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Teaching Elephants To Tango:

Working with Post Banks To Realise Their Full Potential

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Introduction

Big Numbers – Huge Potential

MicroSave has been working with Kenya Post Office Savings Bank (KPOSB) and Tanzania Postal Bank (TPB) for seven years now. Building on this experience, this paper looks at the potential of post banks for serving huge numbers of low-income people and the opportunities and challenges for those who seek to realise this potential.

CGAP's paper, "Financial Institutions With A "Double Bottom Line": Implications for the Future of Microfinance" (CGAP, 2004) notes that "that there are over 750 million accounts in various classes of financial institutions that are generally aimed at markets below the level of commercial banks, and that some substantial fraction of these institutions' clients are probably poor or near poor". These institutions are referred to throughout this important paper as "Alternative Financial Institutions" (AFIs). The main target set by the MicroCredit Summit was to, "to reach 100 million of the world's poorest families, especially the women of those families, with credit for self-employment and other financial and business services by the year 2005". The AFIs appear to have achieved that goal before it was set. That said, as CGAP notes, "The message is not that the task is nearly done … but rather that these institutions represent an important potential opportunity."

Two questions remain:

1. Do the AFIs really serve the poor?

The first question is addressed in the CGAP paper, "For most of the AFIs reviewed, there is no meaningful way to estimate the percentage of their clients who fit that [poor or near poor] description. At the same time, it is very probable that poor or near-poor clients make up a significant portion of the clientele of the AFIs - even the non-MFI AFIs. This proposition is supported, not only by anecdotal experience with AFI clients and branch locations in a number of countries, but also by average account size data developed in this study."

Table 1. Average Savings Account Balances as a Percent of per Capita Gross National Income (from CGAP, 2004)

	Post Banks	State Ag. & Development Banks	Rural Banks	Co-ops and Credit Unions	MFIs*
AFR	8%	-	11%	27%	29%
EAP incl. China	42%	-	6%	64%	9%
(China)	*(41%)*	-	-	-	-
ECA	318%	-	-	7%	25%
LAC	-	-	2%	16%	15%
MENA	13%	-	-	-	-
SA incl. India	18%	37%	4%	2%	10%
(India)	*(18%)*	*(37%)*	*(0%)*	*(0%)*	*(2%)*

* Includes NGOs, banks, and non-bank financial institutions that specialize in microfinance, as well as microfinance programs in full-service commercial banks.

What <u>is</u> certain is that the AFIs do not attract any significant proportion of the well-off with access to established commercial banks … and (in most developing countries) that the majority of people do not have

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real access to these banks. The sheer numbers of clients served by the post banks strongly suggests that they are providing financial services to a significant proportion of the vulnerable non-poor, the poor and the poorest. Furthermore, as Wright and Dondo (2001) note, "Critiques of microfinance based on "not reaching the poorest" tend to overlook the dynamic nature of poverty … and to see it as a static state. Non-poor households hit by a severe crisis (fire in houses and business, natural disasters, theft of business assets and chronic illness including HIV/AIDS and many others) may be transformed into "poorest" households with alarming rapidity. This is why microfinance's role in assisting with the development and maintenance of robust household economic portfolios is so important … for anyone and everyone who does not have access to financial services from formal sector."

And of course this broad-based client provides the post banks the opportunity to cross-subsidise the provision of services to the poorest amongst their clients.

2. *Is the quality of service offered by the AFIs adequate to make a significant contribution to developmental goals?*

Beyond the quantitative numbers, however, lie qualitative issues. Many of the AFIs offer limited access to some of the basic financial services necessary to provide their clients the full range of instruments with which to develop their economic security. And, often, the limited services offered are either rationed (particularly credit), or restricted by product terms conditions or the back-office systems available and/or the physical infrastructure of the AFI.

Only 51 (2%) of the 2,568 AFIs identified by CGAP in its study were post banks, but they serve nearly 319 million of the clients (48% of combined savings accounts in all AFIs).

Table 2. Combined Loans and Savings Accounts in AFIs (in thousands)* (from CGAP, 2004)

	Post Banks	State Ag. & Development Banks	Rural Banks	Co-ops and Credit Unions	MFIs**	Total	
AFR	12,854	643	117	5,940	6,246	26,790	4%
EAP incl. China	141,005	78,772	6,054	12,145	81,430	319,406	48%
(China)	*(110,000)*	*(46,570)*	-	*(200)*	*(154)*	*(156,924)*	*(24%)*
ECA	11,503	28	-	5,692	495	17,718	3%
LAC	179	81	162	8,620	5,156	14,198	2%
MENA	16,525	30,712	-	11	1,422	48,670	7%
SAR incl. India	136,383	61,980	11,623	2,434	25,825	238,245	36%
(India)	*(124,010)*	*(57,821)*	-	*(392)*	*(5,589)*	*(187,812)*	*(28%)*
Total	318,450	172,207	18,955	34,843	120,573	665,028	100%
%	48%	26%	3%	5%	18%	100%	

* For institutions reporting numbers both of loans and of savings accounts, only the larger of the two numbers is included in this table.

** Includes NGOs, banks, and non-bank financial institutions that specialize in microfinance, as well as microfinance programs in full-service commercial banks.

Profile of KPOSB

Savings Bank, the predecessor of the Kenya Post Office Savings Bank (KPOSB), started its operations in 1910, as a department within the then postal service provider. In 1978 the savings services were separated from the postal services, and KPOSB was established as an independent institution through an Act of Parliament CAP 493B. It is a state-owned corporation with no issued shares. As of 2005, KPOSB operates 62 branches of its own and rents space from the Post Office for 12 sub-branches. In addition, it has nationwide outlets in 350 post offices, along with 46 postal agents where savings services are offered on a fee-for-service basis through an agency agreement with the Postal Corporation of Kenya.

KPOSB has the mandate to:

- Open, maintain or close branches in any location the Board may deem appropriate, including at any office of the Kenya Posts and Telecommunications Corporation;
- Provide facilities for savings accounts;
- Issue other personal savings instruments or facilities in any form it thinks appropriate and consistent with the Act and thus encourage thrift;
- Invest any surplus funds in accordance with the Act's provisions;
- Cover the expenses of its operations with revenue earned from its investments;
- Establish and operate a company or corporation for the purposes of undertaking banking business and other related financial services in Kenya and to utilise for that purpose such part of the deposit capital as the Ministry of Finance may authorise; and
- Own and hold shares in any company or corporation established in accordance with this section.

KPOSB reports to the Ministry of Finance and is governed by a Board of Directors with four members representing business community; the Permanent Secretary, Treasury representing the government; and the Managing Director. The day to day management is vested with the Managing Director. The bank is structured into 7 functional units. To reach the customers more effectively, the banking function is decentralised to six Regions that oversee customer service within the bank's branch network and the agency outlets. The bank has a total workforce of 1,280 employees.

The bank made profits in the period 1993-1998, but incurred losses in 1999 and 2000 after a decrease in interest rates on Treasury Bills, the principal investment avenue for the bank. Profits went up in 2003 and 2004. In 2004, there were restrictions in procurement in the public sector as new controls were being put in place. This delayed key procurement and resulted in windfall profits. The downside of this was the delay in investing in infrastructure and appropriate computer platform to grow KPOSB's business.

Providing saving savings services alone within a restricted investment regime is challenging, and KPOSB would like to begin lending. This however would be with the approval of the shareholder, the Government of Kenya. Negotiations on this have been on going and are likely to be completed soon.

Table 3. Recent Trends in KPOSB Profitability

Year	Profit (Ksh. '000)
1995	10.32
1996	63.85
1997	6.45
1998	0.38
1999	(204.6)
2000	(92.94)
2001	47.66
2002	166.88
2003	209.49
2004	183.97
2005	137.01

Ksh.73.1 : US$1 as 31st Dec, 2005.

