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FSD Reviews

DRIVING CHANGE THROUGH TECHNOLOGY: THE POSTBANK EXAMPLE

A customer at a Postbank banking hall in Nairobi.

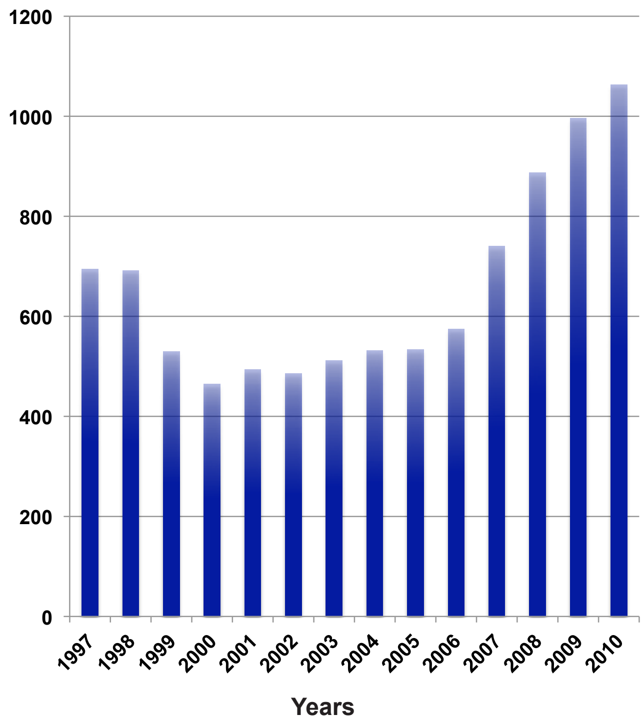
INTRODUCTION

"You are finally a real bank."[1] This quote from a customer exemplifies the deep change that Postbank has undergone, moving from an antiquated passbook system into the modern world of cards and point of sale devices. It has been a challenging journey, both internally and externally. As Postbank has sought to professionalise within, the competitive landscape without has changed dramatically. Postbank has had to run at marathon speed to remain relevant to customers in a fundamentally different Kenyan financial sector, and it has survived aided not only by its adoption of new technology, but also by a fundamental cultural change within.

MARKET

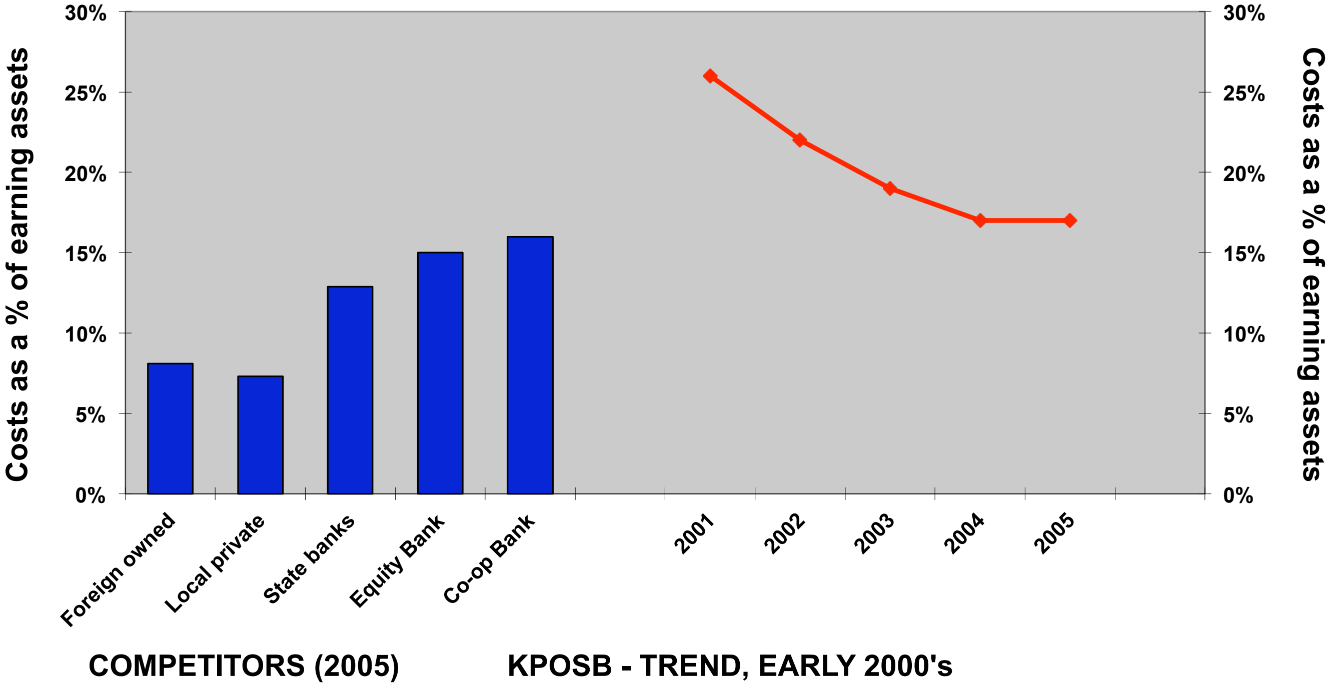
The changes within the Kenyan financial sector have been unprecedented in the last 10 years. The number of bank branches has mushroomed from 494 in 2001,[2] to 1,063 in 2010, with most of the growth concentrated in the past 4 years. There have been new entrants, in particular, M-PESA, a mobile money transfer service, that was launched in 2007 and is now a verb in Kenya. Within four years, M-PESA has grown its agent network to almost 30,000, and currently transacts an amount equivalent to 10% of the country's GDP

