



Initial results of field visit to SANASA Societies Issues for IT development

Discussion document

Colombo
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Purpose of the document: Provide initial view on IT development in Primary Societies

Issues covered

- ▶ Initial findings from visits to Primary Societies
- ▶ Focus on IT issues
- ▶ Identify implications for Shakthi program

Proposed next steps

- ▶ Structure a program to develop IT functionality in SDBL
- ▶ Review Shakthi proposal to make consistent findings
- ▶ Progress work to create a model society and determine appropriate platform



We visited 14 societies, which segment by location and size

Location		
Urban	<p>Monoragala 1, Anuradhapura 1.2, Anuradhapura 2.1</p> <ul style="list-style-type: none"> ▶ High competition - Members often use other banks for main banking needs ▶ Often strong association with 'community ideals' <ul style="list-style-type: none"> ▶ Often more interested in community issues, ▶ Less on financial services professionalisation ▶ Focus on loans more than savings ▶ Less interested in IT 	<p>Kegalle 1, Kegalle 2, Anuradhapura 1.1, Anuradhapura 1.3, Chilaw 1</p> <ul style="list-style-type: none"> ▶ High competition ▶ Often high transaction volume, many staff ▶ Finding it difficult to compete with banks that offer better services, such as transfers ▶ Full banking service ▶ Already using IT, or have plans to implement
Rural	<p>Monoragala 2, Anuradhapura 2.3,</p> <ul style="list-style-type: none"> ▶ Less competition ▶ May not have own building ▶ Often constrained by geographic area 	<p>Anuradhapura 2.2, Puttulam, Chilaw 2</p> <ul style="list-style-type: none"> ▶ Less competition – members rarely have other bank accounts ▶ Low transaction volume – used for long-term savings and loans ▶ May be using IT, or considering it

