

MicroSave Briefing Note # 148

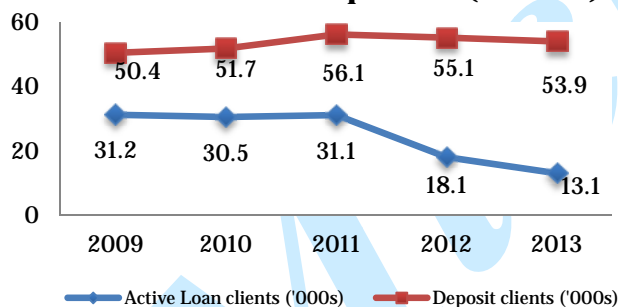
Building Operational Excellence as a Core Differentiator

Anup Singh and Raunak Kapoor
February 2014

Opportunity Kauswagan (OK) Bank was formed through the merger of two banks - Opportunity Microfinance Bank (OMB) and Kauswagan Bank (KB). KB was established to serve the low and middle income (LMI) population and enjoyed a successful start on account of an experienced management team and the strong underlying microfinance operations of TSKI, KB's parent organisation. OMB was another such pioneer in microfinance banking, however the bank was never able to deliver growth and continued to operate with a high degree of dissatisfaction from the clients it served and mounting losses. KB saw a merger with OMB as a strategic opportunity to enhance its outreach and strengthen its capital base (with the assistance of Opportunity International). In October 2008, OK Bank (a microfinance-oriented thrift bank) emerged as an outcome of merger of OMB and KB.

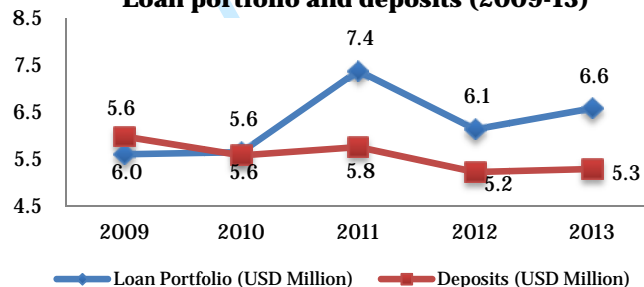
OK Bank started with 50,400 depositors and 31,200 loan clients. In 2009, over 85% of the loan clients were group-lending customers. In 2009, the bank decided to differentiate itself from TSKI by focusing on individual and SME lending. As a result, from 2009 to 2013, the bank experienced a decline in number of customers from 31,200 to 13,100 as group-lending customers were gradually handed over to TSKI.

Loan clients and depositors (2009-13)



While there was a decline in the number of loan clients, in terms of loan portfolio, the bank experienced growth in the period from 2009-13.

Loan portfolio and deposits (2009-13)



In 2012, in a strategic re-think, the new CEO of the bank, Mr. Agerico Agustin, broached the idea of operational excellence as the key differentiator for the bank to outcompete the peers in markets in which they operate. The focus of the CEO was not only to cut costs and boost efficiency to survive, but was hinged on issues far more important than mere survival. The questions to which the CEO was seeking answers were:

- How can the efficiency at operational-level be maximised? and
- Can the funds released as a result of cost cutting be used to fuel new growth?

As a result, the philosophy of operational excellence for the bank was anchored on the design and implementation of efficient operating structures.

Building operational excellence

With support from technical assistance programme offered by *MicroSave* and funded by Opportunity International Australia, OK Bank embarked on a highly ambitious operational excellence programme.

The programme had three primary principles:

- **Efficiency:** With an understanding that more efficient operations were needed, the bank built a culture of cost consciousness. This began with a bank-wide department-level assessment of avoidable costs and eradicating these costs through doing away with such processes/activities. The bank formed a business processes re-engineering function to incorporate best practices, optimise the risk-efficiency trade-off in processes and enable the bank to achieve scale quickly.

To drive cost cutting, the bank looked at the quick wins such as reduction of full time equivalent (FTE) staff at the head office level to 10% of the total organisation-wide FTE and cutting down administrative costs. Also, in terms of streamlining data management, the bank is on its way to implement a new core banking system and deploying an automated credit scoring tool to enhance efficiency and reduce the human errors.