Figure 1: Number of bank branches



1 This quote, and other quotes in this document, were collected by Wright and Mugwanga in 2009, in the unpublished report, Kenya Post Office Savings Bank's Implementation of the New Business Model.
2 Central Bank of Kenya Annual Supervision Reports 2001-2010.

Figure 2: Trends in Kenya Post Office Savings Bank (KPOSB) cost ratios compared to competitor ratios in 2005



each year. New regulations for non-bank microfinance institutions have led to several transforming into regulated financial providers. In addition to this, several commercial banks that were previously not paying much attention to low-income consumers have started to go down-market. Despite such intensity of competition, formal financial inclusion has experienced steady rather than exponential growth - increasing from 19% in 2006 to 23% in 2009. There is still a large untapped market for basic savings products for the millions of adults who are unbanked yet claim they are saving at home or with friends and family.

STRATEGY

Postbank's traditional business processes were built on the passbook. The paper-based system which supported this was slow, prone to human error, and required a massive annual reconciliation process that required customers to surrender their passbooks so that interest charges could be calculated and updated. Postbank had been reducing its costs relative to its earning assets, and was now close to competitors in the financial sector; however, these gains had bottomed out by the middle of the decade.

A pilot of the Bidii card-based product and the realised benefits from an internally managed computerisation project to improve back-office operations indicated that the way forward would be card-based and technology driven. By 2005, other banks were rolling out card and payment devices throughout Kenya. Postbank realised that this was the moment to launch a New Business Model (NBM), centred on low-cost electronic transactions based on debit/ ATM cards and Personal Identification Numbers (PIN) instead of passbooks. Customers would be able to access their accounts across the entire Postbank branch network, and through other third party agency outlets linked to the centralised computer system. All branches were to be equipped with POS terminals which would be linked to headquarters in real-time, and ATMs would function on a 24 hour basis. Furthermore, the NBM would improve operational efficiency, as many back office functions would be eliminated.

DRIVING CHANGE

As a government-owned institution, yet mandated to operate within a competitive financial environment, Postbank faced its first formidable challenge. The initial strategy review conducted by external consultants concluded that *"there is a widespread scepticism in KPOSB on the internal capacity to implement change. This scepticism no doubt arises from a lack of implementation and project management skills, weakness in change management and leadership capacity and some hostility to change".*

There was foot-dragging from within, as it was clear that computerisation would reduce the number of back-office functions that required human intervention, and would therefore reduce the number of jobs. However, many staff also realised that the new competitive environment posed a real risk to the long-term future of the bank, as customers drifted off to try new product offerings elsewhere. The Managing Director noted, *"Everyone saw the danger signs."* As in any institution facing dramatic change, there was a core of resistance – from staff who preferred the status quo based on manual paper trails, and a dwindling set of customers who loved the security of having their bank account balances stamped in a book with a verifiable audit trail in plain sight.

This challenge needed an attack plan, and the solution was the implementation of a professional project management approach that would ensure technological success, and that would incorporate a communications strategy that prepared staff for the changes ahead.

THE CHANGE MANAGEMENT PROCESS

The starting point was the already agreed Postbank Corporate Strategy (2005 - 2007). The purpose of the New Business Model was therefore to turn strategic goals into a practical reality by cascading responsibility for implementation to individual business units and support functions, and then monitoring the business performance against expected strategic benefits.