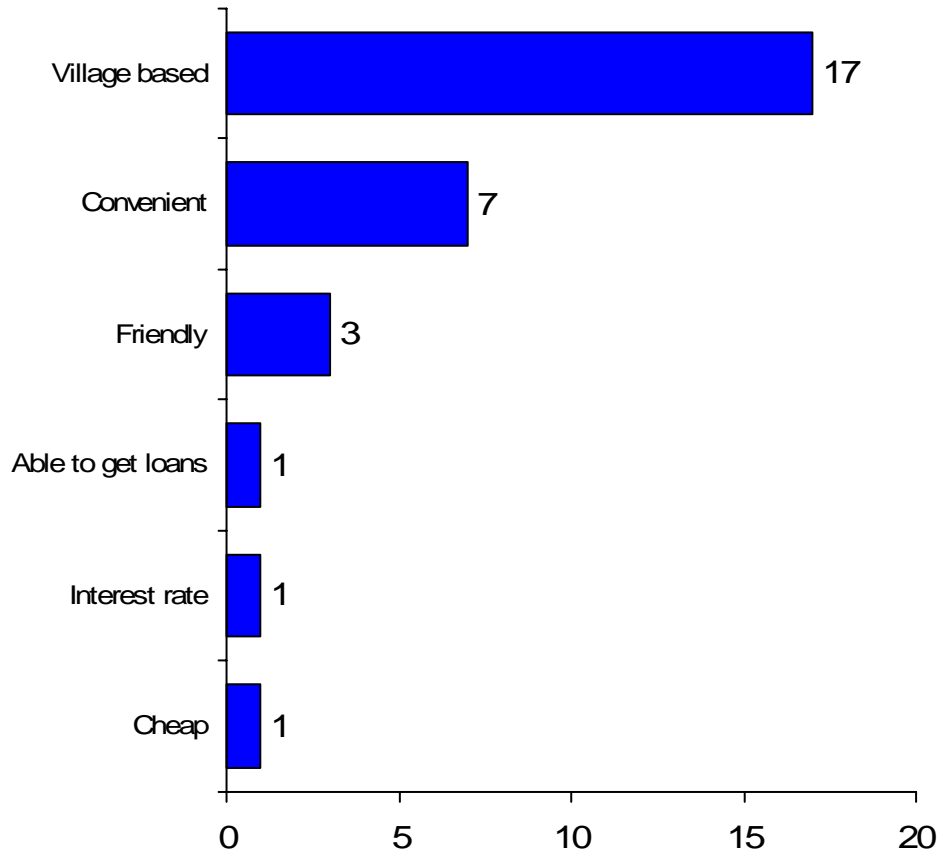
Small
Large

Size



There is consistent agreement across all types of society that the ‘village-based’ nature of SANASA is the main attraction – IT must support this

“Why do you use SANASA rather than another bank?”



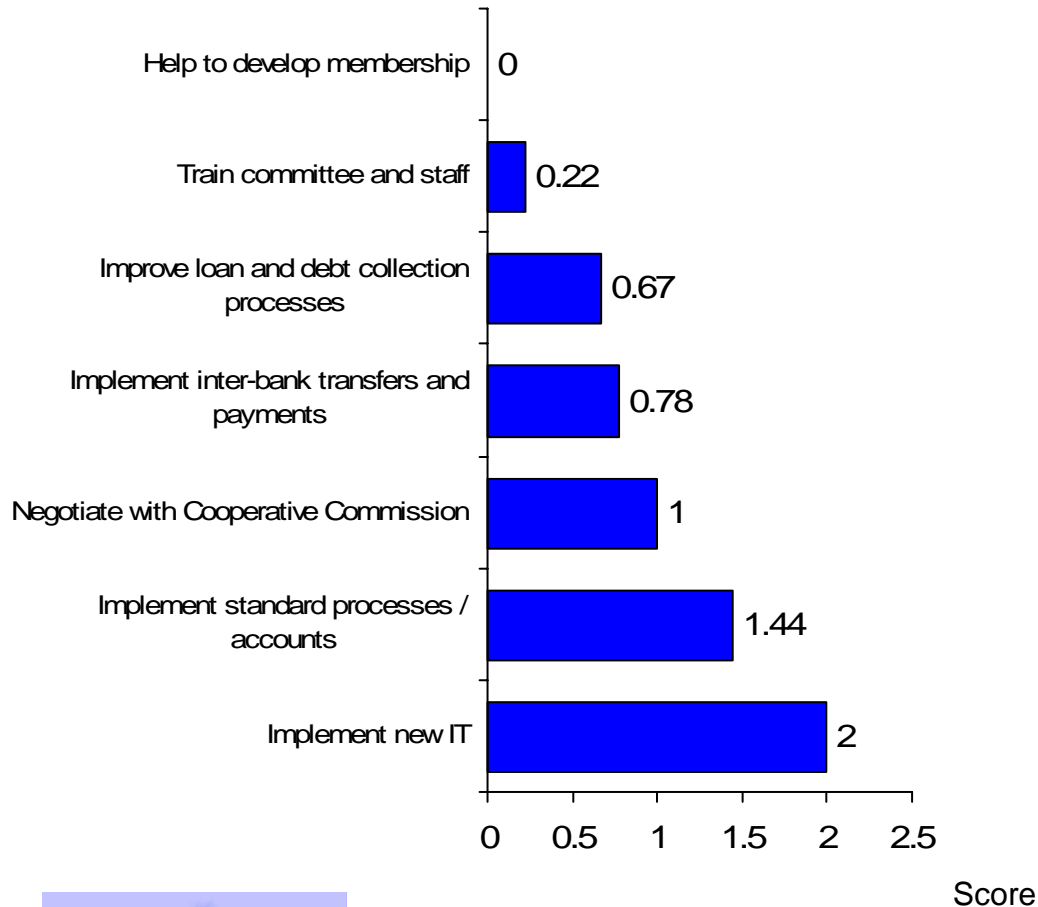
- ▶ Most important reason given by Primary Society members for using SANASA is that it is Village-Based
 - “Good for our society”
 - “Keeps money in the village”
 - “Owned by us”
 - We know and understand it”
- ▶ Any future development of the Primary Societies must ensure that it does not undermine this ‘local feeling’