A team from *MicroSave*, led by the Resident Advisor (on secondment) supported the entire mission with review and refinement of back-end processes focused on administration and human resource management department. In our review, we identified gaps in processes such as redundancies leading to duplication of efforts and wasted time, inefficient data management, and delays in turn around of files. The focus was to identify how technological solutions such Human Resources Information System and Workflow

Management Systems can overcome the challenges.

In addition, to assist with the implementation of a credit-scoring engine - one of the major goals of the overall strategy aimed at driving efficiencies in credit delivery systems - *MicroSave* worked closely with OK Bank to develop an expert credit-scoring tool. In order to further enhance the robustness of the credit-scoring engine, OK Bank is currently restructuring the credit-scoring engine to enhance statistical analytics, with support from *MicroSave* and PSR Consulting.

- **Productivity:** The bank developed targets for front-line staff to achieve significant growth in the volumes of loans originated; and conducted a work and methods study to make continuous improvements on the loan origination, appraisal and recovery processes.

10/5/2 sales strategy

The CEO devised 10/5/2 sales strategy for the front line staff. For every loan advisor, for each working day, the targets translated into 10 prospects, 5 field calls, and 2 booked loans per day resulting in PHP. 800,000 in new loan bookings per month per Loan Advisor. These targets, with its mnemonic of 10/5/2 were easily communicated to front-line staff. Thus, loan advisors who would earlier think about their acquisition targets only in the last few days of the month now had a clear vision of how and what they should be doing. This strategy, within 4 months of its launch, helped the bank to achieve the highest-ever monthly disbursement in terms of value and volume in the months of March to August 2013.

One of the steps that had maximum impact was delinking sales from other functions and creating specialised functions such as credit, operations and collections. This move reduced cost of client servicing, made the turnaround quicker, and reduced the risks of operational losses, fraud, and theft. *MicroSave* helped OK Bank to bring in more granularity and detail to the strategic business plan as the bank worked to delink sales from other functions through development of a tactical plan that included a staff hiring plan, key business assumptions, costing and budgeting.

- **Quality:** With an understanding that quality builds the bank's reputation, the bank is implementing a programme anchored on an enhancing customer service experience through continuous improvements on client relationship management. Another area where operational excellence was translated into organisational culture was through the development of the marketing function. The advisory team worked alongside the CEO to build up the capacities of the marketing team through a structured approach that involved design and development of a comprehensive marketing and product development manual. As a result of institutionalising product development and the transfer of skills, the newly trained marketing team tested and translated the

product concepts into prototypes, and eventually into products targeting the two distinct segments identified by the bank.

Impact

The table below shows the tangible outcomes of the strategy in last year, especially on business efficiency and productivity. There has not been significant growth in business *per se*; however, the bank has used this period to streamline systems, to control costs and to improve efficiency. While direct expenses have reduced by 30%, business income has grown over 70%. As the bank nears breakeven scale, it has ambitious targets for both business and efficiency parameters for 2016. The bank aims to increase its business by 3 -4 times from its existing levels and to achieve this with a tight control on cost of delivery.

Performance on key parameters and future projections

Parameter	2012	2013	%	2016*
Deposits (USD Million)	5.2	5.3	2	24.4
Loans (USD Million)	6.1	6.6	8	20.3
Total direct expenses (USD Million)	3.7	2.6	(30)	4.5
Business income (USD Million)	(1.3)	(0.3)	77	1.6
Business income/account	(18.1)	(4.7)	74	12.3
Business income/FTE	(3.2)	(0.9)	73	3.4
Customer net revenue/ expense	0.59	0.85	44	1.35

* Projected

Way forward

The bank has had its fair share of challenges. Operational inefficiencies in the pre 2012 years have left the bank with a dearth of funds for on-lending to complement its operational excellence drive. In addition, the bank has also faced challenges with human resources with growing attrition rates as a result of the difficulties involved in implementing the change management drive. Also, the bank needs to strengthen its top management with experienced professionals who can implement the strategic plan of the bank for 2014-16.

As it has been rightly said *the journey of a thousand miles begins with the first step* and in that context, the management at OK Bank has already taken significant strides, though there is still a long distance to be covered. This would require coordinated efforts of all the stakeholders i.e. management, board, funders and technical assistance partners. The CEO appropriately summarises the on-going efforts: "*Building a franchise on operational excellence takes a lifetime. It is a discipline and not a fad.*"