

CO-OPERATIVE BANKS DEVELOPMENT AGENCY

THEME:

ENHANCING FINANCIAL INCLUSION
THROUGH A VIBRANT
CO-OPERATIVE BANKING SECTOR IN
SOUTH AFRICA

PRESENTATION ON

“AN AFRICAN PERSPECTIVE ON WHAT MAKES A CO-OPERATIVE
FINANCIAL INSTITUTION SUCCESSFUL”

PRESENTED AT

“CBDA CO-OPERATIVE FINANCIAL INSTITUTIONS CONFERENCE,
INDABA, CAPE TOWN, SOUTH AFRICA OCTOBER 2011”

BY:

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CEO

(KENYA POLICE SACCO SOCIETY LIMITED)

KENYAN PERSPECTIVE

- The Sacco movement has evolved in the past 40 years into a formidable force for the social and economic transformation of Kenyan people.
- In Kenya we have over 6,000 registered Saccos i.e. 46% of total 13,000 Co-operatives
- The Movement has a membership of over 8 million making it the largest in Africa. It impacts directly and indirectly on 72% of Kenya's population.
- Contribute to the direct employment of over 250,000 people and indirectly through establishment of linkages between firms, farms, market centres and provision for collective and individual investments.

- Out of the 6000 Saccos 215 (4%) have FOSAs offering basic banking services across the country
- All Saccos have mobilised over KSH.230 Billion (USD 2.42 Billion/ZAR 16.7 Billion) in savings i.e. more than 35% of the National Domestic savings.
- The 215 SACCOs with FOSAs have mobilised over 80% of the savings KSH.184 Billion (USD 1.94 Billion/ZAR 13.4 Billion)
- The FOSAs holds over 3.7 million accounts against Commercial Bank of about Kshs. 4.5 million
- As a result, Co-operatives are now playing an important role in the achievement of Kenya vision 2030 and the Millennium Development Goals.

- It is believed that co-operative Societies may not be the solution to the Kenyans problems, but they are certainly part of the solution.
- The United Nation General Assembly, has a clear affirmation that it supports co-operatives, declared the year 2012 as the International Year of Co-operatives. There is also a growing consensus among the International agencies about the importance of cooperatives.
- The Ministry of Co-operative Development provides enabling policy, legal and institutional framework

A CASE OF KENYA POLICE SACCO SOCIETY LTD

- Kenya Police Sacco society was registered on 20th November 1972 under the Cooperative Societies Act (Cap 490) of the laws of Kenya and started operating in June 1973. The Society has a membership of over 35,000 with an asset base of over US\$ 78 Million (ZAR 571 Million).



SOCIETY'S MANDATE

- ✓ To provide an opportunity for accumulating savings.
- ✓ To provide an investment opportunity
- ✓ To create a source of funds for on lending at fair and reasonable rate of interest.
- ✓ To provide a platform for economic and social development.
- ✓ To provide credit facilities for purposes of providence and production.
- ✓ Provide affordable financial services



VISION

- To be a leading Sacco in financial services regionally

MISSION

To mobilize savings, provide diversified financial products and services through prudent management in order to maximize returns to members and stakeholders.