A visionary leadership within Postbank strongly promoted the process of change management. They were supported by a committed donor, the Financial Sector Deepening Trust, which funded the external project management consultants. After rapid endorsement of the new strategy by the Board, a Steering Committee headed by the Managing Director was put into place. The committee was responsible for overseeing the implementation of the NBM, including managing risks and key project issues as well as resolving conflicts between project and business-as-usual activities.

A Change Manager was recruited from a commercial bank with a clear reporting line to the MD's office. To assist in implementing change, a team of change agents and functional specialists were appointed as members of the various workstreams. These workstreams were headed by managers and reported to the Steering Committee. The Steering Committee included senior managers and the workstream heads from all administrative, financial and operational areas of the Bank to ensure total buy-in of the change process.

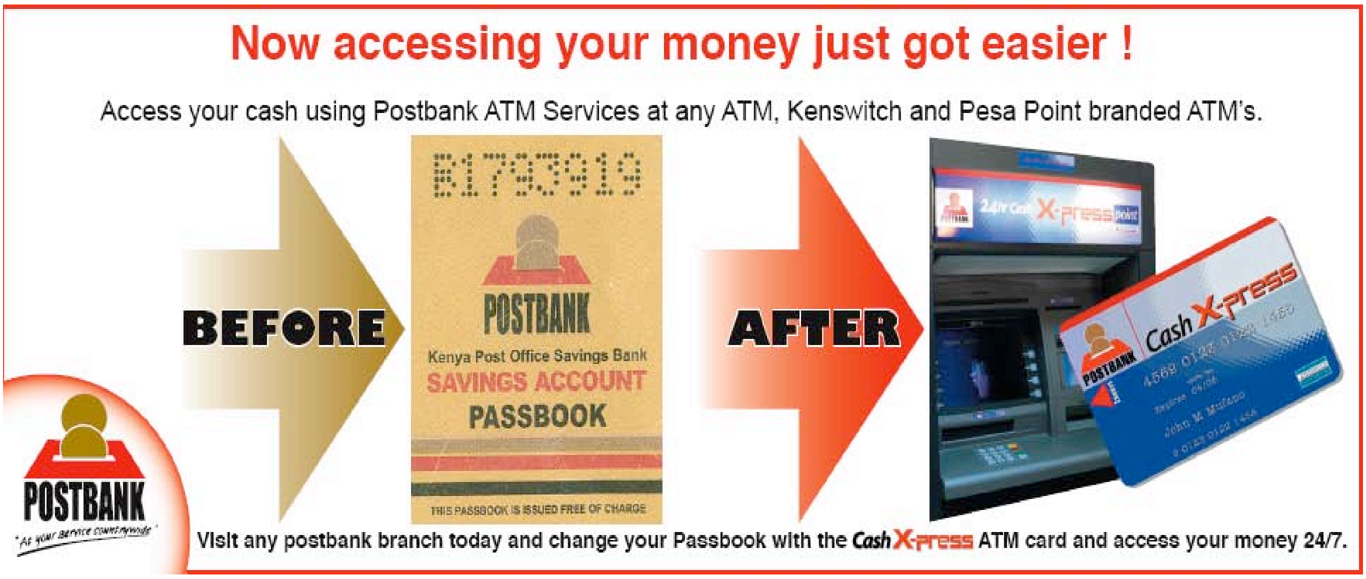
They were supported by change management consultants, who brought invaluable skills based on considerable experience. They understood the technology, advised on procurement, produced detailed project documentation and actively participated in the change process. *"They changed our work culture and ethics through their commitment, hard work and drive ... Each and every one of us was on [our] toes - it was excellent"*, said a member of staff who was deeply involved in the process. As a result, staff began to respect and attempt to meet project timelines in a disciplined way. Procedures for escalating problems were put into place, which meant the chain of responsibilities was adhered to, and issues that required the input of senior management were resolved at that level.

Initially, it was envisaged that the project would take 12 - 15 months to implement. However there were inevitable delays, and in the end the project took 22 months to complete. The reasons for slippage were mainly due to procurement delays. Implemented in 3 phases, the project was completed in October 2008.

ARCHITECTURAL DESIGN

The business model was built on the basis that:

1. All passbooks were to be removed from the bank and replaced with debit/ATM cards and personal identification numbers (PIN).
2. All access to a customer's account bank-wide would be through the card and PIN combination.



3. All KPOSB outlets would be equipped with POS devices, to create in-branch ATMs at a fraction of the cost.
4. Business processes would be comprehensively re-engineered to accommodate the new technology.