The bank has the following vision and mission and core values:

- *Vision*: "To be the Bank of choice."
- *Mission*: "To provide accessible and sustainable banking and other related financial services through innovative delivery systems for wealth creation to the benefit of customers and other stakeholders."

The bank's operations are guided by the core values of providing quality service, professionally, diligently and promptly to exceed customers' expectations, as well as upholding teamwork, integrity and respect to customers and all stakeholders. KPOSB is also socially and environmentally responsible.

KPOSB as December 2005 had 2,150,211 savings accounts of which 1,267,968 were active. Deposits mobilised stood at Ksh.11.416 billion, equivalent to US$154.2 million.

Profile of TPB

Tanzania Postal Bank was established by Act No. 11 of 1991 and amended by Act No. 12 of 1992. It became operational on 1st March 1993 as a separate and autonomous entity from the former Tanzania Posts and Telecommunications Corporation (TP&TC). The Act also stipulated the ownership and initial allotment of shareholding allowing the Government of the Republic of Tanzania to hold 41%, the Revolutionary Government of Zanzibar (RGZ) 10%, Tanzania Postal Corporation (TPC) 30% and others 19%. This shareholding was changed in 1994 when the annual general meeting resolved to raise the authorized share capital to US$2.06 million. This Act changed the status of the bank into self-autonomy and as a legal entity with its own capital, board of directors and management, separate from the then Tanzania Posts and Telecommunications Corporation. The shareholding is currently, Government of Tanzania, 45%, Government of Zanzibar, 11%, Tanzania Posts Corporation 33%, Other Shareholders 10.5%. The Act allows TPB to mobilize savings, to provide banking services throughout Tanzania, to accept deposits, to administer special funds placed with the bank and to undertake any other functions performed by commercial banks except cheque clearance.

TPB Act defines its objectives and functions as:

- To mobilize local savings and to promote the savings habits of the population;
- To provide in accordance with the provisions of the Banking and Financial Institutions Act of 1991 adequate and proper banking services and facilities throughout the United Republic;
- To mobilize resources by accepting deposits, floating bonds, debenture and other monetary instruments;
- Subject to the provisions of the Act, to administer such special funds as may from time to time be placed at the disposal of the bank; and
- To undertake any other functions performed by commercial banks.

Tanzania Postal Bank operates through three tiers in order to reach its customers. The bank operates through 7 full-fledged branches and one annex soon to become a full branch (three branches and annex in Dar es Salaam and one branch in Zanzibar), 16 sub branches based in the regional headquarters and one district operating office in Dar es Salaam. The bank also operates 115 agencies based in post offices scattered throughout the country under agreement with Tanzania Posts Corporation. Under the agency agreement, the later provides banking services on behalf of the bank and in return is paid agency fees according to the business volume conducted.

Table 4. Recent Trends in TPB Profitability

Year	Profit (Tsh. '000)
1995	807,323
1996	520,203
1997	(450,148)
1998	606,036.
1999	931,401
2000	797,624
2001	951,130
2002	346,315
2003	(781,217)
2004	130,395
2005	609,378

Tsh.1,297: US \$1 as 31st Dec, 2005.

The bank has the following vision and mission:

- *Vision*: "To be the bank of choice for the people".
- *Mission*: "To provide appropriate quality financial services to lower income individuals, micro, small and medium enterprises while creating value to stakeholders".

As of December 31, 2005, TPB had 400 employees, serving over 1.1 million customers (of which 54% held dormant accounts) with more than Tsh.58.1 billions, equivalent to US\$44.8 million, in deposits.

But Are These Massive Numbers Real for Post Banks?

With outreach on this scale, it is clear that the post banks offer an important opportunity to make a very significant contribution to efforts to provide financial services to the poor. The potential pay-back for investments in assisting individual post banks is measured in millions of clients. It is for this reason that *MicroSave* has been working with both Kenya Post Office Savings Bank and Tanzania Postal Bank, which together, have over 3 million clients on their books.

However, as a result of the limitations in the scope and quality of the financial services offered by these two post banks, it is reasonable to suggest that a substantial proportion of the saving accounts are in fact dormant or "semi-dormant" (with only one transaction each year, usually around the major festival time when people are visiting their villages).

Table 5. Breakdown of Accounts and Balances at KPOSB

KPOSB	# of Accounts	Ksh. Millions
Balances in Dormant Accounts [Ksh]		
0 - 1,000	877, 283	2,369.5
1,000.01-10,000	4,058	13,805.0
10,000.01-100,000	869	20,100.0
>100,000	33	5,286.0
Net Deposit in Accounts		
Average Balance Ksh.		
<10,000	1,861,914	1,330
10,001-50,000	132,307	2,962
50,001-100,000	25,441	1,759
>100,000	16,249	3,164
Total	2,034,910	9,215
Bidii Total accounts	115,301	1,468
Total [OSS+*Bidii*]	2,150,211	10,683
% of Account holders Only Transacting in One Branch	60%	

Notes:

1. KPOSB defines a "dormant account" as one that has not seen a transaction for more than 24 months.
2. The figures for KPOSB are for The Postbank Savings accounts – OSS [passbook accounts only and not the other products.]

Clearly change is necessary to realise the full potential of KPOSB. The same argument can be extended to TPB and a quick look at the savings banks, particularly in Africa, reveals that these proximity banks serve mainly small household and individual savers. This pattern is common throughout post banks worldwide. But the times they are changing …

The Changing Landscape and Reality

Organisations often use a "PEST Analysis" to frame a consideration discussion of the broader environment within which they operate. The PEST framework examines the Political, Economic, Social/legal and Technological factors that could/are likely to affect the organisation and its development. If we continue to examine KPOSB using the PEST framework, we begin to understand the complexity of the landscape within which many post banks operate.

Political

KPOSB is functioning in a rapidly changing political environment. Both KPOSB and TPB have been operating independently of the national Post Offices since 1978 and 1993 respectively. In common with many governments worldwide, the Kenyan government has made it clear that KPOSB can no longer look to the state for operating subsidies.