MOTTO

Your choice



MEMBERSHIP

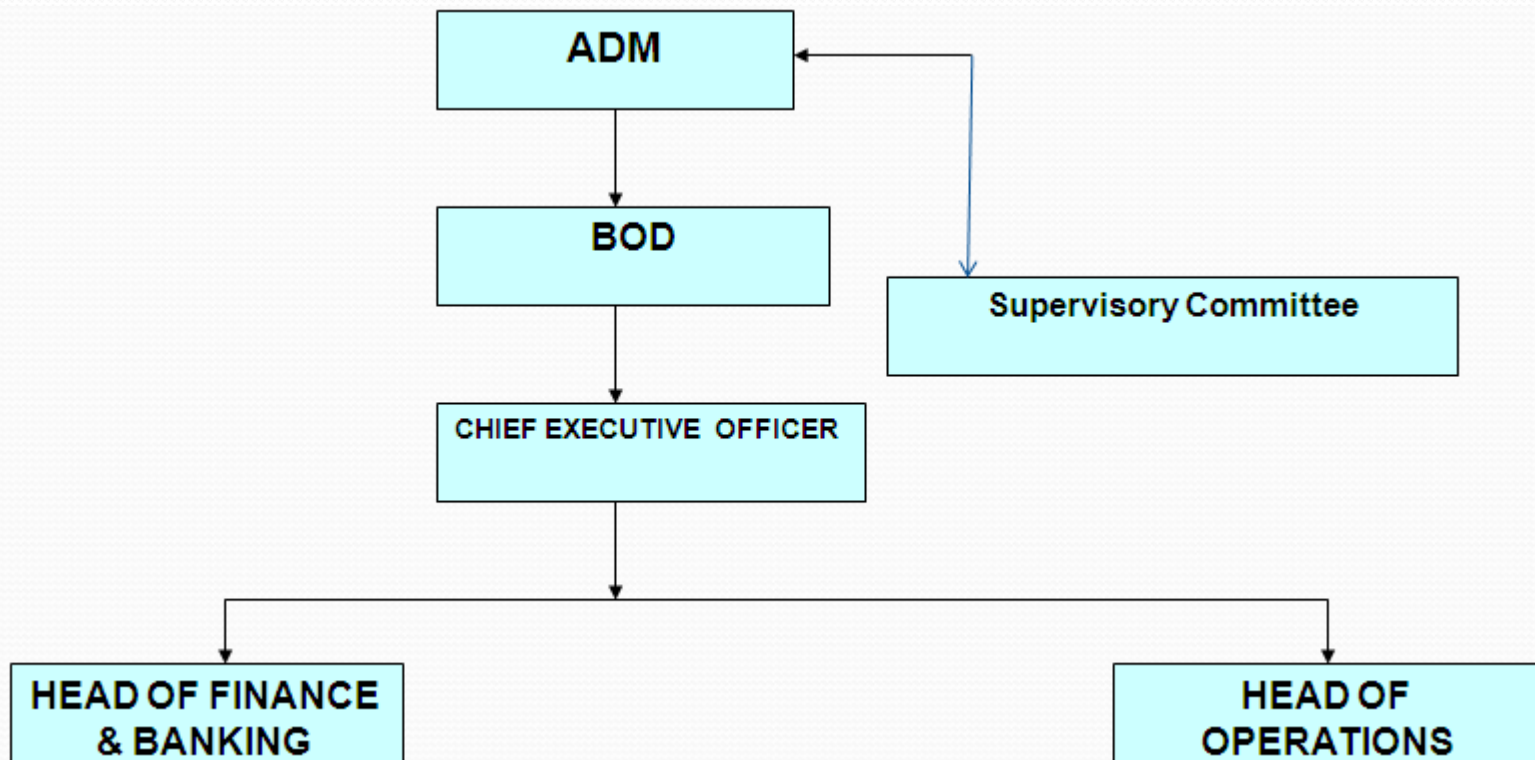
- A person of either sex is eligible for membership if in possession of the following qualifications:
 - Active or retired police officer.
 - Active or retired Administration police officer
 - Civilian in the employment of the Kenya Police Force
 - Employee of the Kenya Police Sacco Ltd
 - Members' of the nuclear family



<u>Year</u>	<u>Active members</u>
2004	26,958
2005	28,882
2006	29,110
2007	29,145
2008	31,000
2009	33,145
2010	32,824

This year the society has recruited about 4,000 members from the new recruits.

ORGANISATIONAL STRUCTURE



NEW LEGAL DISPENSATION- –SACCO Societies Regulatory Authority (SASRA)

- License SACCO Societies
- Regulate and supervise SACCO Societies

*SACCO Societies given 4 year window period to
comply fully from year 2011*

Kenya Police Strategy for Licensing

Formulated a 4 year Business plan to meet the prudential standards

KEY AREAS ADDRESSED!