Various alternatives were proposed in the initial design, whether to:

- Validate the card PIN Number locally at the POS or at a single centralised server;
- Have the bank issue the PIN Number or to let the customer select one;
- Open accounts at all service outlets including agent locations or only at Postbank branches; and,
- Issue a VISA branded card or launch a proprietary card.

The final design was reached after considerable research, discussion and experiment, and can be described as follows:

1. A centralised PIN verification was chosen over POS terminal verification to reduce operational risks as well as allow interoperability with other electronic transaction processing networks.
2. A customer selected PIN was preferable to increase the likelihood that the customer would remember their number - a critical point in the process would be weakened if the customer wrote the number down instead.
3. Account opening is only possible at Postbank branches, and is immediate; this again reduces operational risks and ensures the bank can meet KYC regulatory rules.
4. A proprietary card was chosen as it was cheaper to implement and to deliver; Visa offered no additional inherent benefit for the majority of low-income Postbank customers.

SETTING UP TEAMS

The project was viewed as a business project - not one driven or controlled by IT - and therefore it was imperative that the workload be spread across the bank. In addition, this would encourage widespread contribution and build ownership. The project was therefore broken down into distinct areas of specialisation and accountability - designated 'workstreams'. Each workstream had a sponsor (a senior manager or member of the executive team) as well as a workstream head (responsible for day-to-day management of workstream tasks).

COMMUNICATION

The project required a clear and consistent communication strategy to ensure that staff understood what the project was about and why it was necessary. In particular, it was important that staff recognised that without change, the institution's survival itself was at risk.

Staff meetings and training sessions also kept staff abreast of what was happening. In addition, the MD issued memos to staff at key moments to emphasise the importance of the project. The PR department also released project newsletters on a regular basis.

PROCUREMENT

Procurement was managed through various stages, starting from the expression of interest through to contracting. For the first stage, KPOSB advertised in national newspapers to elicit expressions of interest from potential providers. A bid document was sent out to all who expressed interest, detailing the criteria for pre-qualification in accordance with international best practices.

A card being swiped for customer details at a Postbank POS terminal.

This was followed by a Request for Proposals from the shortlisted vendors on various options:

- Option 1: Bank Owned POS Terminals and Switch.
- Option 2: Fully Outsourced POS Terminals and Switch.
- Option 3: Outsourced Switch and Bank owned POS Terminals.

The bids were subjected to an internal evaluation process out of which an eventual winner was selected from the shortlisted bidders.

BUSINESS PROCESS RE-ENGINEERING

This involved a review of all the bank's core business processes and developing a revised Business Model and supporting ICT infrastructure.

The key activities and deliverables entailed:

- Identifying and mapping existing core business processes.
- Developing new core business processes & structures to integrate with the new card delivery channel.
- Creating new operating manuals to facilitate consistency of service delivery.

An example of a re-engineered process - end-of-day reconciliation

Objective of process

- To ensure that every cashier has balanced the money received from the senior cashier at start of day with that paid out to and received from the Customers.
- To validate the day's transactions posted into the Symbols Branch Teller System so as to ensure that they are correct.
- To authorise the transactions carried out in the off-line branches.
- To back up the transactions carried out in the stand-alone terminals in the off-line branches.
- To upload transactions captured in the off-line stand-alone terminals in the regional office into the on-line Symbols Host System main server.

Changes in the designed process

- Each point of sale terminal (POS) will have an account created in the Symbols Host System. This account is manually credited when the cashier is given cash by the senior cashier and it is automatically updated throughout the day as customers transact. The senior cashier is able to view the accounts in the banking system to see how much cash each cashier is holding for products captured via the POS terminals.
- By introducing the POS terminals, capturing errors of the transactions will be eliminated. The only possibility of an error is loss of connection between the banking system and the switch during a transaction or giving the customer less or more money. This will make reconciliation easier and save time.
- All reversals will be carried out in the POS terminal without completion of the journal entry forms.
- The senior cashier will pass entries for excess cash on the POS terminal to avoid completion of miscellaneous receipts.
- The banking system will automatically update the accounting system with the balances hence there is no need to complete the cash book and the daily summaries.
- The senior cashier updates a report that indicates the shortages and excesses that are made by the cashiers and keeps a track record of the cashiers' excesses and shortages. This report is then viewed on-line and updated accordingly by the authorised persons.