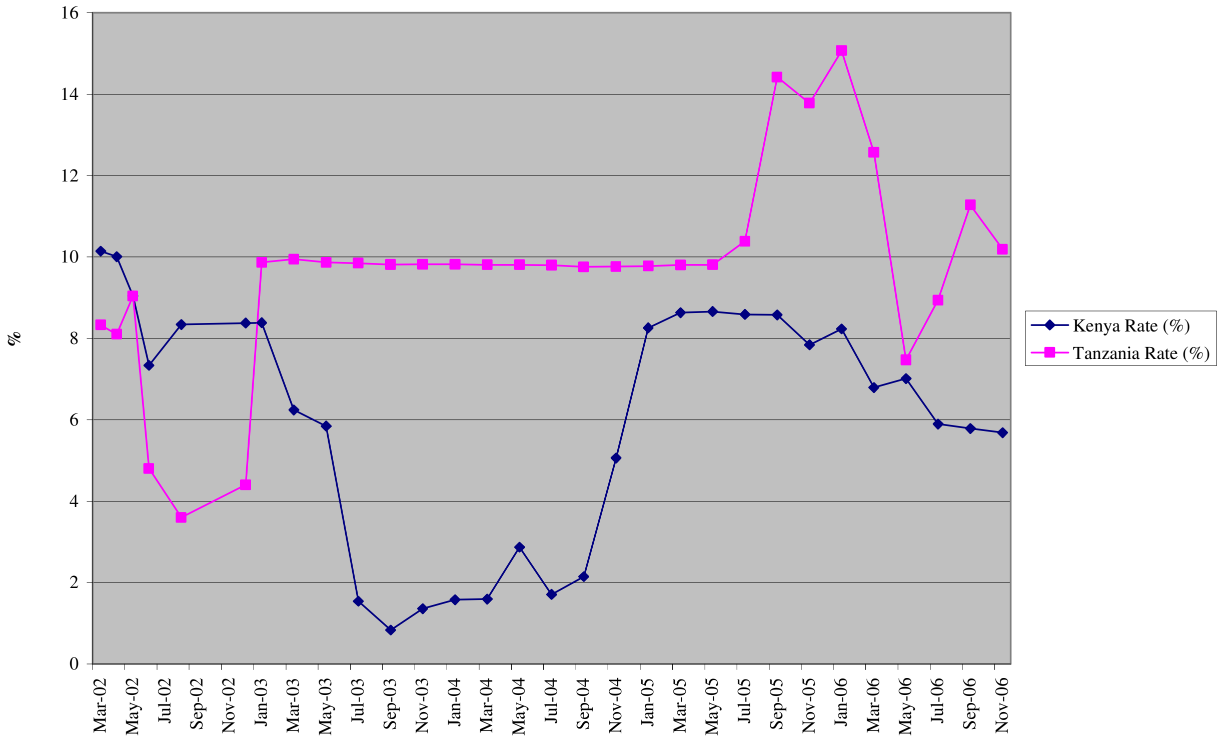
In addition, with the new government's ascension to power at the beginning of 2003 came a new commitment to rooting out corruption and improving the efficiency of the state institutions. This meant a temporary stoppage of all procurement in the public sector and significant tightening of procurement procedures. Another development was the introduction of performance contracting within the public sector with the state corporations signing annual performance targets with the responsible ministries. KPOSB was selected to be among the first 16 state corporations to be in the pilot project for the performance contract for the period January -December 2005. For KPOSB, the temporary stoppage of procurement caused debilitating operational problems at a time when the bank was going through strenuous efforts to re-engineer itself and the way it does business. For example the procurement of the new server, central to plans to link KPOSB's growing number of branches, was delayed by eighteen months. The introduction of performance-based contracts, however, has re-invigorated the management and staff of the bank with a new sense of purpose and urgency.

Economic
Both KPOSB and TPB are competing in a rapidly evolving market in which commercial banks are beginning to offer savings services to the banks' traditional, low-income, market niche. In Kenya, Equity Bank, Kenya Commercial Bank and Cooperative Bank are all competing aggressively with KPOSB, and the large Savings and Credit Cooperatives in Kenya also provide some competition. In Tanzania, National Microfinance Bank, Cooperative Rural Development Bank and a growing number of community banks are competing in TPB's prime market.

The second major factor that has affected the East African post banks in recent years is the depressed interest rates paid on Treasury Bills, traditionally their major source of income. While Treasury Bill interest rates are now rising again, it seems unlikely that they will return to the levels that allowed the post banks to turn comfortable profits in the late 1990s. And the low rates of recent years has provided impetuous to efforts to move the banks towards generating transaction fee-based income streams.

As is common with post banks throughout the world, there are seemingly endless discussions, wrangles and mediation between KPOSB, and indeed TPB, and their corresponding post office corporations over the fees payable for each transaction. The post offices seek to charge full cost plus mark-up, and demand fees of over a dollar for each transaction. Unsurprisingly, the post banks find this excessive and suggest that the marginal cost (perhaps plus mark-up) would be more appropriate reflection of the state of the post offices, where many employees are conspicuously under-employed. In Kenya, at least, the Postal Corporation of Kenya, sensing a business opportunity not offered by its traditional mail services, is seeking permission from the Ministry of Finance to set up its own savings operations and is already offering a range of money transfer services.

T-Bill (90 Days) Rates Over Time 2002-2006



Social/Legal

In Tanzania, a World Bank mission conducted in early 2003 recommended the transformation of Tanzania Postal Bank (TPB) into a full-fledged commercial bank in preparation for privatisation. For KPOSB, various studies like and government papers – for example the ERP for Wealth Creation and Session paper 2 of 2005 - have stated that KPOSB should be ore-oriented to provide a wide range of financial services and be used to link up with MFIs to provide financial services in the rural areas. The government has repeatedly stated that it is committed to maintaining the current mandate of KPOSB. The government in 2004 further informed KPOSB that it has to operate profitably and not expect any assistance form the Exchequer to cover operational losses. The Post Banks Act under which TPB operates was amended in 1992 to allow it to lend, and KPOSB is hoping that a similar amendment will be passed in Kenya in the near future after an ongoing study of KPOSB and some other financial institutions.

The post banks typically remain subject to restrictive labour laws that limit their ability to respond to labour market forces or to significantly re-structure the remuneration package to attract appropriate personnel from the market as they start the efforts to re-engineer their operations. For example, KPOSB operates through the State Corporations Act which also places state corporations in various categories and thus guides their salaries and benefits etc. In addition, not only do post banks face lengthy procedures whenever they need to let staff go, but they must also pay very significant relocation allowances whenever they move staff around the country.

Typically post banks' visions must balance their important social missions of supporting the communities they operate in and the profitability objective. KPOSB, for example, has developed a corporate social responsibility policy through which it has identified the social areas it has a "passion" in. Indeed KPOSB believes in balancing its "profit centre" operations with its "passion centres" and thereby supporting various areas particularly in education, people in slum areas and in natural disaster situations. This way, KPOSB seeks to create a financially and socially sustainable institution that cares (and is seen to care) for the communities it serves.

Technological

Traditionally, the extensive network of branches and agency outlets at the post offices (together with price) has been the key competitive advantage of the post banks. In more remote towns and villages the post banks are indeed the "only show in town". But this too is set to change in the very near future.

The advent of e-banking means that point of sale devices and mobile phones could soon make almost any shop, petrol station or bar with adequate liquidity a financial service provider (see Cracknell, 2004). This clearly has huge strategic implications for the post banks. Two of the last barriers to the larger commercial banks offering savings services to the mass, low-income market have been:

1. The need for extensive "bricks and mortar" infrastructure; and
2. Concerns about the high volumes of low value transactions that must be processed to serve this market segment.

E-banking systems offer a way of overcoming both these barriers – and indeed require large numbers of users for their profitability. The post banks can reasonably expect fierce competition from the commercial banks.

KPOSB and TPB are not passive players in this rapidly evolving e-banking environment. KPOSB is a lead member of a consortium of banks to develop a common ATM switching system, KenSwitch, and is examining the business case for the magnetic stripe and smart card solutions for its new *Bidii* Savings Account as well as inter-linking all branches on a on-line real time basis. TPB have entered into an agreement with the First Bank of the Middle East (FBME) to provide the magnetic stripe *Uhuru* debit card version of its Quick Account, which will allow users to withdraw money from ATMs and point of sale devices throughout the country. In the first three months after its launch the *Uhuru* card had attracted 11,751 users with net deposits of Tsh.4.5 billion. A little more than two years after its launch, as of December 31, 2006, the *Uhuru* card had 66,428 customers with total deposits of Tsh.21.2 billion.

SWOT Analysis
On the basis of the above, we can move to an analysis of the post banks' institutional strengths, weaknesses, opportunities and threats. This analysis allows us to review the options open to the post banks as they seek to develop their business in the context of the landscape described in the PEST analysis above.

Strengths
In the main, both KPOSB and TPB have technically competent management teams that believe in, and are dedicated to, the missions of their banks. In addition, both sets of management, and many of the staff, have recognised the pressing need for change in the post banks if they are to continue to serve a growing number of customers in their respective countries.

The large branch and agency network of post banks offer valuable channels both for international remittances and national transmission. Using the post banks' network, the government and other institutions can make salary and pension payments into remote areas that are presently otherwise un-served by commercial banks. The networks also allow the payment of school fees or the transfer of allowances to pupils. In Kenya about 55% of the allowances for university students in public universities and 50% of government pensions are paid through KPOSB. Kenya's population is around 33 million, and KPOSB probably reaches close to a third of the country's households (Robinson and Anyango, 2003). This massive outreach provides a great opportunity for those offering e-banking solutions and in search of scale.