- ❖ **Robust ICT**
- ❖ **Review of by-laws**
- ❖ **Review of Policies & Manuals**
- ❖ **Increase Capitalization-Core & Institutional Capital i.e.**
 - ✓ *Share capital increased from Kshs. 2,000.00 (ZAR 145) to Kshs. 3,000.00 (ZAR 218)*
 - ✓ *Retained Kshs. 105 million (ZAR 7.6 Million) in 2010 and agreed on yearly retention of Kshs. 100 million (ZAR 7.3 Million)*

SASRA PRUDENTIAL STANDARDS PROJECTIONS

Year	Prud. Std	2009	2010	2011	2012	2013
Core capital	$\geq 10M$	(10.4)	283.92	324.23	634.72	1,080.80
Core capital/Total Assets	$\geq 10\%$	-0.2%	4.4%	4.6%	7.8%	11.7%
Core Capital/Total Deposits	$\geq 8\%$	-0.2%	5.4%	5.6%	10.0%	15.5%
Institutional capital/Total Assets	$\geq 8\%$	-2.2%	4.2%	4.2	9.0%	14.8%

SASRA PRUDENTIAL STANDARDS POSITION

Year	Prud. Std	2009	2010	2011	2011 (Actual)
Core capital	≥10M	(10.4)	283.92	324.23	408.60
Core capital/Total Assets	≥10%	-0.2%	4.4%	4.6%	5.2%
Core Capital/Total Deposits	≥8%	-0.2%	5.4%	5.6%	7%
Institutional capital/Total Assets	≥8%	-2.2%	4.2%	4.2	4.3%

BENEFITS OF REGULATION

- Secured SACCO funds
- Improved Governance in the movement
- Enhanced financial strength- Capitalization
- Quality services-efficiency through ICT platforms & professionalism.
- Standardization of the movement
- Improved competitiveness of the SACCOs in the financial sector market
- Expanded product base

STRATEGIC PERFORMANCE

The society 's five year strategic plan runs from 2010 – 2014

Strategic pillars include:

- Financial Performance
- Products and Services
- Human Resources Development.
- Operations- Systems
- Membership-Growth & Retention
- Governance

Year

Active members

2008 31,000

2009 33,145

2010 32,824

Strategy-Grow membership by 10% annually for the next five years.

Position: Membership dropped by 0.96% in 2010

Why?

❖ **Death, withdrawals, Retirement, irrelevance, Alternatives, competition**

Way forward;

❖ Open Common Bond in 2011

❖ Recent recruitment of 4000 members (police officers)

SHARE/DEPOSITS

Minimum contribution per member is at 10% of basic salary for serving members and 10% of monthly pension for retirees.

<u>Year</u>	<u>Share capital/Deposits</u>
2008	-Kshs. 3,379,774,262.70 (ZAR 245 M)
2009	-Kshs. 4,024,755,565.10 (ZAR 292 M)
2010	-Kshs. 5,571,720,308.60 (ZAR 404 M)

Strategy –Increase Shares/Deposits by 25% in 2010.

Position.- Shares & Deposits grew by 37.5%

How?

- ❖ Open Common Bond(AP's & Next of kins)
- ❖ Retained earnings by Kshs. 100 million every year
- ❖ Dividend policy
- ❖ Minimum monthly deposits at 10% of basic salary
- ❖ Educate members to increase savings & Deposits

PRODUCTS & SERVICES

- Back Office known as BOSA.
- Front Office Services Activity –POFOSA-(Banking).