Using a method of developing 'As-Is' maps (showing how the existing process then worked), and redesigning them into 'To-Be' maps (showing desired improvements such as single data capture, minimal authorisations), a total of 60 core processes were re-engineered. The key guiding principles for this exercise were: (a) design for the optimal, best possible solution (b) automate wherever possible (c) only capture data once (d) minimize multiple authorisations. This resulted in reductions in the number of documents, the number of activities/steps and processing time.

The redesigned process illustrated above demonstrates some of the benefits of business process re-engineering. It helped Postbank identify steps in processes that were error prone or time-consuming. In the case of end of day reconciliation these included manual cash reconciliation, completion of manual journal entry forms, updating transactions to the accounting system and reporting on cash shortages and excesses.

The outcome of BPR was to dramatically improve productivity, which in turn led to an opportunity to reduce staff costs. At the end of the NBM implementation, Postbank began a process of organizational right-sizing. Using human resource consultants, Postbank applied a methodical approach that involved reviewing the new skills the organization needed, assessed the skills existing staff had, and attempted to match them. The move away from manual processing to a computerized system meant there were some staff members who no longer had the skills Postbank needed, nor were they able to acquire the new skills required. In January 2010, the bank implemented a voluntary staff retirement scheme that saw the exit of 300 staff as a result of the enhanced efficiency.

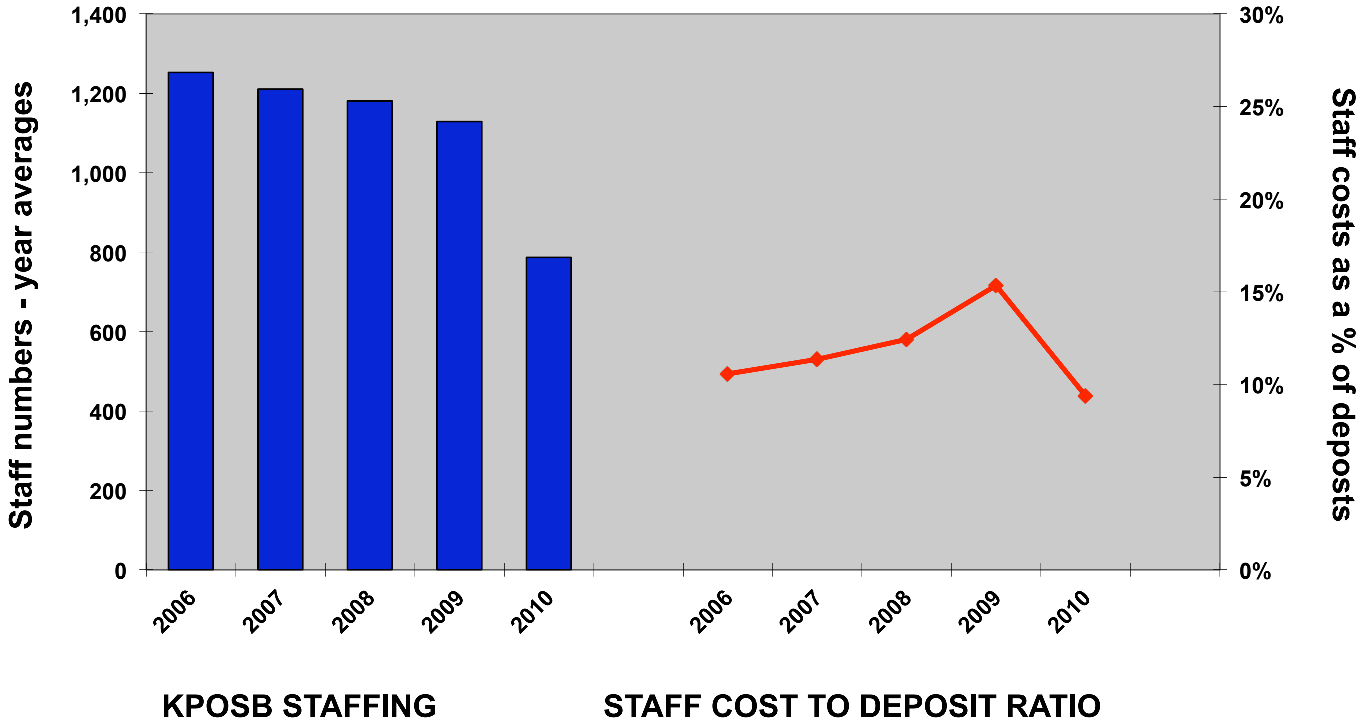
PROJECT CHALLENGES

The project faced various challenges during implementation, including the following:

- Procurement required considerable time and effort. Some of the equipment ordered was delivered late.
- The delays in equipment delivery were sometimes due to the need to re-specify the hardware required, as the models available at the time of supply were sometimes different from the models selected at the time of bidding.
- There were some instances when the resolution of issues arising from the user acceptance testing was significantly delayed.
- The documentation required to support the implementation was sometimes not available on time or when they were, needed further improvements.
- Internal pressures on staff time meant that key people were sometimes not available when they were needed.

