

PRESENTATION

BY

THE CO-OPERATIVE BANK OF KENYA LIMITED

TO

SECOND WORLD CONGRESS ON

AGRICULTURAL AND RURAL FINANCE

31ST OCTOBER – 3RD NOVEMBER 2002

BANGKOK, THAILAND

ON

"Successful Bank Financed Technology

Empowering Project at Grass Roots Level"

PREAMBLE

One of the key ingredients to the development of a strong and sustainable economy of any nation is the accessibility of affordable financial services to a vast majority of the population.

The significance of financial services to economic and social development of any nation is now understood to go well beyond credit. Secure, high quality savings rank amongst the most needed financial services by poor households. There is a common need by all households, irrespective of economic classification, to manage their finances to reduce vulnerability due to fluctuations in cash flows and also the need to accumulate savings for investment and other productive opportunities.

Evidence from a diverse range of institutions in Kenya and internationally shows clearly that financial services can be provided to low income markets and small scale enterprises on a profitable basis. The key challenge therefore is to find new and innovative ways of broadening access to financial services to include these markets.

Accessibility to affordable financial services will therefore be determined by among other things:

- Number of financial institutions operating in the country, their total number of outlets and distribution (outreach) countrywide.
- Range of products/services available and how well they cut across the various economic sectors and market segments.
- Cost of doing business -which shall therefore determine cost of banking service.
- Use of appropriate technology to come up with innovative products and delivery channels
- Suitable regulatory framework to ensure stable and efficient financial system

The Co-operative Bank of Kenya Limited

Founding philosophy

The Co-operative Bank of Kenya was formed by co-operators through their Co-operative societies in 1965 to deliver financial services to the Co-operative Movement in general for maximum benefit of the societies' members.

Founding objectives

- To generate funds to loan to its members;
- To channel available funds of the Co-operative Movement through the Bank where they can be utilised to the best advantage of the members;
- To provide funds for crop and other agricultural development ventures.
- To solicit and provide funds from external sources for long-term development projects;
- To provide complete and efficient banking services for the benefit of its members and the public at large.

The emphasis has been to continually focus on benefits to our members by availing more banking services and products that can improve their financial welfare.

Our Vision Statement

The Bank's vision statement is;

"To be the leading and dominant Kenyan Bank with a strong countrywide presence playing a central role in the Co-operative movement and providing relevant and innovative financial services to our customers for optimum benefit of all our stakeholders"

Our Mission Statement

The Bank's mission statement is;

"To offer value added financial services to our chosen market segments with special emphasis on the Co-operative movement through a highly effective network of service points, excellent customer service and a highly motivated team of qualified personnel"

Our Strategic Objectives No.1

To remain the **leading** financial services provider to the Co-operative Movement by achieving and maintaining **95% market share** of all assets and liabilities held in the banking system by the movement

Our Strategic Objectives No.2

To establish **innovative, value adding linkages** with the Co-operative Movement thus becoming the leading Kenyan bank offering affordable financial services to the over 6.3 million members of the Co-operative Movement particularly to those currently unable to access financial services

Some key facts about Co-operative Bank

- Co-operative bank is owned 100% by the co-operative movement in Kenya. It is the only Co-operative Bank of its kind in Africa

- The Bank is the 4th largest in Kenya in terms of assets and liabilities and in 2000 it became the 2nd bank in Kenya to offer fully centralized, online, real-time banking throughout the entire branch network.
- We have 40 branches countrywide all interlinked online real time with more in the pipe line in the next 12 months.
- With 127 Automated Teller Machines (ATMs), we have one of the largest ATM network in Kenya.
- Our staffing level is in excess of 1600 and growing.
- The Bank has a fully dedicated Co-operatives Banking Division to serve the movement and a well staffed Sacco Training Unit at our Co-operative Bank Management Centre (CBMC).
- We have a dedicated subsidiary- Co-operative Consultancy Services Kenya limited to give advisory services to the movement.
- Our customer base stands at 650,000
- Our financial highlights as at 30th June 2007 reveal:
 - Assets of Kes 58.7 billion (USD 0.88 billion)
 - Liabilities of Kes 53.2 billion (USD 0.79 billion)
 - Share holders funds of Kes 5.5 billion (USD 0.08 billion)
 - Profit before tax (PBT) of Kes 1.1billion (USD 0.016 billion)