Both KPOSB and TPB enjoy the perception in the market place of being solid, safe, permanent and backed by the government, as well as being there for the ordinary man/woman in the street. These perceptions are important in an environment where many commercial banks are viewed with suspicion. This suspicion is grounded either on the basis of the banks' stability (given the history of multiple bank failure in both Kenya and Tanzania) or the perception that rapacious commercial bankers fleece their clients (given the high profitability of many of the commercial banks).

Weaknesses
In the past, governance of many state corporations was often characterised by intrusive Boards with membership selected more on political or other bases rather than professional skills or business rationale. Nonetheless, in recent years, this has changed. By way of illustration, the composition of KPOSB's Board has become increasingly skill-based and appropriate for the bank's business. Today it is chaired by a professional and expert in microfinance, and Board members include a ex-banker and experts and specialists in marketing/branding and in entrepreneurship.

As with all large organisations, and particularly those with a history of political involvement, the post banks have internal politics and struggle with communication. In both banks, new products developed by the business development departments initially did not receive ready acceptance and support from the implementing departments. Furthermore, operations departments initiated product development of their own, without using a systematic approach. For example, TPB's initial credit products were developed and rolled out in an *ad hoc* manner, which resulted in significantly negative results for the bank. The mid term review of *MicroSave* in 2002 noted that internal coordination and communication was one of the key barriers to the effective and rapid growth of the strategic *Bidii* Savings Account product, concluding that, "KPOSB needs substantially improved coordinated, management capacity" (Robinson and Anyango, 2002). At the time of this mid-term review, both KPOSB and TPB were characterised by a centralisation of authority, which results in slow decision-making, implementation and operational processes. This too is changing with the connectivity between branches and across the internet and both KPOSB and TPB are moving towards using email and intranet-based systems, as well as decentralisation of decision making, to improve internal communications.

Another weakness, often facing post banks around the world, lies within their large, but old, branch networks, the layout of which is typically driven by the banks' operational processes. This means that the banking halls are relatively small, the managers and marketing officers sit in relatively large back offices. This configuration is again driven by the banks' history, manual processes and emphasis on internal control (even at the expense of customer service), and will require physical (as well as mental) re-engineering for the post banks to achieve their potential.

Increasingly post banks are looking (and in some countries permitted, e.g. in Senegal, Botswana, Thailand and Malaysia) to offer credit services. This is driven by a variety of the PEST factors analysed above. With the declining interest rates on Treasury Bills, post banks need to generate additional revenue from other sources. As the competition increases, it is increasingly clear that operating as a narrow-based savings bank limits the clients you can serve – for example employers and employees increasingly will turn to commercial banks that can both process the salaries and offer advances against them. The post banks' desire to offer credit to their customers also reflects the recognition that to achieve their social mission they need to be able to offer a broader, better range of products (savings, credit, money transfer and insurance) to their customers.

Opinions on the desirability of post banks getting involved lending vary significantly and there are plenty of examples of the potential down sides of government-owned savings banks entering the credit market. The government's ownership of the institution often results in political influence over lending decisions and a perception that the credit comes from government and thus need not be repaid. Furthermore, for all their expertise in deposit mobilisation, most savings banks rarely have the systems, staff capacity or culture to disburse and recover loans. This was reflected in the 2002 review of TPB by the *MicroSave* mid-term review team, which concluded, "… the capacity to implement microcredit is still fairly low. There is the danger that if microcredit is implemented without proper preparations it may lead to negative impact on other successful products of the bank" (Robinson and Anyango, 2002). Indeed the significant loan provisioning that TPB was required to make in 2002-2005 (and potentially beyond), clearly demonstrates that this "weakness" may well become a significant "threat" [4].

Finally, many post banks suffer a negative image in the markets within which they operate. Post banks are often seen, in the words of clients interviewed by *MicroSave*, as "government dinosaurs", "sleeping elephants" and "uncaring about their customers". In a past *MicroSave* image analysis of KPOSB it was described as "the bank of last resort" – to which clients who had no access to other financial service providers came because it was cheaper and more often physically available. As e-banking erodes both these comparative advantages, so the pressure will mount on post banks to significantly improve the speed and quality of customer service. But these image problems are tractable – the introduction of the *Bidii* and Quick Account card-based systems, at KPSB and TPB respectively, resulted in positive response from customers. As a result of these new products, both banks were perceived to be moving towards becoming "modern banks", offering faster and more client-responsive service. It is indicative of the renewed energy within the KPOSB and TPB that the two savings banks listened to their customers and are moving to change their negative image.

Opportunities

The opportunities for the post banks to move forward to become profitable, modern, client-responsive organisations are significant. As discussed above, post banks' existing large network of branches remains a comparative advantage and the potential for linking these into e-banking solutions could provide a very significant opportunity. The post banks' networks do have some important comparative advantages over the

[4] Sadly, Deloitte and Touche who were contracted to conduct the World Bank privatization study (in 2003), seemed not to notice that TPB was losing very significant amounts of money as it wrote off bad debts incurred in its efforts to start lending (a very new activity for the bank). Deloitte and Touche recommended that TPB extend these lending activities and convert into a commercial bank … and then the World Bank decided that they were not very interested in TPB after all and so did not follow up the study until over two years after it was first delivered. This history demonstrates another problem for many beleaguered postal banks – that of attention deficit from international agencies with significant sway over the behaviour of governments. Both TPB and the Uganda Postal Bank are now be used as conduits for subsidised credit schemes with "social missions".

shops, garages and bars. They are permitted to accept deposits and utility bill payments, used to handling remittances and managing money and in many cases will have greater liquidity than shops with limited turn-over, garages with drop-box security systems and bars with evening opening hours. Indeed in some countries, the central bank authorities do not permit shops etc. to offer even a basic withdrawal service. Strategic alliances with other banks allowing post banks to offer withdrawal and deposit services through point of sale devices or mobile phone-based payment systems on behalf of these banks could leverage the savings banks' networks. TPB's alliance with FBME and KPOSB's partnership with Citibank and Stanbic are designed to do precisely this.

The network could also provide valuable outlets/agencies for insurance products as insurance companies increasingly examine the low-income, mass market and develop products in response to the needs of this market. KPOSB is discussing this option with a health insurance services provider and with an asset management firm on unit trusts.

As the post banks begin to move into offering credit services, it is important to note that they do have two important, lower-risk opportunities that build on their existing core business. These are salary- and Save-As You-Earn (SAYE)-based lending. Salary-based lending builds on the extensive use (particularly by government) of post banks' network to process salaries. Increasingly government departments (and indeed private companies) are willing and able to put in check off-based systems under which the loan instalment is recovered at source from the pay cheque before the salary is transmitted to the employee's account. The loan recoveries are then transmitted to the lender separately. Such systems are by no means risk-free, but salary loans are proving a profitable product line for TPB. KPOSB is similarly planning to use the SAYE product as its entry to salary based lending when the KPOSB Act is amended.

TPB is also expanding its SAYE-based lending product. Lending against contractual savings accounts (typically to 90% of the value of the deposits in order to cover part of the interest risk) is a growing source of business for all types of banks worldwide. This reflects the growing appreciation that many people would rather protect their long-term (often targeted) savings and take a separate loan in order to do so rather than break the contractual savings agreement thy are using to save up for their targeted asset or activity. Thus for example, many poor people take out contractual savings agreements to save up for marriage ceremonies and, when faced with an emergency, would rather take a loan than liquidate the savings balance they have built up over time. Most post banks already have SAYE products (some even offer products that are not linked to salaries but are basic contractual savings agreements for non-salaried customers with regular income flows). Lending against these savings balances offers another low-risk opportunity to broaden post banks' business and income streams.