1. BOSA ACTIVITY;

Products & services under BOSA include;

- ✓ Super loan repayable for 60 months at 1.25% interest per month.
- ✓ Normal loan repayable for 48 months at 1.125% interest per month
- ✓ Refinance loan repayable for 48 months at 1.125% per month
- ✓ Emergency/school fees repayable in 12 months at 1.125% interest per month.
- ✓ Special loan for Muslims pegged on shares and repayable within 48 months at zero interest per months but a processing fees of 2.5% once

LOANS GRANTED

<u>Year</u>	<u>Loans granted</u>
2004	-Kshs 983,440,771.00 (ZAR 71.3M)
2005	-Kshs 1,197,075,600.00 (ZAR 86.8M)
2006	-Kshs 1,418,273,325.00 (ZAR 102.8M)
2007	-Kshs 1,982,529,300.00 (ZAR 143.7M)
2008	-Kshs 2,507,459,000.00 (ZAR 181.7M)
2009	-Kshs 2,688,169,140.00 (ZAR 194.8M)
2010	-Kshs. 3,463,720,000.00 (ZAR 251M)

Cont....

- Strategy-Increase loan portfolio by 20% in 2010 & 2011

Position:

- ❖ Loans granted grew by 28%

How?

- ❖ Increased loan qualification-Salary increment
- ❖ Share boosting/increased deposits
- ❖ Clearing bank loans
- ❖ Education to members to patronize the society

FINANCIAL PILLAR

Increase income by 30% in 2010 & 2011

How?

- ❖ Ensure maximum returns from investments

BOSA ACTIVITY INCOME

Strategy; Increase BOSA income by 30% in 2010 & 2011.

Position;

2008	-Kshs 422,329,184.00 (ZAR 31M)
2009	-Kshs 533,895,222.00 (ZAR 39M)
2010	-Kshs. 728,824,658.00 (ZAR 53M)

Position; The BOSA income increased by 36%

HOW?

- ❖ Increased BOSA income-Introduction of Super Loan for 60 months at 15% p.a.
- ❖ Dividends of external investments was very good
- ❖ Increased FOSA income

FOSA ACTIVITY

2. **The activity offers to the membership Banking related services-quasi bank i.e.**
 - ✓ Savings Account
 - ✓ Fixed Deposit Account
 - ✓ Holiday Account
 - ✓ Children Account
 - ✓ ATM Services through the SACCO link with Co-operative Bank (Use also any visa branded ATM country wide).
 - ✓ Share boosting,
 - ✓ loan clearing (Loan Bridging).
 - ✓ M-Pesa Services

CONT....

- ✓ Cheque clearing
- ✓ Salary Processing
- ✓ Salary advances.
- ✓ M-SACCO-Mobile banking solution which uses mobile phone technology

Other Products to be launched soon:

- ✓ POS –enable Deposits & withdrawals through Co-op Bank counters and other SACCOs throughout the country.

FOSA ACTIVITY INCOME

<u>Year</u>	<u>Gross Income</u>
2008	-Kshs 52,823,176.00 (ZAR 4M)
2009	-Kshs 74,854,366.00 (ZAR 5.4M)
2010	-Kshs. 92,709,566.00 (ZAR 6.7M)

Strategy-Increase FOSA Income by 30% in 2010 & 2011

Position;

FOSA Income increase by 24% in 2010 (less by 6%)

FOSA ACTIVITY

Why ?

- ❖ Low investment incomes down to almost 3%
- ❖ Few members processing salary thro' FOSA
- ❖ Inefficient ICT infrastructure not supporting introduction of new products

Strategy,

- ❖ **Robust ICT ;MS-Navision Software**
- ❖ **New products i.e. M-SACCO, Bankers cheques, Dividends payments, loan payments, Increase salary processing, POS**

Investments in Other Financial Instruments(Excess Funds)

<u>Year</u>	<u>Investment Income</u>
2009	-Kshs. 95,209,790.00 (ZAR 7M)
2010	-Kshs. 38,079,140.00 (ZAR 2.8M)

Position;

- ❖ Investment income dropped by 60%,(Negative)

WHY?

