. We discovered that the infrastructure they use in Nigeria to make payments seamless for their customers is not available in other countries. Interswitch sees that as an opportunity to tap into,” he says.

“Southern Africa is quite developed and so chances are that any payment infrastructure you need to have in those markets already exists. But in West, Central and East Africa, there is still room for development, so we felt we should begin to spread our tentacles across these regions.”

Elegbe believes there are significant opportunities for the integration of the financial systems of countries in sub-Saharan Africa, despite the differences in technology and the states of readiness of the markets.

“Opportunities are huge, but they vary from country to country. Not all countries are at the same state of readiness, so even though country A could be bigger in terms of opportunity, country B may be more ready, despite being smaller. For example, we have a joint venture with the Central Bank of The Gambia and some other banks to replicate a national payment infrastructure in that country with Interswitch acting as management contractors. Gambia is not a very big country but it was ready. The central bank was very focused and wanted this to happen,” says Elegbe.

While agreeing that there is significant scope for growth on the continent, he recognizes that there are challenges for payment switches in markets that lack the volumes required to achieve profitability solely based on the market factors.

“Payment is a game of volumes. So you have what I call a chicken and egg situation; you need the infrastructure to see the volumes to sustain itself. No serious shareholder will want to invest in the market where in two to three years they will not begin to see some returns on their money. Unfortunately, some markets cannot give you that return within this period,” he says.

“We are now looking at a concept where Interswitch needs to be able to approach certain donor agencies to make a case for payments in Africa to be handled from a not-for-profit perspective based on the developmental impact of payments. There is a strong argument for organizations that make money available for social projects to consider payment as a social project worthy of grants to grow payments in some of these countries.”

Nonetheless, Elegbe is confident that prospects are bright for the business across the continent.

“There is no market in Africa today where if you have a first mover advantage you won’t do well as a payment switch. The opportunities are huge.” 