

MicroSave Briefing Note # 147

Rebuilding A Bank - Case Study of OK Bank

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Opportunity Kauswagan Bank is a quiet but interesting turnaround story in-the-making that highlights the case for strategic rethink as the recipe for success. The bank, which was struggling to survive a few years ago, has set its course to turnaround, largely based on its strong, clear, and precise strategy.

OK Bank, created as an outcome of merger between Opportunity Microfinance Bank (OMB) and Kauswagan Bank (K Bank) faced challenges on several fronts, primarily achieving a positive financial bottom-line. High operational costs were proving not only a hindrance to achieve breakeven, but also contributed to unrealised targets for individual and MSME loan client acquisition as a substitute for lost business arising from the strategic decision to move out of group based lending.

The underlying factors for these challenges were:

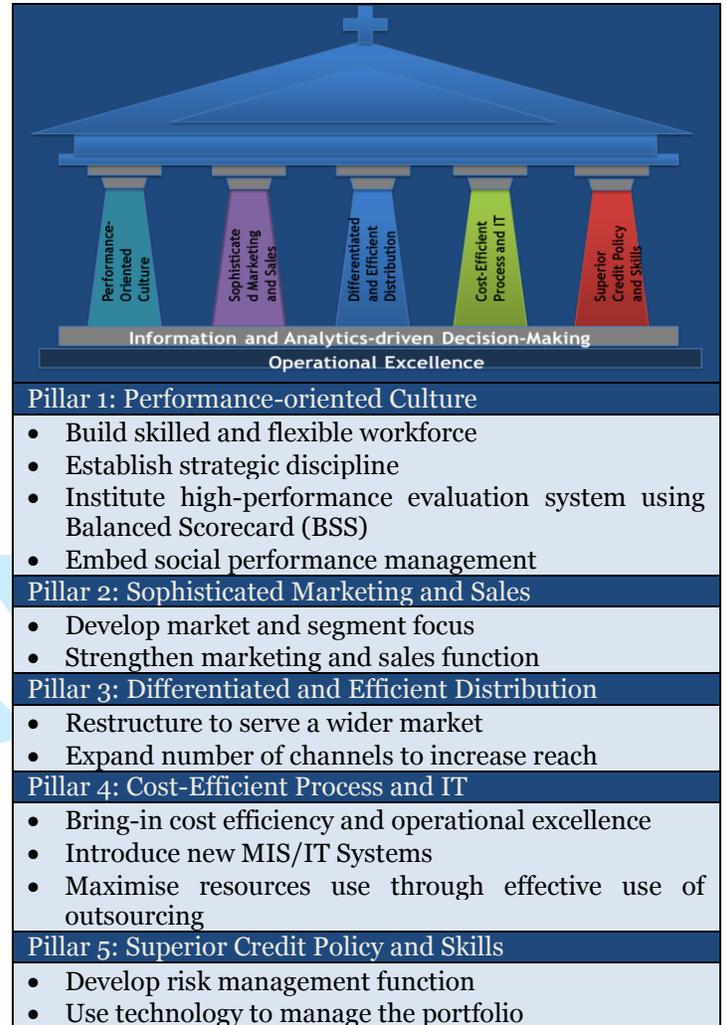
Financial management: 58% of assets were funded through public deposits and rest from borrowings and capital. The bank had to rely on high-cost borrowings to fuel its growth. While augmenting public deposits was critical to turn the bank around, lack of public trust due to losses, instability and poor visibility, meant that mobilising low-cost public deposits was a real challenge.

Systems and processes: Weak systems and processes led to over-manned support departments and poor customer responsiveness.

The combination of poor financial management and inefficient systems had led to a vicious cycle of the bank struggling to generate public deposits with an eroding brand image and thus having to source funds at high cost.

Strategy as an institutional culture

Clearly the bank needed a shift in strategy and greater clarity in the formulation and implementation of that strategy. The new strategic approach focused on expanding business while developing efficient systems and procedures (front and back-end) and assigning strategic-level importance to branding. Thus began a structured approach of building the brand on a foundation of trust and stability, and on the strategic value discipline of operational excellence. With support from *MicroSave*, the bank commenced restructuring its systems and organisational structure, and building and motivating the team to achieve its new vision. The emphasis was to shift the bank from its unclear market position to one as “the only microfinance bank with operational excellence”. OK Bank’s strategy is based on five strategic pillars built on a cross cutting theme of operational excellence:



OK Bank ensured that the strategy formulation was a confluence of top-down and bottom-up approaches. The strategy thus articulates the institution’s core values and culture and not just the vision of few people in the bank. *MicroSave* engaged in continuous discussion with the senior management team to detail-out and achieve granularity of the strategic plan and the action plans to implement it.