- ❖ Weak institutional capital at less than 0.5 billion
- ❖ Poor returns in the money markets (depressed rates to 2%)

CONTROLLING OVER EXPENDITURE

STRATEGY;

- ❖ **Invest in a robust ICT programme-Navision**
- Introduction of new products-M-sacco, EFT, FOSA
- Process re-engineering-discarding non value adding processes
- Efficiency in operations-less manual works (reduced errors)
- Enhanced recovery of loans
- Strict adherence to the Budget

THE HR PILLAR

- Most important resource (Need fired inside to do great jobs)
- Recruitment of professionals
- Self growth through Continuous Training for staff
- Motivation programmes for staff (Annual staff party & awards)
- Personal finance-save (Minimum savings 20%)
- Family & health

Communication Strategy

The society employs several channels of communication to keep members informed thus be better managers and decision makers .

Way forward:

- ❖ Re-branding
- ❖ Post member information on the website i.e. www.policesacco.com
- ❖ Create Marketing & Customer care Department

ISO CERTIFICATION BY 2013

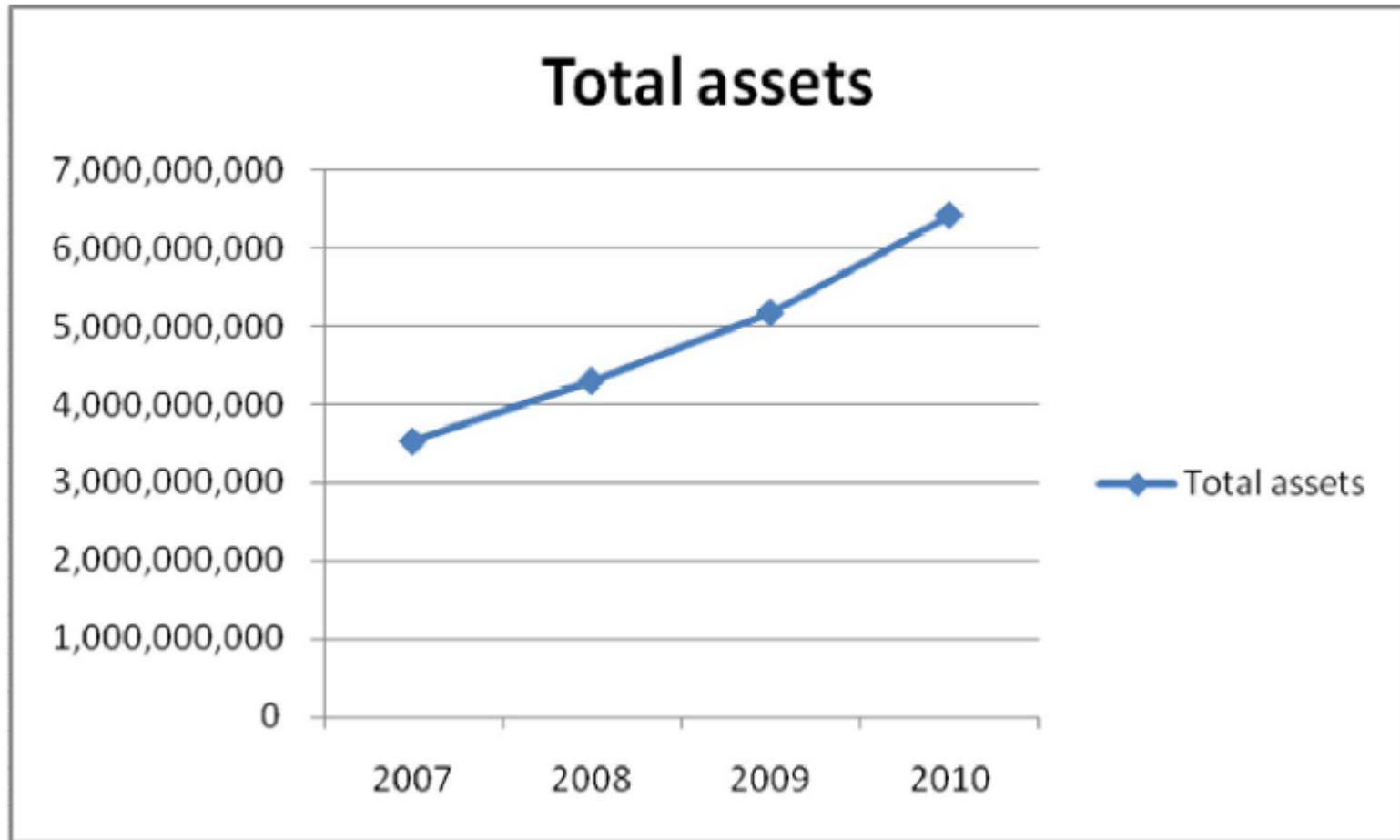
- **STRATEGY**

- ❖ Identify required benchmarks

Required Performances:

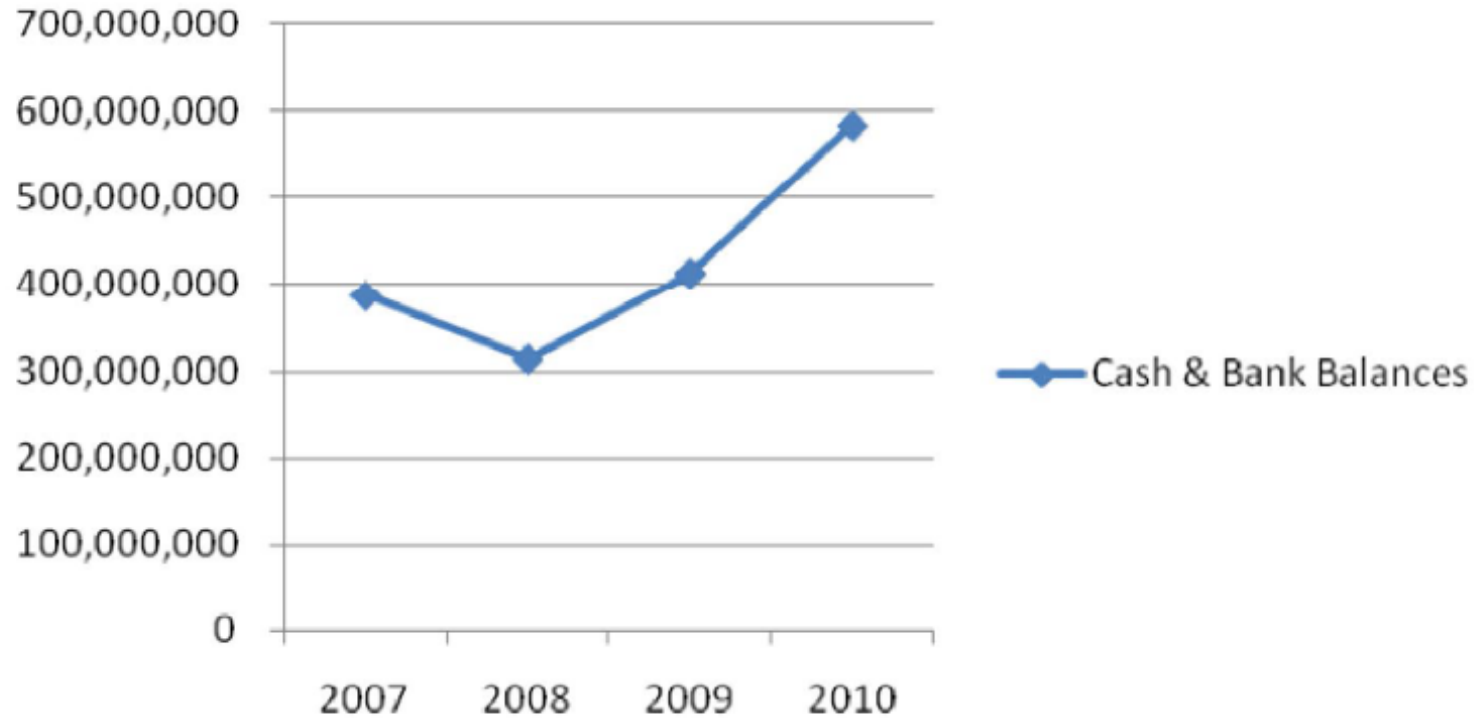
- ❖ Quality
- ❖ Delivery
- ❖ Flexibility
- ❖ Cost