A few facts about the Co-operative Movement in Kenya

- With over 10,000 registered co-operatives, Kenya has the most developed co-operative movement in Africa.
- We have 5000 savings & credit co-operatives (Saccos) who have mobilised over Kes.150 Billion (USD 2.14 Billion) in savings representing about 25% of total Domestic Savings
- With over 6.3 Million registered members, the sector directly or indirectly touches the livelihood of over 25.2 Million Kenyans, about 72% of our population
- 163 out of 5000 Saccos are operating front office activity (FOSA) which offers basic 'banking services' to it members.
- The 163 FOSA's serve over 2.3 million members or about 34% of all customers served by various financial institutions country wide.

Mutual Partnership with the Co-operative Movement –Key Milestones

Our partnership with Co-operative Movement dates back to the early 70's and has the following key milestones:

In the 1970'S & 1980's we partnered with the Government and other Development Partners to bring together primary agricultural marketing co-operative societies to form District Co-operative Unions (DCUs) with a mandate to offer transport, book keeping, management, merchandise, savings, credit and payment services to affiliate societies and the respective members.

In this initiative Co-op bank offered whole sale banking services plus technical advisory services to both the **District Co-operative Unions** and the affiliate agricultural marketing co-operative societies.

The **District Co-operative Unions** on the other hand offered retail banking services to the society general membership through newly established **Union Banking Sections (UBSs)**.

During this campaign about 20 **Union Banking Sections** were established in different parts of the country to cater for society members involved in coffee, pyrethrum, dairy, cotton and cashew nuts farming.

During the same period we experienced the birth and coming of age of the employee based **Savings and Credit Co-operative Society Model (SACCO)** mainly in the urban areas.

In Kenya today we have about 5000 urban Saccos with a savings mobilization of over Kes 150 billion.

During the period around 1980's & 90s, several District Co-operative Unions experienced financial strains partly due to downturn in the economy (local and global) affecting agricultural prices, poor weather patterns and management problems among other factors.

A few Union Banking Sections (**UBSs**) ceased operations leading to loss of members' funds and low confidence among the members.

Arising from the above negative developments Co-op Bank in partnership with the Government and other development partners undertook intervention measures whose aim was to:

- Protect members funds in the UBS's,
- Ensure continuity of service
- Expand this service to other agricultural sub sectors in rural Kenya.

A **Rural Banking Unit** was therefore set up in Co-op Bank to spearhead:

1. Transformation of UBSs into fully autonomous member- owned Rural Savings and Credit Co-operative Societies (**Rural Saccos**).
2. Carry out regular inspection (this function ceased after 1997 legislative changes)
3. Carry out training and capacity building in rural Saccos
4. Promote growth of Rural Saccos country wide

In the 1990's and based on our experience with regard to Union Banking sections, the successful urban based/employee based Saccos the Bank working with other stake holders came up with Sacco model to cater for farmers who receive regular incomes from the sale of their agricultural commodities.

This initiative saw the launch of many rural Saccos based on the following agricultural activities tea, sugarcane, rice and dairy among others.

Co-operative Bank has supported these Rural Saccos by:

1. Conducting feasibility studies to start front office services (FOSA)
2. Supervising Implementation of the FOSA project (project management)
3. Staff and member Training on banking and related services
4. Advisory services on corporate planning, computerization, product development etc.

Launch of Urban Fosos

During the 1990's, the large multinational commercial banks withdrew their services from rural areas of Kenya allegedly due to the poor performance of the economy and the resultant operating losses.