Finally, it is important to note that post banks often attract young people and students – either as parents seek to open a low-cost bank account for their children or as governments seek to pay student allowances across the country. Students represent an immensely high potential market segment - if the post banks can retain them as customers, they have a whole lifetime of transactions before them!

Threats

As post banks start the process of re-engineering themselves and their business, the threat of brand confusion with the post offices and some of their more aggressive partners with larger marketing budgets (in particular Western Union) will grow in importance. Both KPOSB and TPB suffer damage to their reputations as a result of being confused with the post offices and the poor quality service offered in these agency outlets. For example, TPB's analysis of the key challenges arising from renting premises of Tanzania Postal Corporation (TPC) noted:

- The charges sought by TPC for each transaction were based on absolute rather than marginal costs – and thus higher than the revenue streams derived by TPB from them.
- Delayed remittance of funds to TPB as they were used to cover liquidity shortfalls within TPC.
- Official working hours of TPC were in conflict with the requirements of the bank. The TPC offices were often opened late in the mornings, and the bank staff were asked to vacate premises before they

complete their back office and reconciliation work at end of the day, because TPC staff want to close the office.
- The facilities for cash administration (i.e. safe and strong room) being used by the bank belonged to TPC and was controlled by their staff. As a result, either the TPC staff have to open for them at their convenience, or the bank has to pay overtime for TPC staff.
- The business space including hall and counter allocated to TPB is usually small and inadequate.
- Customers confused between the TPB and TPC counters as well as branches.
- No advertising space was allocated to TPB within the TPC premises.
- TPC is not driven by profit motive and therefore their work culture is different from TPB.

KPOSB struggles with similar issues and in addition is not even allowed to advertise its products in the post offices!

Currently, both KPOSB and TPB derive a significant proportion of their profit from processing international remittances through Western Union brand – once again their widespread networks make these outlets particularly valuable for those seeking to remit to their families back home in the villages a service that has significantly changed the lives of families receiving these remittances. However, the high fees paid by the remitter has attracted not only criticism both from regulators and the end users but also growing competition from lower-cost providers, many of whom are using advances in technology to offer alternative remittance services. It is seems likely that the fees, and thus profits, that the post banks derive from offering this remittance services will diminish significantly.

Post banks often also suffer from serious over staffing, partly as a result of their manual operations and possible past politicisation of appointments. This phenomenon also means that at some levels, not only do the post banks have too many staff, but also some do not have the appropriate skills to perform the functions for which they were hired. With the implementation of more efficient, computerised systems, some of these staff members may feel that their jobs are threatened and thus offer passive resistance to the changes necessary to re-engineer the banks. Indeed, in some instances, the old ways are deemed the best "because we have always done it this way".

As with all banks, both KPOSB and TPB have been subject to fraud and error. But the manual systems, and widespread nature of their branch and agency networks, make post banks particularly prone to these. Both KPOSB and TPB needed to review and strengthen the systems and procedures around their new banking systems, as well as around the post office agencies. Process mapping, internal control reviews and risk analyses have allowed them to make significant strides towards addressing these problems. Nonetheless ensuring compliance with the revised policies and procedures remains a key challenge for both operations and internal audit. Furthermore, as the Central Bank authorities move towards a Basel II-based approach to supervision, so both banks will need to focus increasingly on risk-based management practices.

Another threat to most post banks is the demographics of the clientele, which is often dominated by older customers, particularly when many pensioners are paid through the banks. In contrast to the students, these are the customers with the least number of transactions ahead of them.

Market Analysis
To build effectively on the above analyses, it is necessary to look at the financial services market within which the post banks are operating. Continuing the example of KPOSB we can see from the Competition Analysis Matrix in Appendix 1 that the competition in Kenya is already intense. The rapid and aggressive growth of Equity Bank has resulted in significantly reduced opening balance requirements, as well as ledger and transaction fees throughout the banking sector in Kenya. In addition, all banks have had to re-focus on customer service in which Equity seems to be perceived to excel despite the long queues in its branches. Banks have also significantly reduced the barriers to opening new accounts – eliminating account opening fees and reducing requirements for reference letters, etc. Finally, the rise of Equity together with the arrival of the PesaPoint third party ATM network, has also spurred a race to use technology to serve the mass

market and the competitive environment in Kenya is likely to be further transformed as most commercial banks enter the mass market. Most recently, Barclays has announced its intention to enter this market by more than doubling its number of branches and ATMs in Kenya. This strategy will involve a total investment of more than KSh2 billion.

Post banks hitherto had captive market, but as competition increases, so the need to assess and understand the prevailing market becomes even more acute. Similarly, with the fluctuations in T-bill rates dictating that post banks move to a fee-based income stream, the need to calibrate those fees in the context of the market becomes that much more important. Finally, as several of *MicroSave*'s Action Research Partners discovered, poor people prefer transaction fees to ledger fees. This is because they can see someone/something working for them when they make a transaction, but cannot understand why they should be charged a fee for simply leaving their money in an account. These types of nuances require careful, on-going, market research to identify and only a flexible, market-led institution is able to respond to them rapidly.

Future Strategies

With the above information, it is feasible to begin to outline a broad strategy for the two post banks discussed in this paper. This strategy is based on developing new products and refining existing ones, in order to make the banks more competitive as the commercial banks reach down market to serve the post banks' traditional market. Strategic alliances will be necessary: to invest in and optimise the use of e-banking infrastructure with other banks, as well as to offer other services as agents for microcredit MFIs or insurance companies that have tailored policies to the needs of the low-income market.

A rigorous, institutionalised system of product and branch-based costing will be necessary to focus effectively on optimising products, operations and profitability. The post banks will also have to continue to overhaul their operating policies and procedures to bring them into line with the new modern banking systems and norms. Process mapping has proved a useful way of combining efforts to make post banks' delivery systems more efficient while managing the risks associated with doing so.

For example, using process mapping, TPB was able to significantly reduce the time it took to serve a customer. "Before introducing the new changes a passbook deposit would take 20 minutes and a passbook withdrawal would take up to 30 minutes, this time has been reduced to less than five minutes for both deposits and withdrawals. Policy manuals were outdated and were not being used as operational documents. TPB used the process mapping exercise to update policy manuals and the relevant process maps form part of the working documents for each staff. Branches had started adopting their own processes with the processes being followed in each branch heavily influenced by the experience of the Branch Manager. Lack of standardisation made it much more difficult to rotate staff between branches, as staff had to adopt new procedures in every new branch. The new processes have resulted in improved productivity and increased staff motivation due to a reduction in workload" Sempangi et al. 2005.

Together with IT, changes in policies and procedures can lead to significantly improved efficiency of post banks' delivery systems – a prerequisite for the improved customer service to which many post banks aspire. These systems mean that post banks can serve their customers faster, thus reducing the waiting time in the banks' halls. But to make significant improvements in customer service a culture change is necessary within many of the post banks in order to transform from "sleeping giants" into efficient, customer-responsive, caring organisations. Customer care officers are being deployed into the branches and customer care training is given to all levels of staff (including the back office staff serving the "internal customers" in the front-line branches).

But to really achieve significant progress in customer care, it is necessary to implement a de-centralisation process and thus devolve operational responsibility and accountability down to the regions and branches. Under such a de-centralised system the branches become profit-centres, cashiers' cash payment limits are raised and minor procurement is conducted at the branch or regional level etc. As part of this, marketing moves increasingly from being a head office department and more of an integral part of the branches' activities, supported from head office.

The branch-focused costing allows the bank to inform its annual budgeting process and reward high performing branches under a performance-based staff incentive scheme. Components of the staff incentive scheme are likely to involve net deposits mobilised, numbers of transactions completed, the accuracy of those transactions and measures of customer service/satisfaction.