STATISTICAL INFORMATION



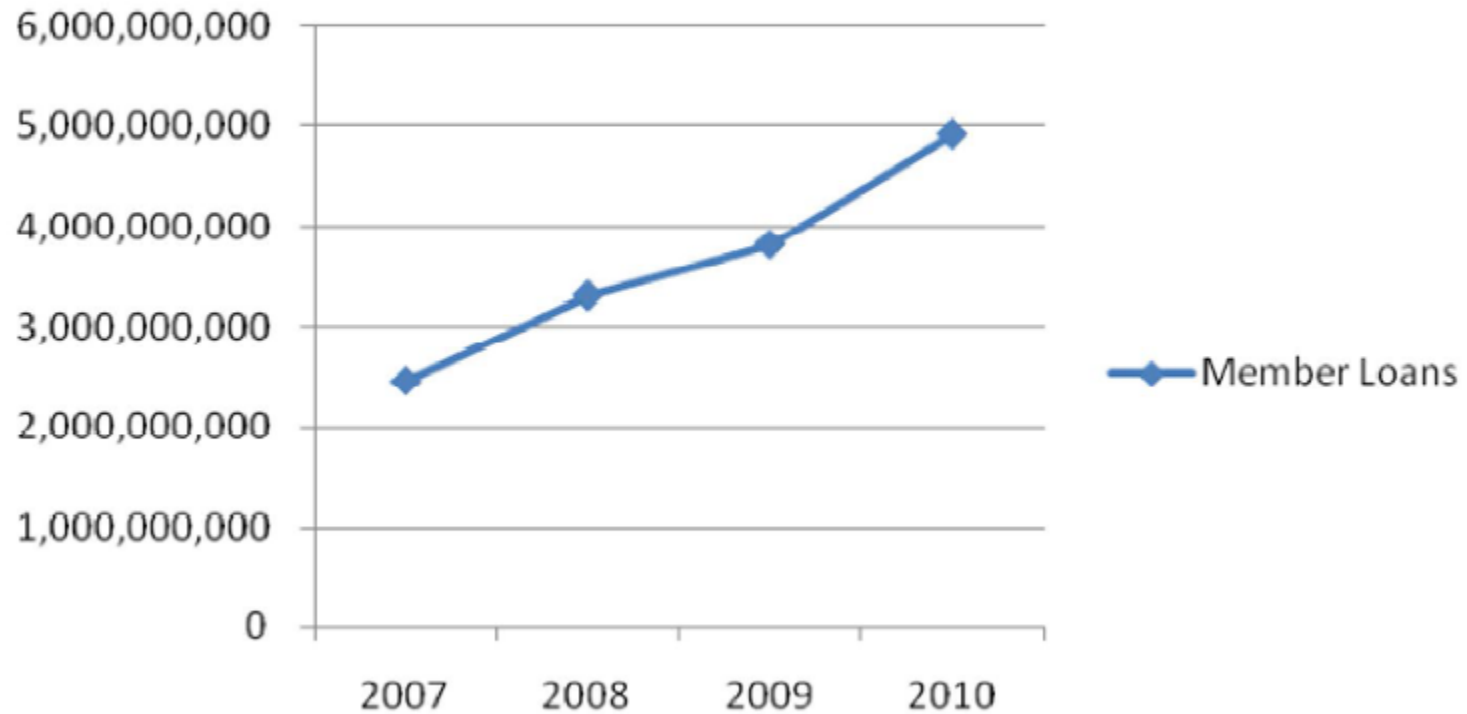
The total assets of the Society have been increasing at an average rate of 22% for the last four years. The assets have grown from Kshs. 3.5 billion in 2007 to Kshs. 6.4 billion in 2010.