Source: Interviews with 30 Primary members

IT development is top of the list of demands of Primary Societies

Primary Society preference for external assistance



- ▶ Many Primary Societies are already implementing IT systems by themselves
- ▶ Of all Primary Societies interviewed, IT systems were the most commonly requested external assistance
 - More than 50% of Primary Societies put assistance with IT as their number 1 priority
- ▶ Societies understand, however, that IT can be a considerable cost for them
- ▶ Exception: Some small societies think they have other priorities – e.g. need a building first

Source: Interviews with Primary Societies
‘What are the top 3 priorities for External Assistance?’
Average over primary Societies: Top =3, Second = 2, third = 1

There are clear cost savings from implementing IT

Process	Driver of saving	FTE saving
End of day processing: normal week	Reduce time taken for end of day processes from 2 hrs to .5 hrs	0.42
End of day processing: month end week	Reduce time taken for end of day processes from 3 hrs to .5 hrs	0.28
Deposit and withdrawal transactions	50 transactions per day, reduced by 4 min each	0.41
Opening loan accounts	50 transactions per month, reduced by 50 min each	0.2
Opening savings accounts	20 transactions per month, reduced by 15 min each	0.02
Information requests	25 transactions per day, reduced by 2 min each	0.1
Total FTE savings		1.43125
Annual staff cost (Rs)		120000
Annual saving (Rs)		171,750
Annual saving (\$)		1,718

Source of cost saving

- ▶ Up to 50% reduction in processing staff time in a typical society (rural society, 20m assets)
- ▶ Additional cost savings may be possible, but difficult to quantify:
 - Reduced risk of loss from operational errors – although no societies said they had any losses to date
 - Improved debt collection, from implementing standard reporting on delinquent debt and possible central monitoring
 - Reduced time defining standards

Source: Interviews with Chilaw rural Primary Society, team estimates

Assumes 3 processing staff, 50 transactions per day



IT may also improve customer perceptions – one society estimates 50% volume increase in 3 years

Major customer issues – all can be impacted by IT

Confidence in SANASA

- ▶ 'Confident savings will be re-paid' is the most important attribute of a bank (see next page)
- ▶ Although members judge their confidence in SANASA as higher than other banks...
- ▶ ... this tends to refer to trust in the individuals, rather than trust in the institution
- ▶ Many move large savings amounts to state banks once they have a chance – up to 50% of society savings have moved
- ▶ Societies invest to improve their customer's confidence (build a building, buy a safe, IT)

Ability to make transfers

- ▶ While members do not judge this as being important in a bank...
- ▶ ... approx 50% of customer currently make or receive payments (utility bills, salaries, pensions, etc)
- ▶ ... which is the reason for having another bank account for 50% of those who have one
- ▶ ... the number of payments will increase 20% per year
- ▶ ... 90% of members would like to be able to make payments
- ▶ An IT system may allow payments to be made – although there may be an issue with govt pay in