Institutionalising strategic thinking and discipline as part of organisation culture became top priority, and this under-pinned the development of strategic business plans for each functional group. Bank-wide and departmental strategic workshops led to clear and unified strategic thought process articulated as a robust strategic business plan. *MicroSave* conducted a series of sessions with the Business Development, IT, Audit and Compliance, HR and

Administration, Finance and Accounting and Marketing groups to develop their individual strategic plans for 2013-2015. In line with the changing external and internal environment, another iteration was conducted to finalise the 2014-2016 Strategic Plan.

The core strategy

In order to achieve market leadership, OK Bank identified four strategic determinants to improve the bank's financial and overall social performance:

1. Building a viable brand and being a preferred service provider in two key market segments
2. Developing a culture of continuous improvement in order to achieve lowest cost among peers, while keeping acceptable products and service quality
3. Leveraging technology and efficient processes to understand and address the needs of target clients for simple, lower-cost financial services
4. Achieving superior credit management through technology

The operational challenges that bank needed to answer tactically were:

Competition: Can OK Bank survive competition and market consolidation?

The bank decided to develop a competitive strategy built on operational excellence. In the medium-term, the bank aspires to be known for its superior price-to-value financial services. The focus is to counter the emerging trends of banks going down market with better products and MFIs with better customer intimacy.

Market: Can OK Bank customise its services and products on the basis of varying needs of different market segments?

Niche market segments have different needs that are well serviced by specialised financial institutions. The bank planned two distinct type of customer outlets with highly specialised services and customised products – Red and Blue Bank. The bank calls this as “One Kitchen and Two Restaurants” strategy. While the Red Bank is for economically active working poor, the Blue Bank would serve aspirational middle class. Thus, the bank will serve two underserved segments.

Institutional capacity: Does OK Bank have the institutional capacity to carry out its plans?

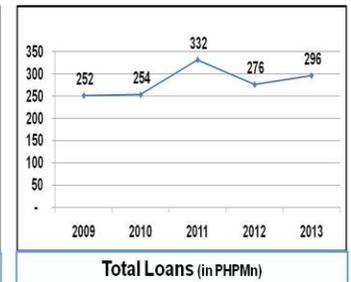
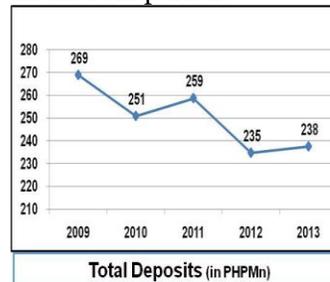
The bank has a well-laid out plan to develop its internal capacity in the following way:

1. Hire high capacity professionals to develop a strong second line management team
2. Build a brand that epitomises trust and best price-to-value products and services
3. Strengthen systems and processes

Progress so far

The journey to achieve the strategic intent is nothing but tough. Nonetheless, guided by a clear vision and business strategy, the bank has achieved success on several fronts.

Competition: The bank has developed products, services and processes with the core theme of operational excellence. Thus with continuous strive to achieve improved processes, it is expected that within a year, the bank will achieve its vision of operational excellence as its competitive advantage. The results of strategy are visible in results of 2013. As compared to the past year's performances there is a 7% increase in total loan disbursement. The bank was able to maintain its deposit in the said period.



Market: The bank has already identified the two market segments, their needs and requirements. Based on the extensive research, the bank has developed asset and liability product concepts which will be launched in 2014, with introduction of two retail formats of the Red and Blue Banks. The bank is also building a marketing function with technical assistance from MicroSave, which would focus on achieving product profitability.

Institutional capacity: The bank has been able to reduce its operational expenses by 30% through efficient allocation of resources, cutting down on non-priority expenses and, re-engineering and simplifying processes. Also, the bank is moving closer to implementation of a core banking solution, the most critical step to achieving strong and robust systems. Key senior management have been recruited to guide the bank in the second phase of its turnaround.

Challenges

The journey has just started and it certainly will take the time and resources to effect the turn around the ship. The strategic business plan for 2014-16 identifies the following challenges:

Low cost sources of finance: Though bank has achieved the cost efficiency and thus saved funds that were then used for lending, the bank still requires low-cost fund sources to finance its projected portfolio increase, as well as additional financing to achieve operational excellence through strong systems and processes.

Recruitment and retention of human resources: The bank is going through a change and it is always a struggle to retain human resources especially at the lower levels in the hierarchy. Though bank has initiated several incentive programmes and communication drives, it continues to face the issues of staff turnover at lower levels.