KPOSB's Approach

Product development: KPOSB has been offering its future flagship product, the *Bidii* Savings Account for several years now. Originally conceived as a flexible, savings account with unrestricted withdrawals for small business people wanting to transact regularly, the *Bidii* account quickly proved to be popular with many of the banks' passbook clients as well.

Table 6. Yearly Growth of the *Bidii* Savings Account

Year	Number of Accounts	Net Deposits Ksh.[M]	Average Account Balance Ksh.	% Bank Deposits
2001	1,412	39	27,903	1
2002	4,275	50	11,766	1
2003	15,494	236	15,200	2
2004	53,343	759	14,230	7
2005	115,301	1,468	12,732	14
Oct 06	172,745	2,050	11,867	18

Ksh.70 : US$1 as in Oct 2006.

The *Bidii* account has attracted higher value account holders as well as those from the mass market, as is indicated by the relatively high average balance held in the accounts. However, as KPOSB rolls out *Bidii* throughout its network, a larger number of poorer customers are attracted to open accounts – hence the falling average balance since 2003. Furthermore, as can be seen from Table 7, the costs of delivering services through *Bidii* are markedly lower than through the traditional post bank passbook.

Table 7. Cost Analysis of Both Front and Back Office Activities for Processing Salary Accounts.

Cost Item	Cost using Passbook (Ksh.) + mark-up	Cost using *Bidii* (Ksh.) + mark-up	Savings per Transaction
Salary deposit process	52.22	21.78	**30.44 (58%)**
Withdrawal process	46.05	29.30	**16.75 (36%)**
Total Savings if one salary deposit and one withdrawal per month			**47.19**

Source: Analysis by KPOSB Strategic Planning Division

Furthermore the speed of service for *Bidii* customers at networked branches means that the bank can attract and serve more customers. The average *Bidii* transaction takes a third of the time of the average passbook transaction. So, in theory at least, KPOSB could triple the number of customers it serves if all were migrated onto the *Bidii* account. It is for this reason that TPB has an explicit policy to migrate all its passbook customers onto its card-based Quick Account. At KPOSB, the *Bidii* card was initially only a basic identity card, but the bank is currently preparing to transform it into a magnetic stripe as the basis for the rollout of ATMs and point of sale devices. TPB has already launched the *Uhuru* card – the magnetic stripe enabled version of the Quick Account. Currently 19 out of 20 new basic savings accounts opened at TPB are Quick Accounts.

KPOSB continues to lobby for amendments in the KPOSB Act to allow it to offer credit products and, in preparation for this, continues to study microfinance best practices as well as low-risk strategic lending opportunities for which it has competitive advantages. These clearly include salary-based lending and lending against the existing Save-As-You-Earn [SAYE] product. In preparation for any change in the bank's mandate to extend it to the provision of credit, a core team has already been trained in lending operations.

Product costing is fully institutionalised within KPOSB and is conducted on a quarterly basis. Product costing has also allowed the bank to focus on the promotion of its more profitable products. The system has also allowed the bank to identify its loss-making products and take the necessary steps. In the case of the Premium Bonds initially the bank reduced the size of the prize payouts, but as the product continued to make losses, it was subsequently terminated entirely. The quarterly product costing reports identify high cost centres and have made managers more cost-sensitive – a trend likely to be increased as the branch-based costing system currently under development is finalised, rolled-out and potentially linked to a productivity-focused staff incentive scheme.

KPOSB has conducted extensive *process mapping* of majority of the front- and back-office procedures within the bank. This has lead to the approval by the Board and management of several significant strategic policies as well as changes in operational procedures respectively that will both increase the efficiency and better control the risks associated with them. For example, the corporate communication policy and corporate social responsibility, staff loans and investment policies have been reviewed and revised; while procedures such as withdrawal payments by cash and cheques, tendering, transport, passbook continuation, as well as payments to staff and third parties have been reviewed and made more efficient.

In part as a result of process mapping, KPOSB has initiated efforts to *de-centralise* and to drive responsibility to the regional and branches offices. Changes made have included:

- Procurement of certain minor items has been devolved to the regional offices.
- Payments of trustee accounts, cheque payments, printing of passbooks, reconciliation of accounts and interest insertion are functions now being done at the regional offices and branches.
- The general ledger has been integrated to the banking system and the HR computerized system has also been decentralised to the regions.
- The auditing function has also been de-centralised to operate on a regional basis.
- 32 branches have been interlinked on on-line-real time basis reducing the problem of account reconciliation. This has greatly improved customer service.

As part of the de-centralisation process, is all regional and branch managers have been trained in *branch-based marketing* and the head office marketing department is responsible more for assisting with the development of the branch-based marketing plans, monitoring their implementation and providing support in terms of developing marketing materials and coordinating nationwide media promotion such as radio campaigns or newspaper advertising. New account opening and closing forms mean that the bank is collecting information about customers coming to the bank and those leaving it, as well as the reasons for their behaviour, their accounts with other financial institutions etc. Product managers are also now working jointly with the marketing team to develop and execute marketing plans on quarterly basis.

However, central to achieving successful re-engineering of KPOSB will be *communication and customer service*. Internal communication within KPOSB remains a challenge and the recent feedback loop study conducted in collaboration with *MicroSave* indicated that though there has been some improvement, more needs to be done especially at the regional and branch level. Towards this end, more staff have been connected to the email and staff meetings at department and branch level are now held regularly. With the use of e-mail, there has been improved flow of information in both directions from head office down to the regions and the branches and thus to the customers and all the way back up again. The CEO also communicates to staff on quarterly basis on new developments through the "Dear Colleagues" messages.

KPOSB has invested heavily in customer service – appointing a customer service manager and about sixty customer relations officers. It is working with *MicroSave* to develop a customer service strategy and a detailed monitoring system comprising a variety of customer satisfaction surveys and mystery shopping tools. Improving the staff's knowledge of the bank's products through a project branded "KYB - Know Your Bank" and the speeding up the processes through IT and process mapping are at the core of the strategy.

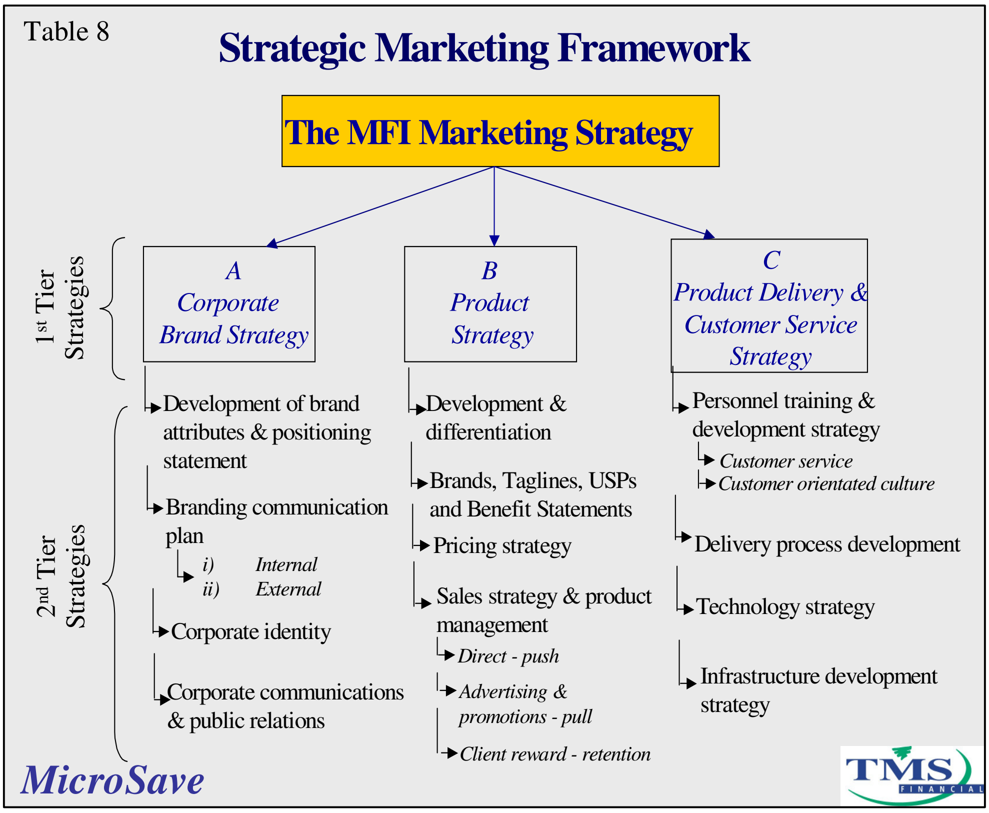
The *bank has developed staff incentive schemes* to support these activities. A variety of incentives are being implemented initially covering the front office and the branch staff only. These include tournaments between branches for account growth, net deposits, level of accuracy of transactions processing, scores on customer service indicators etc. This has resulted in competitiveness among branches and the drive to achieve and exceed targets on quarterly basis. Other staff and teams that perform exceptionally well in any quarter are invited to lunch with the Managing Director and are recognised in the in-house magazine.