Efficiency

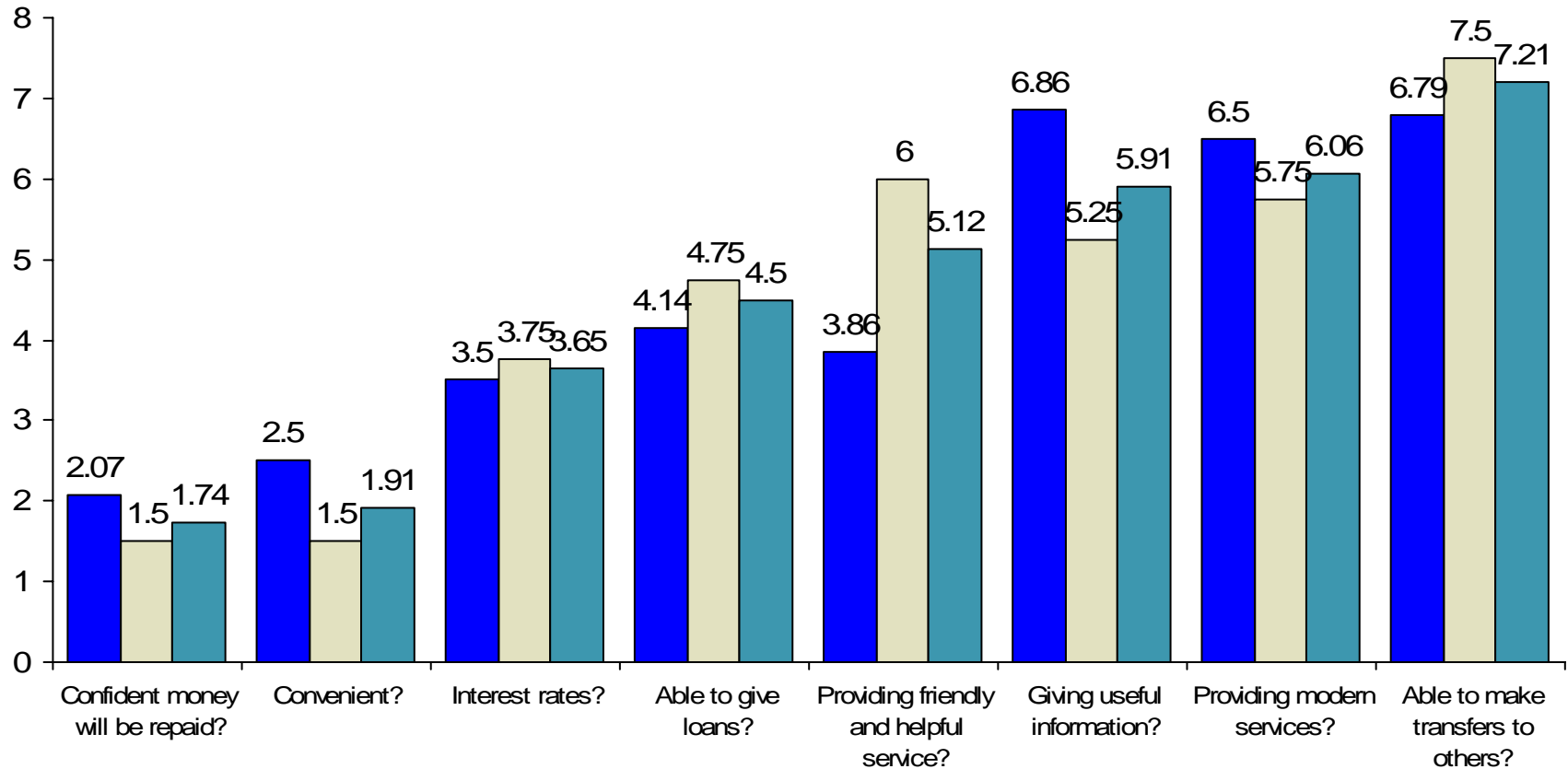
- ▶ Most common reason customers say they want the society to have IT is that it will increase speed of service, and be more accurate
- ▶ Primary Societies perform relatively poorly in their ability to provide useful information at the moment – considered worse than other banks

Modern appearance

- ▶ While it is not judged as being important by most members
- ▶ Members did state that other were concerned by the 'old-fashioned image' of SANASA – especially the young

Back-up slide: What are the most important attributes of a bank?