Commercial banks also drastically increased the account opening and minimum operating balances. Monthly account maintenance fee/charge was also raised beyond what a common Kenyan worker could afford.

The result of all this was that a majority of Kenyans were literally kicked out of the formal banking system.

At this point in time Co-operative Bank decided to upgrade its Rural Banking Unit to also cater for Urban Saccos. The bank embarked on a campaign to assist Urban Saccos to establish Front Office Service Activity (FOSA) for use by their members as salary pay points and as suitable avenue for savings and short term advances.

To date we have 163 FOSAs countrywide (both urban & rural) mobilizing over Kes.150 billion in savings and serving over 2.3 million members.

Of these 45 are agro based while 60 % of the employee based Urban Saccos either have their headquarters in rural towns or have opened rural branches to reach out to their members.

Over 90% of the FOSAs are computerized to a fair degree though there is scope for improvement.

With the ongoing Government measures to revive the Kenya economy coupled with emerging competition from commercial banks and micro finance institutions, Saccos have been compelled to rethink their business model.

Saccos in partnership with Co-operative Bank have therefore embraced new strategies among them:

1. **Opening the common bond** so as to attract membership from other employers, economic sectors and geographical zones.
2. **Targeting the un banked** especially youth and women through self help groups.
3. **Modern technology** - Saccos have vigorously been computerizing their services to remain competitive.
4. **New products/services** - Saccos have developed new products in an endeavor to offer a one-stop- shop experience to their members.
5. **Franchise banking** arrangements with Co-op Bank wherein Saccos have been able to offer the following Co-opbank services over their counters by use of appropriate technology:

i. Bankers cheque

Sacco members are able to purchase Co-op Bank bankers cheque over the Fosa counters to pay school fees instead of going to commercial banks. The bank shares commission with the Sacco.

ii. Money Gram-International money transfer service

Sacco Members are able to send or receive money worldwide within 10 minutes. The bank shares commission with Saccos for this service. Co-op bank is responsible for system installation, training and marketing.

iii. Jumbo link- electronic funds transfer

Saccos use our electronic funds transfer service to disburse loans to members who bank elsewhere especially in remote stations. This has boosted efficiency and customer service for Saccos.

iv. Co-opnet

This is an office banking service enabling Saccos to access their accounts at the bank via internet for purposes of balance enquiry, statement printing, inter account funds, cheque book ordering and utility payments

v. **Sacco link**

The Bank has invested in a multi million project – *The Co-opswitch project* which has facilitated the issue of the - *Sacco Link Debit Card* – to individual members of the Saccos (Fosa customers) across the country.

The Sacco link service is a state-of-the-art IT- based service that will take Saccos to a complete new level in terms of sophistication and quality of service rendered to members.

Sacco link is uniquely designed to enable FOSAs get real time, online banking connectivity to Co-operative Bank,

This will enable members of Saccos who have accounts with their FOSAs to have access to their money and other banking services through Co-operative Bank ATMs countrywide.

The benefits of this system are enormous; the over 6.3 million members of the movement will now be able to carry out numerous transactions even though they do not have a bank account.

Sacco members who previously had to carry cash whenever they traveled away from the locations of their FOSAs do not have to do so anymore.

Sacco link card is visa based which means Sacco members will enjoy the convenience of using the card to buy goods and services at all shopping outlets that accept visa cards not just in Kenya but world wide.

The Sacco link service is a land mark achievement not only for the co-operative movement but also for the entire economy in that it has become one of the important tools for expanding access to financial services to majority of Kenyans who are currently out of the mainstream banking system.

CONCLUSION

Our efforts therefore have been focused towards an Integrated Co-operative Financial System that empowers the Co-operative Movement at the Grass Roots Level through key interventions among them appropriate technology, innovative value adding services, business models and outreach strategies.