Staff were able to address these challenges as they arose so that the main objectives of the project were met.

Figure 3: Staffing and staff costs relative to deposits since 2006



MAIN ACHIEVEMENTS

The magic of instant card issuance

The Managing Director says *"We analysed the pain points for our customers, and noted that speed of service was the key".* During the pilot of a card project, Postbank realised that many customers were not picking up the cards they ordered. Card production took between 2-4 weeks at the time. Therefore Postbank developed a system for issuing cards on the spot. It now takes 5-10 minutes for a customer to open a bank account, be issued a card, make the initial deposit and walk out of a branch.

The system uses anonymised cards with pre-issued numbers that are attached to the customer's new account in two steps: first, the customer relations officer handwrites the customer's name and account number in permanent ink; next, the teller links the new customer account with the card number and allows the customer to select a PIN number at the POS terminal.

Staff capacity to implement projects

The project is widely judged as a success, throughout the bank as well as by its key stakeholders. Staff have been able to build on the experience to implement additional projects with the same meticulous attention to detail that was used in the NBM project. Postbank's transformation was later recognised by the government and other stakeholders. It is in this regard that Postbank

A queue outside a Lesotho Postbank.

staff have been assigned to talk to other state institutions on successful implementation of the transformation process. In addition, Postbank is now assisting Lesotho Postbank to implement such a project on a south to south cooperation approach under the WSBI/Gates Foundation project of doubling savings accounts in order to bank the unbanked.

The establishment of a new retail channel

The NBM set the foundation for the rollout of a new retail channel based on agents. Having piloted the approach in 2009, Postbank has embarked on an initiative to extend its agent network. As at December, 2011, it now has 315 agents across the country.

A reduction in operating costs

The NBM has made it possible for Postbank to start to drive down its costs. Changes in the law that made it illegal for commercial banks to charge customers with savings accounts put pressure on Postbank to do likewise. Consequently, it stopped levying ledger/maintenance fees to remain competitive; this had an immediate impact on its income, so the full cost-reduction effects of the NBM were dampened.

A Postbank customer presents his card for service at a POS terminal.