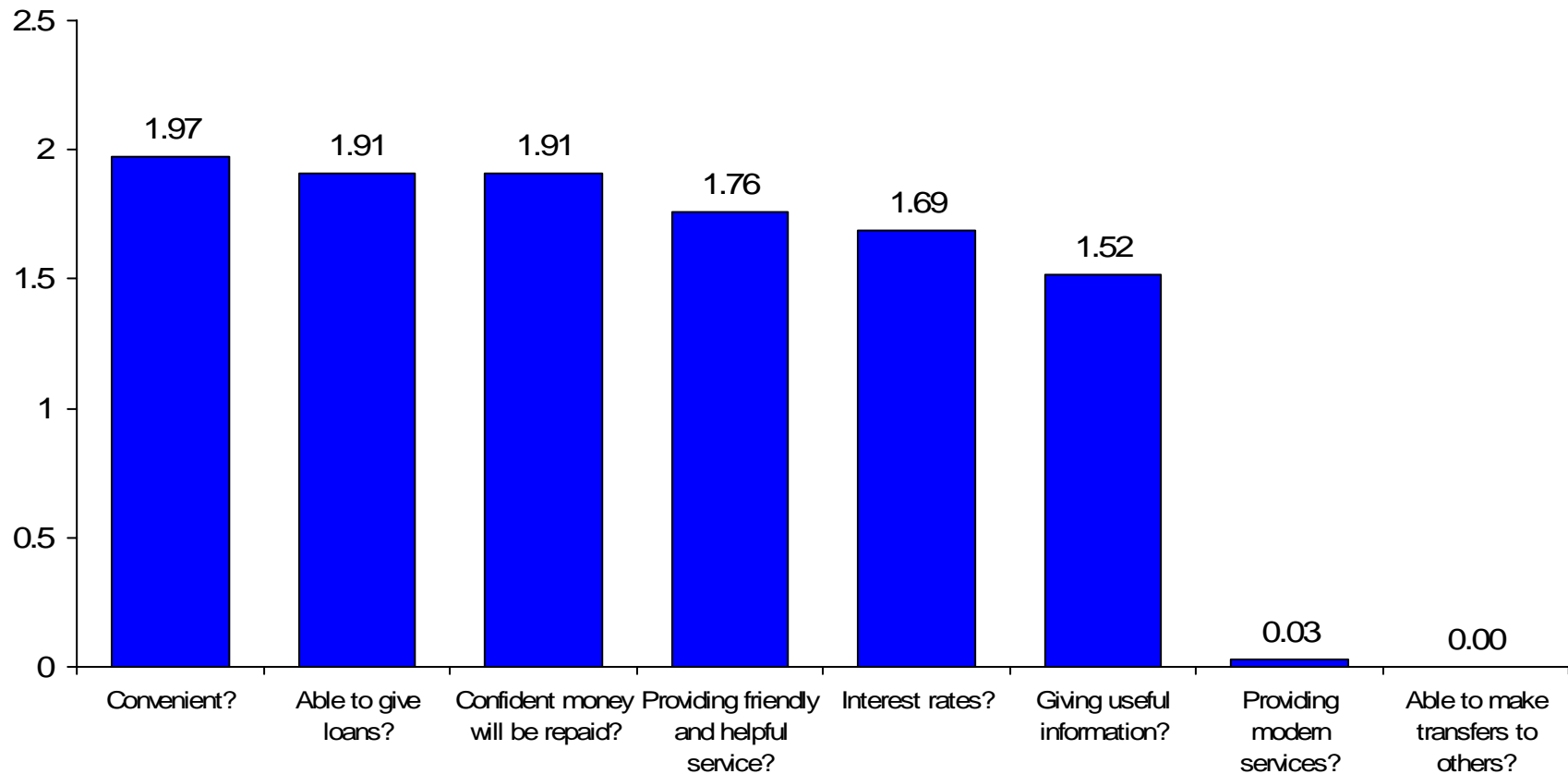
Primary Society members ranking of importance of attributes of banks



Source: Interviews with 30 Primary members

Back-up slide: How does SANASA compare to other banks?