Building on the above and detailed in a *strategic planning exercise*, and in response to the image analysis conducted in 2004, KPOSB is developing a *new corporate brand and identity* in line with the re-engineered bank and the new image it seeks to project. The banks' positioning statement (outlining how it would like to be seen in the market), brand guide and brand identity manual are under development in preparation for the progressive re-modelling of branches.

All the above is designed to result into a *profound culture change* within KPOSB, to transform it into a modern, market-led, customer–responsive bank able to compete with the financial institutions in the low-income market. The effectiveness of the re-engineering of the bank will depend, above all, on the response of the staff, and the bank will have to work hard to celebrate its successes and keep the forward momentum going.

A review of the above shows that all three of the primary strategies in *MicroSave*'s Strategic Marketing framework (see Table 8 below) are being addressed.

Table 8



Lessons Learned for Working With Post Banks
At the beginning of this paper we outlined the huge potential of the post banks and the central role they play in the availability of financial services for millions of households across the globe. We also identified several of the challenges that many post banks must overcome in order to realise their huge potential as providers of high quality financial services to the masses.

Reviewing the experience during the collaboration between KPOSB/TPB and *MicroSave* over the last seven years suggests some basic lessons for those seeking to assist them in realising the potential of post banks. First of all, it is important to *secure the buy in of key members of the management team* that will act as champions for the changes being made. Thereafter it is important to develop and communicate a coherent strategy for the change process using as much participation with customers and staff from all over the organisations as possible. *MicroSave* started its work with both post banks focused on product development, which then gave it the opportunity to develop relationships, demonstrate competence and begin to identify broader institutional issues that had to be addressed in order for the banks to move forward. It is therefore important to engage with a broad cross section of the banks' management as early as possible in order to communicate and secure buy-in by all right from the beginning.

Thus the genesis of the relationship was not complete strategic change and re-engineering of KPOSB's /TPB's business, but the rather more modest goal of developing a new product. *MicroSave*, has repeatedly seen that product development as an effective "Trojan horse" for getting into and building understanding of, and relationships with, financial institutions. The process of product development then reveals other institution-wide issues that require attention and thus demand for additional work on even more strategic issues is created. For example product costing (necessary for product development) often reveals deficiencies in or opportunities for other products and in support systems within the organisation. Developing the policies and procedures for the new product encourages the use of the same process mapping skills to examine other products. Similarly, preparing product marketing plans or customer service strategies for the new product are often extended into other products.

Nonetheless, as common to most state owned institutions, there is a tendency for the state owned banks to assess themselves by their own standards rather than by the (now rapidly evolving) standards of the market, and thus to *respond slowly to changes in the market place*. For example, energising front-line staff to improve customer service and to play a proactive role in marketing at the branch level was originally seen as the responsibility of marketing departments rather than an integral part of the job of all members of staff – from Chairman to cleaner. Through its focus on market research-based analysis of clients' needs and perceptions of the banks, and the products/services it was offering, *MicroSave* helped KPOSB assess its position in the market. As the relationship developed, so the need for radical change and re-engineering of the bank became more apparent.

This need arose both from the examination of internal factors (processes, systems etc.) and from the fast moving reality within which the bank was operating (in particular the growing competition from the commercial banks). Over time, these factors created *a sense of urgency, and the climate for change* amongst growing numbers of management and staff – a climate that both KPOSB management and *MicroSave* were active in encouraging. A similar dynamic occurred during the relationship with TPB, which also started with collaboration on product development of the Quick Account.

Categorisation of state owned institutions and *salary guidelines* within these categories also create challenges, particularly for key positions and skill-sets that are often difficult to acquire and retain. In some respects, the converse of this issue arises when a state-owned institution is down-sizing on staff with low-levels or inappropriate skills or arising from computerisation and process re-engineering. The government's responsibility to offer employment opportunities to its citizen and lay-off is the last resort dictates that there is long approval process that needs to be followed prior to laying-off staff. So *massive re-training and re-deployment programmes* are at times necessary. These can be facilitated by staff incentives focused on the new behaviours required from staff – for example on improving customer service, speed of service, new account acquisition etc.

The *budgetary constraints* sometimes faced by post banks are often driven by their historical dependence on T-bill income. Most post banks are required by their enabling Acts/laws to invest mainly in government instruments and thus support national development. State corporations again cannot borrow without the approval of the share holder, the government who guarantees the amount borrowed. Fluctuating T-bill interest rates have meant significant variances in annual profits and capacity to carry out major projects as would readily happen with the competing private sector financial institutions.

With all significant change management processes, it is important to *look for "quick wins"* and to communicate and celebrate as they occur. But also, in the context of post banks it is fair to expect even "quick" wins to take time, since policies, procedures, mind-set and culture are deeply entrenched and resistance can be expected from a variety of quarters. Nonetheless successful market research to inform product marketing; product costing exercises that lead to pricing revisions or economies; or process mapping that leads to substantive changes in operational procedures can quickly yield significant bottom-line benefits.

On a more prosaic level, working with both KPOSB and TPB has necessitated careful *attention to the banks' financial planning systems*. Attention is required both in terms of the annual budget cycle (when it is important to ensure that the following year's activities receive allocations) and planning for (or occasionally using the project's money to get around) the lead times for purchasing even relatively small items to support the strategic marketing and change process.

MicroSave has provided all its periodic inputs over a length of time for several reasons. Firstly *MicroSave*'s philosophy is to provide training followed by on-site technical assistance with a view to transferring and embedding the skills within its Action Research Partners. Secondly, experience has shown that the slow, incremental build-up of inputs as trust and understanding of one another increased allowed a deep, open relationship to develop. The relationship has not always been one of roses and light – there were times when *MicroSave* saw opportunities and needs to change while the post banks did not, or accorded them different priorities. Nonetheless, over time, the maturation of this relationship has allowed *MicroSave* to draw attention to sensitive issues and to provide recommendations on almost all aspects of both banks' business … even when the nature of the advice was not what was expected or wanted! Comments from management staff bear testimony to the development and depth of this relationship:

- "*MicroSave* now understands our environment; they understand our problems".
- "Now they are part and parcel of us".
- "It helps us to have an extra push from outsiders".
- "*MicroSave* helped us with *Bidii* and *Bidii* changed the bank" (Porteous, 2005).

However, both *MicroSave* and KPOSB believe that the process of implementing the recommendations and changes could have progressed at a much faster pace. This would have been greatly facilitated had the *MicroSave* mid term review's recommendation "for two advisors … to be provided to KPOSB" (Robinson and Anyango, 2002) been implemented. The same recommendation was made for TPB, and it too awaits the implementation of that recommendation. There are times when donors systems and politics are as cumbersome as those of the post banks!