Figure 4: Total costs and total costs relative to deposits since 2006

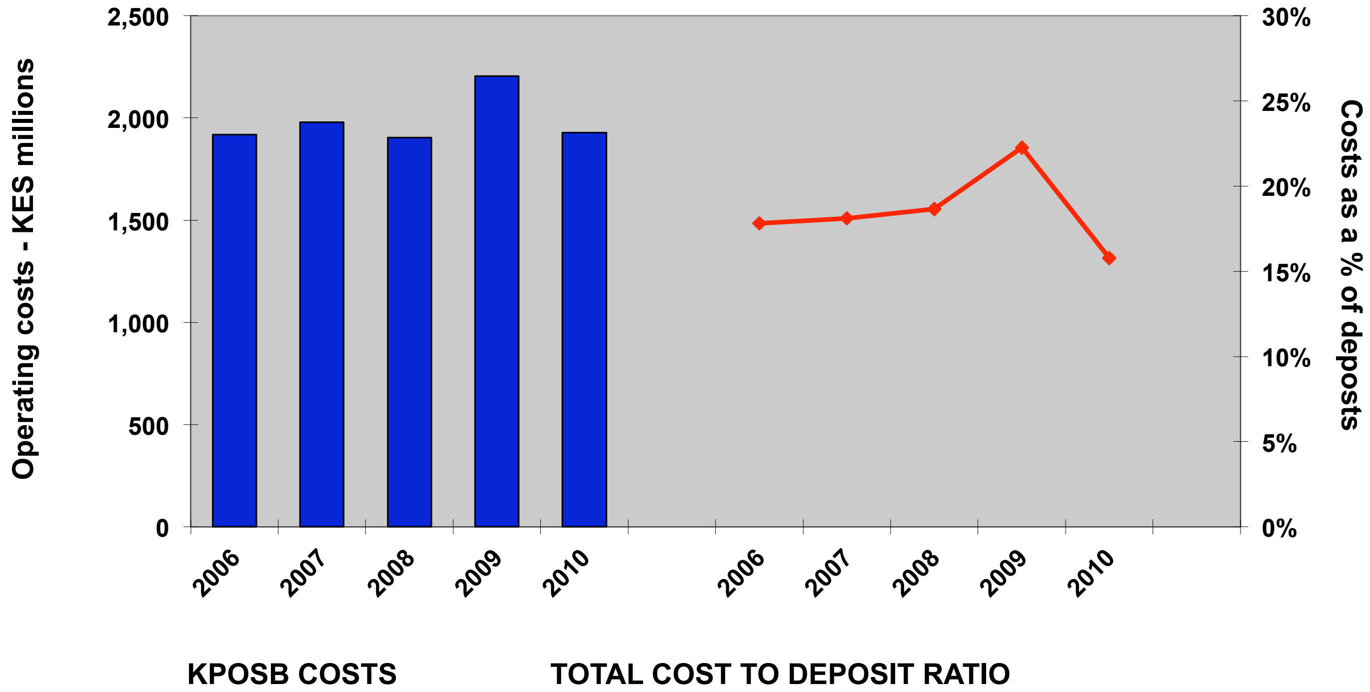


Figure 5: Total income and total income relative to deposits since 2006

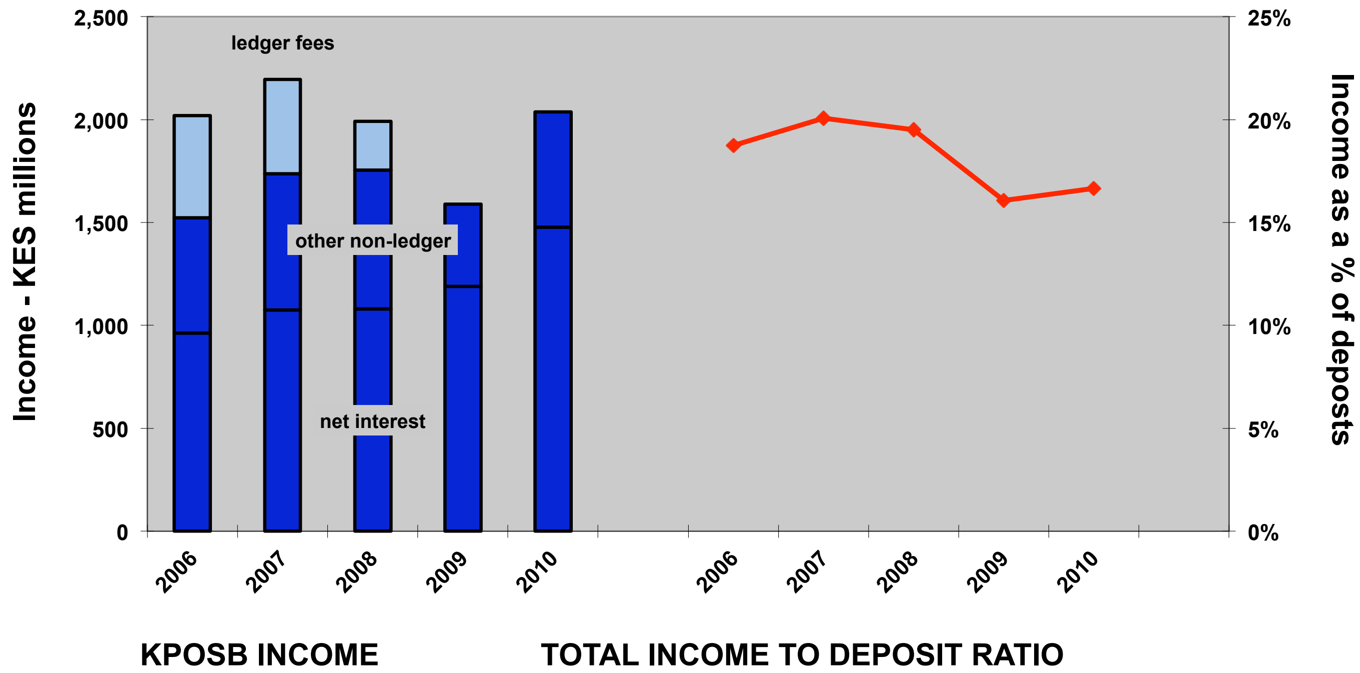


Table 1: Financial summary 2005-2011

Item/Year	2005	2006	2007	2008	2009	2010	2011*
Total Deposits (KSh millions)	10,763	10,783	11,089	9,342	10,463	13,415	17,744
Total Net Income (KSh millions) after deposit interest and bad-debt charges	**1,943.9**	**2,124.6**	**2,213.5**	**2,005.2**	**1,616.9**	**2,055.5**	**1,971.8**
Direct & Indirect Costs (KSh millions) excluding deposit interest/bad-debt charges	1,806.6	1,952	2,023	1,934	2,232	1,948	1,827.4
Net Profit (KSh millions)	**137.3**	**172.2**	**190.9**	**71.1**	**(614.7)**	**107.5**	**144.3**
Expenditure/Income Ratio (%)	93	92	91	96	138	95	93

* Unaudited final year results

LESSONS LEARNT

Four things worked particularly well.

Dedicated project manager

The first was the use of a dedicated project manager, which meant that there was one person whose sole responsibility was to ensure the project was implemented well, and on time. The project manager's responsibilities included cajoling the workstream heads into meeting their stated goals, as well as identifying key blockages to project progress and dealing with them directly, or escalating them to senior management for immediate action.

Demonstrated leadership commitment

The complete and utter commitment of the Managing Director as the project sponsor and the team leader to the project and the sense that it was a make-or-break project for the bank also helped the teams to focus on the tasks at hand. The project goals were included as key responsibilities for the team, and their achievements became part of how their performance was measured.

Collaborative competition culture

Branches were grouped into regions, and regional staff formed teams. During the test period, each regional team developed a team brand based on an animal. The tests were designed to nominate the best performing team, and this got members working extremely long hours to beat the competition and ensure they got their region up and running. This fostered a culture of collaborative competition across the bank, where branches attempt to outdo each other, yet all work towards the common goal of providing mass-market accessible banking for Kenyans.

Immediate measurable gains

Although some of the project goals were longer term, there were some immediate gains, which were obvious to the implementing team. The immediate project benefits were those associated with the new and efficient

A customer care official attends to customers at Postbank head office, Nairobi.

operating model such as paperless banking, instant issuance of debit cards and the re-engineered processes that eased the time taken to accomplish many of the bank's internal processes. In the medium term, the bank has managed to open new branches and implement new products and services without the need to increase its human resource base.