Primary Society members and non-members perception of SANASA



Source: Interviews with 30 Primary members

3 = Better than other banks

2 = Same as other banks

3 = Worse than other banks



Implementing IT may solve other issues in Primary Societies

Issue	Illustration	Impact of IT
<ul style="list-style-type: none"> ▶ Poor product design / interest rate setting 	<ul style="list-style-type: none"> ▶ Large variety of products – based on experience of staff rather than customer needs ▶ Interest rates set based on manager / leader's feelings, rather than analysis – set for 2 years ▶ One society had higher interest rates on savings for non-members than members 	<ul style="list-style-type: none"> ▶ Standardises product set ▶ Provides information on society operations, allows centralised provision of advice to management ▶ Allows centralised decisions on interest rates, etc.
<ul style="list-style-type: none"> ▶ No standard accounts / controls 	<ul style="list-style-type: none"> ▶ Each society defining own accounts process ▶ No implementation of credit controls 	<ul style="list-style-type: none"> ▶ Implements standard processes at the same time
<ul style="list-style-type: none"> ▶ Lack of disaster recovery 	<ul style="list-style-type: none"> ▶ No societies visited said that they had back-ups of information 	<ul style="list-style-type: none"> ▶ Able to make back-ups of customer information easily
<ul style="list-style-type: none"> ▶ Poor staffing model 	<ul style="list-style-type: none"> ▶ Some societies had large number of staff for their transaction volumes –under-used 	<ul style="list-style-type: none"> ▶ Staffing model can be adjusted during roll-out of new IT system
<ul style="list-style-type: none"> ▶ Low levels of staff motivation 	<ul style="list-style-type: none"> ▶ Managers in some societies are very passive – do not work to increase business ▶ Manager's activity appears best predictor of society success 	<ul style="list-style-type: none"> ▶ New technology – more valued job ▶ May be possible to motivate staff through the payment structure
<ul style="list-style-type: none"> ▶ Little central monitoring or control 	<ul style="list-style-type: none"> ▶ Different accounting approaches, MIS, data structures – which cannot be consolidated ▶ No data to act upon to improve performance 	<ul style="list-style-type: none"> ▶ Standardises processes ▶ Promotes integration into a network ▶ Allows consistent monitoring

Finally, IT is likely to be the most effective way to achieve change in societies

Drivers of change	Examples	Issues	Effective?
▶ Organisation structure changes	<ul style="list-style-type: none"> ▶ Change organisation structure within Primary Societies ▶ Change ownership ▶ Consolidate societies 	<ul style="list-style-type: none"> ▶ Can achieve rapid change... ▶ ... but difficult to achieve in SANASA, due to cooperative nature 	No
▶ Introduction of new processes	<ul style="list-style-type: none"> ▶ Introduce standard accounting processes ▶ Introduce standard credit evaluation and monitoring 	<ul style="list-style-type: none"> ▶ Much more simple to implement if done with supporting tools ▶ Needs detailed design phase to determine best processes 	Yes
▶ Introduction of new tools	<ul style="list-style-type: none"> ▶ IT systems ▶ Standards templates, formats, etc. ▶ Support / people to call 	<ul style="list-style-type: none"> ▶ Costly and complex roll-out ▶ Not addressed previously 	Yes
▶ Development of Staff	<ul style="list-style-type: none"> ▶ Recruitment program ▶ Remuneration levels ▶ Training programs 	<ul style="list-style-type: none"> ▶ Often slow to implement ▶ Needs to be followed-up with change in how work is done to 'stick' 	Perhaps

Very effective in combination



IT implementation alone will not address all issues in some Primary Societies...