"We all know elephants are huge animals which seemingly move their big bodies slowly. If one looks carefully however, one notices that the elephants are not actually slow, but that it requires more effort and momentum to move its huge size. In fact, when an elephant senses danger, it moves very fast and rather gracefully… in an elephant dance….The savings banks are not only moving on with their change process, but are also learning how to tango as well"[A. Nyambura Koigi].

The institutional re-engineering process is by no means complete at KPOSB or TPB and time will tell how successful it will be in the long run. It is clear, however, that both organisations are well into a journey from which there is no looking back.

For more on Kenya Post Office Savings Bank please see its website: www.postbank.co.ke.
For more on Tanzania Postal Bank please see its website: www.postalbank.co.tz.
For more on *MicroSave* please see its website: www.*MicroSave*.net.

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Appendix 1. Competition Analysis Matrix as of October 2006

Savings Account	**KPOSB**	**Equity Bank[5]**	**Kenya Commercial Bank**	**K-REP Bank**	**Co-operative Bank**
PRODUCT (DESIGN)					
Opening Balance	Ksh.300 (*Bidii*) Ksh.500 (Passbook)	Ksh.400	Ksh.20,000 in executive branches: Moi Avenue & Treasury Square. Ksh.3,000 in other key city branches: University Way, Kisumu, City Centre, Kipande House, Sarit Centre, KICC and Milimani. Ksh.1,000 in all other branches	Ksh.5000	Ksh.1,500
Other Requirements	National ID/Passport 2 passport-sized photos	National ID/Passport	National ID/passport 2 passport-sized photos 2 referees who hold accounts with the bank	National ID/passport, 2 passport-sized photos 2 referees who hold accounts with the bank	National ID/passport, 2 passport-sized photos
Other facilities	Partially networked passbook Domiciled card	Cheque book Fully networked branches ATM card >100 ATMs	Cheque book ATM card Fully networked branches	Smart Card Cheque book	Cheque book ATM card Smart card
PRICE					
Withdrawal policy	*Bidii* Card: Can withdraw any amount, any time during office hours. Passbook: Limited amounts, once every seven days	Can withdraw any time during office hours. ATM withdrawal is any time.	No minimum balance. Can withdraw any time during office hours. ATM withdrawal is any time.	No minimum balance. Can withdraw any time during office hours. ATM withdrawal is any time.	No minimum balance. Can withdraw any time during office hours. ATM withdrawal is any time.
Interest rate paid	Maximum of 3%	Minimum 0.5%	Minimum 0.35%	Maximum of 3%	No interest paid
Overdraft interest rate charged.	No over draft facilities	No overdraft facilities	No over draft facilities	No over draft facilities	No over draft facilities
Service fee	Nil	Nil	Depends on account balance: >Ksh.50,000: Nil. <Ksh.50,000: Ksh.200. <Ksh.20,000: Ksh.400	Nil	There is ATM fee

[5] Equity bank does not operate current accounts; the team reviewed ordinary savings account which more or less act as a current account.

Savings Account	**KPOSB**	**Equity Bank**[5]	**Kenya Commercial Bank**	**K-REP Bank**	**Co-operative Bank**
Ledger fees	*Bidii* Card: Ksh.75 per quarter. Passbook: Ksh.840 per annum.	Nil	Ksh.35 per entry. Minimum of Ksh.350 p.m. Statements free but interim statements cost Ksh.100. Duplicate statements: <2 years Ksh.300 2-5 yrs Ksh.750 >5 yrs Ksh.2,000	Depends on balance: < Ksh.10,000: Ksh.20 per month. Normal statement: Free. Interim statement: Ksh.150. Statement 1 year & above- Ksh.100 per page.	Scheduled statements free. Interim Ksh.100 per page Duplicate statements: <2 years: Ksh.250. 2-5 years: Ksh.500 > 5 years: Ksh.1,000.
Cheque processing fee	Ksh.200 per cheque	Ksh.100 per cheque	Ksh.500 for customers and Ksh.700 for non-customers. Cheque book costs Ksh.375	Ksh.150 for customers and Ksh.300 for non-customers. Cheque book costs Ksh.10 per leaf	Ksh.200 for school fees and Ksh.500 for other payments for both customers and non-customers
Withdrawal fee	*Bidii* Ksh.30 per withdrawal Passbook: Nil	Ksh.52 per over the counter withdrawal Ksh.30 per ATM withdrawal	Ksh.20 for ATM. Over the counter cash withdrawals: 2% of amount subject to a minimum of Ksh.300.	Free unless the customer withdrawals cash > 4 times a month, then Ksh.150.	Ksh.25 for withdrawals at the ATM
PROMOTION					
Marketing Information	Notices/posters/brochures in the branches. Customer service officers and enquiries desks.	There were brochures, leaflets, enquires and customer service desk within the branch. Attractive brochures available and signboards are well displayed.	The bank has colourful brochures. Account opening desk within the branch but rarely attended to. Signboards well displayed.	Have brochures with all account information. Signboards are well displayed in the bank but old and small in size.	Have brochures with all account information. Signboards well displayed in the bank.
Advertising	Direct marketing through marketing officers. Corporate social responsibility activities.	Bus stop sheds, and sign posts at the bank building. New framed posters for each major product mounted in the banking hall.	Electronic and print media.	Electronic and print media	National media – radio and newspapers. Particularly around credit product and new mobile phone account.
PLACE					
Location and Banking Hall environment.	Located throughout the country Opening: 8.30am Closing: 4.00pm	Located throughout the country. Morning hours are a bit light but towards midday and end of the month halls are congested. >100 ATMs installed.	Located throughout the country. The banking halls are well spaced with air conditioning. ATM facilities offered at some branches.	Located in Nairobi, Mombassa and in part of the central district. Banking halls often small with long lines. Opening: 9.00am Closing: 3.00pm	Located throughout the country. The banking halls are well spaced with air conditioning. Opening: 8.30am Closing: 3.00pm

Savings Account	KPOSB	Equity Bank[5]	Kenya Commercial Bank	K-REP Bank	Co-operative Bank
		Opening: 9.00am Closing: 4.00pm	The bank opening and closing hours are 8:30am and 5:00pm morning and evening respectively		
POSITIONING					
Slogan/ Vision	Bank: "At your service nationwide" *Bidii*: "This one's for you"	Recently transformed into a bank and evolved the brand. "The listening caring, financial partner."	Recently re-branded "Making the difference."	"The bank for the people"	Recently re-branded "We are you"
Product image	Designed for small and medium scale earners.	Designed for small and medium scale earners.	Attracts big savers as well as medium scale savers.	Designed for small and medium entrepreneurs.	Designed for small and medium scale earners.
PHYSICAL EVIDENCE					
	Photo card for account holders (to be converted to an ATM card). Passbook	ATM cards Cheque book	ATM card Cheque book	ATM card Cheque book Passbook	Cheque book, ATM card, very basic mobile phone banking.
PEOPLE					
	Varied – some staff are helpful, others rude and disinterested. New Customer Relations Officers making a big improvement.	Enquiries desk busy all the time. Staff are courteous to clients and ready to give any information required of them	Less caring staff on information desk and inquiries desk are busy. The tellers are smart and friendly.	Account opening and customer care counters are ill positioned. Security guards supportive to customers. The Teller was professional and kind.	Teller was kind and willing to give all the required information.
PROCESS					
	Computerised system – has lead to fast processing (<3 minutes at the teller) but queues are beginning to form to get to the teller in some branches	Branch computerization seems helpful though still there are still long queues.	Fast and efficient processes due to due computerization. Good security at the branch	Efficient front desk staff.	Slow Front Desk process due to high number of clients and few front desk staff.