OPPORTUNITIES

Targeting a neglected market segment

The authors estimate that there are 8 million financial-decision making adults who were currently unbanked. This remains a significant untapped market of typically low-income earners that are potential customers for the mass-market low-cost banking product that is Postbank's forte.

Strengthening the agency delivery model

Postbank is still learning how to grow and brand its agent model. It has responded well to lessons learnt about incentives for agents, and has sought to standardise its agent recruitment and management processes. There will be great benefits in leveraging the agent model to recruit new customers, and the bank is testing interesting new approaches to doing so.

Extending reach on a mobile-based delivery channel

The impact of mobile telecommunications in Kenya has been significant. There were 22 million active mobile phone subscriptions at the end of 2010, ensuring that 3 out of 4 Kenyan households own a phone, and 9 out of 10 have access to a phone.[3] An obvious way of expanding financial inclusion is to provide financial services to unbanked households through mobile phones.

The future

Overall, the project enabled the bank to go through a significant organisational culture change, and in the process revolutionised its productivity. In this way, the bank has set the stage for being able to hold its own in the challenging competitive environment which exists in Kenya's financial services industry. We expect to see Postbank continue to find ways to build on its new 'Can-Do' culture and pursue innovative ways of increasing financial access, especially for low-income consumers.

A Postbank agent in Kawangware, Nairobi doubling also as an M-PESA agent. There will be great benefits in leveraging the agent model to recruit new customers, and the bank is testing interesting new approaches to doing so.

[3] Source: Kenya Economic Update, World Bank (December 2010).

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The Kenya Financial Sector Deepening (FSD) programme was established in early 2005 to support the development of financial markets in Kenya as a means to stimulate wealth creation and reduce poverty. Working in partnership with the financial services industry, the programme's goal is to expand access to financial services among lower income households and smaller enterprises. It operates as an independent trust under the supervision of professional trustees, KPMG Kenya, with policy guidance from a Programme Investment Committee (PIC). In addition to the Government of Kenya, funders include the UK's Department for International Development (DFID), the World Bank, the Swedish International Development Agency (SIDA), Agence Française de Développement (AFD) and the Bill and Melinda Gates Foundation.

Government of Kenya

UKaid from the Department for International Development

THE WORLD BANK

EMBASSY OF SWEDEN Nairobi

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