Additional needs of Primary Societies	Examples	Large socs?	Small socs?
<ul style="list-style-type: none"> ▶ Negotiation with Cooperative Commission 	<ul style="list-style-type: none"> ▶ Many societies' growth is limited by geographic boundary : Cooperative Commission needs to approve before members can join from other areas - Some societies applied in 1990 <ul style="list-style-type: none"> – Change from un-limited to limited liability – Audit processes and financial security – Many societies have more non-members than members ▶ Some societies say Cooperative Commission creates administrative red-tape <ul style="list-style-type: none"> – Approve capital expenditure over Rs5000 – Approve staffing increases, etc. 	Yes	Yes
<ul style="list-style-type: none"> ▶ Improvement of Credit and Debt Collection Processes 	<ul style="list-style-type: none"> ▶ Some societies have bad-debt problems ▶ Difficult to gather debts from 'powerful' members ▶ May be made worse by large numbers of non-members 		Yes
<ul style="list-style-type: none"> ▶ Premises 	<ul style="list-style-type: none"> ▶ Societies often want to build a premises for their safe, before getting IT... ▶ ... but the requirement may depend upon the choice of terminal (i.e. no need if using a hand-held) 		Yes

... and may carry risks that should be understood

Risks from IT implementation

Do not lose sight of affordability

- ▶ Initial estimates indicate total annual costs (including depreciation) of \$3,000 for 1 PC, \$5,500 for 3 PCs (see next page)
- ▶ Compared to (unproven) benefits of \$1700 (costs) + \$2100 (revenue increase) = \$3,800
- ▶ Keep focus on low cost options, and benefit capture

Do not undermine local control and feel

- ▶ Members most value the local nature and control of Societies
- ▶ Local products may be required – e.g. interest rates set according to cost profile
- ▶ Automation should be aware of areas of standardisation, areas of variation

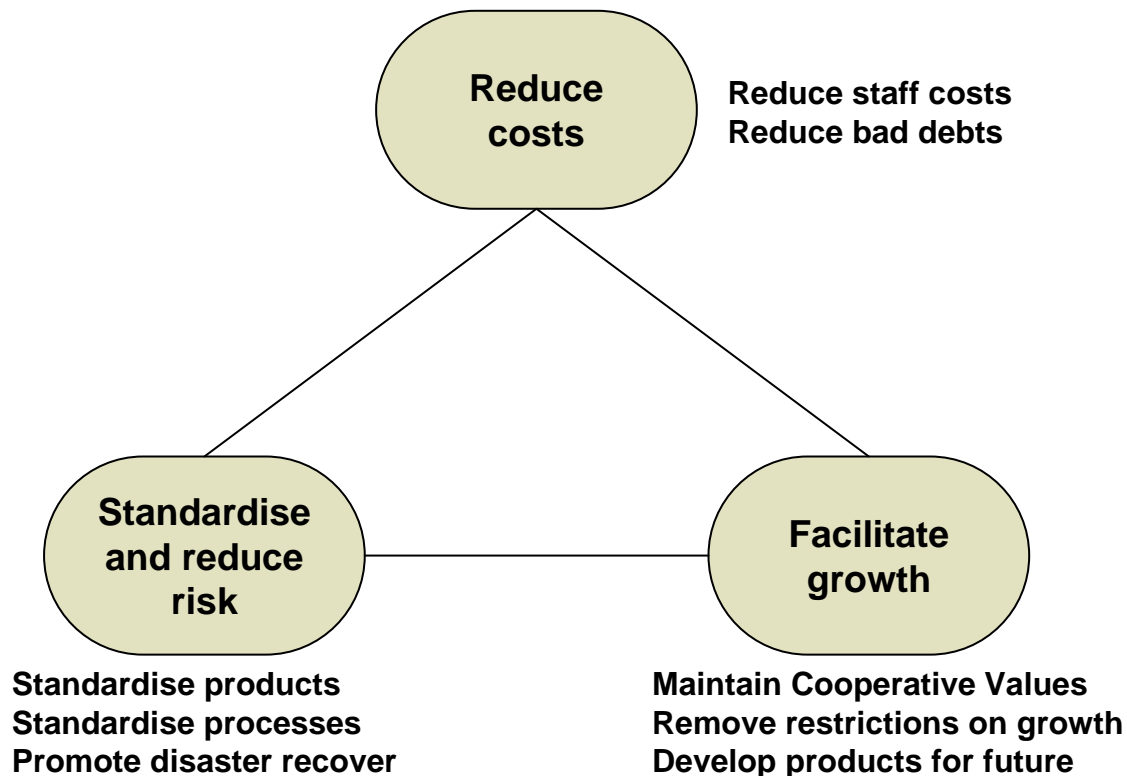
Do not enter a market where SANASA cannot compete

- ▶ Some Societies are already trying to become 'transaction centres' – e.g. Chilaw
- ▶ SANASA is not going to be able to compete in this market for some time
- ▶ Better to focus on low transaction, high balance models



In summary, IT led transformation appears to be the priority in Primary Societies

Objectives of program in Primary Societies



Tools

- ▶ Define standard processes and products (model society)
 - Transactions
 - Accounts
 - Credit and debt collection
- ▶ Implement new IT systems to support processes
- ▶ Negotiate with Cooperative Commission
- ▶ Support Cooperative Values in Societies



The project has a very strong business case

Assumptions

'Base' assumption	Source /Rationale	'Likely' assumption
Investment costs in larger Primary Societies will be \$6,900 (3 terminal solution). Investment costs in smaller Primary Societies will be \$4,100 (1 terminal)	Bottom-up estimate of hardware, software, systems integration, training costs	Same
50 larger Primary Societies will join the program, 50 smaller Primary Societies (over first two years)	Currently at least 80 Primary Societies are large enough to make the 3 terminal solution economic 200 societies have already bought a PC with banking software	25 societies will continue to join every year
Incremental Revenue up-lift in Primary Societies of 10%	Estimates from Primary Societies. Many Primary Societies estimated considerably higher revenue impacts (up to 30%)	Uplift of 20%
Cost income ratio in Primary Societies falls from 87% to 75% in larger Primary Societies and 80% in smaller Primary Societies	Bottom-up analysis of current costs and revenues in Primary Societies, and bottom-up impact assessment of automation on staff and on operating costs. Assumes only 50% of the expected benefits are achieved.	Falls to 75% in both cases
Discount rate	15%	15%

Results

\$m	'Base' assumption	'Likely' assumption
Total investment cost	.7	2.1
Increase in profits (2013)	3.2	15
NPV	1.0	5.7
IRR (%)	69%	142%
Members impacted (2013)	30,000	100,000

There are two technical options – likely to be suitable for different size societies

Low cost solution – for smaller societies

**'Back-end'
banking
system**

- ▶ Serving a number of Primary Societies
- ▶ Using some form of database system

- ▶ Communication link
- ▶ May be GPRS, or via modem



- ▶ Hand-held device
- ▶ Located in Primary Society
- ▶ Logging transactions in and out
- ▶ Used by Primary Society manager...
- ▶ ... walking around the local area

Higher cost solution – for larger societies

- ▶ PC Based solution
 - ▶ Requires investment in PC hardware
 - ▶ Requires staff to know how to use a computer
- ▶ Could be stand-alone
 - ▶ No need for communications costs
 - ▶ Simple to implement
- ▶ Could be linked to a central system
 - ▶ May be lower cost hardware
 - ▶ Requires communication
 - ▶ Allows more functionality – back-ups, transfers, etc.
 - ▶ Simpler to maintain

A number of questions are open – answers will be provided by a Pilot

Design Issues

- ▶ Should there be a standardised branch model?
- ▶ Should the system be linked to SDBL?
- ▶ What functionality is needed from the IT system?
- ▶ What is the right type of terminal equipment?
- ▶ Which societies should be supported?
- ▶ If there is to be back-up or a networked solution, where should the servers be held?
- ▶ How should societies pay for the system?

Implementation Issues

- ▶ What are the lessons from the Shakthi program?
- ▶ What is the workplan for determining the most suitable architecture and system?
- ▶ What are the major barriers to implementation of the program?
- ▶ What are the immediate next steps?