Cash & Bank Balances



Cash and Bank balances have been growing significantly over the years from an impressive Kshs. 387 million in 2007 to Kshs. 584 million in 2010.

Member Loans



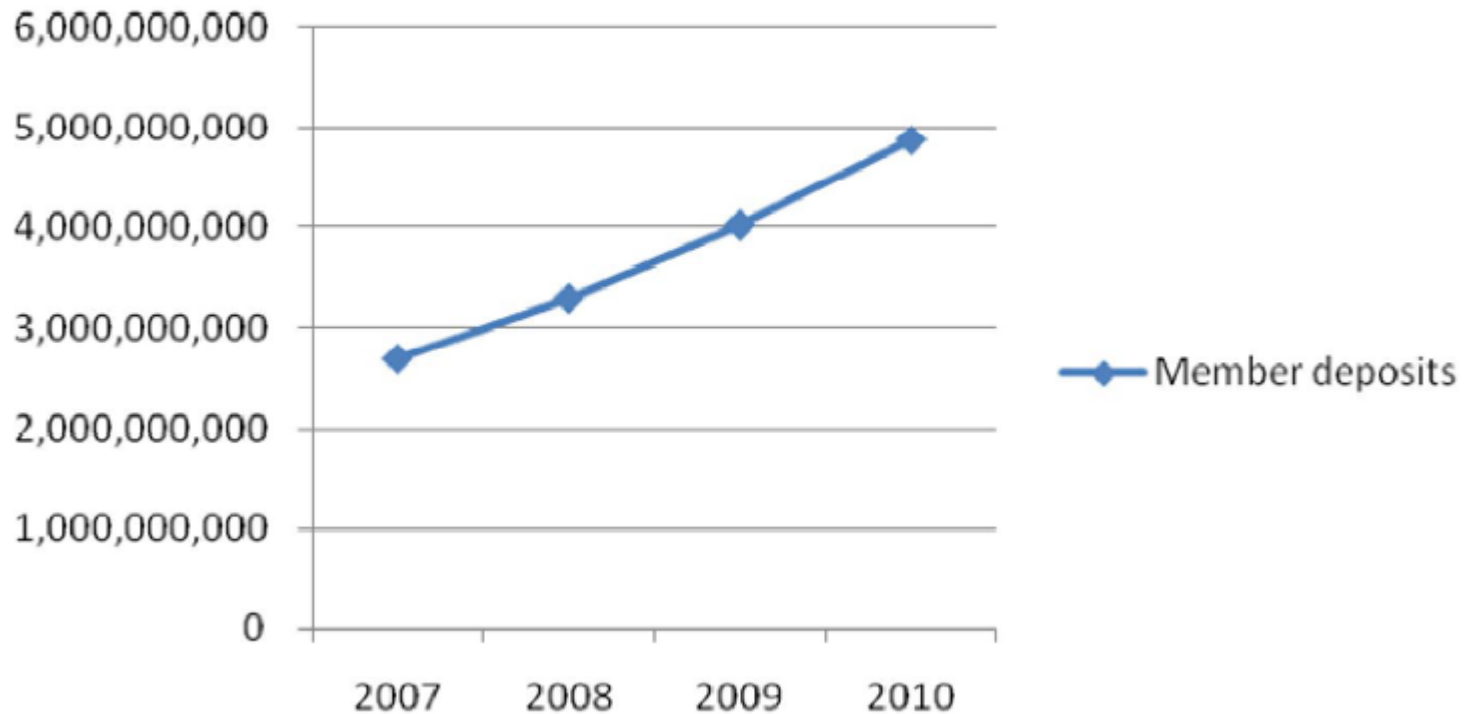
The loan book has grown from Kshs 2.7Billion in 2007 to Kshs 4.9Billion in 2011.

THE SOCIETY'S COMPOSITION OF TOTAL ASSETS

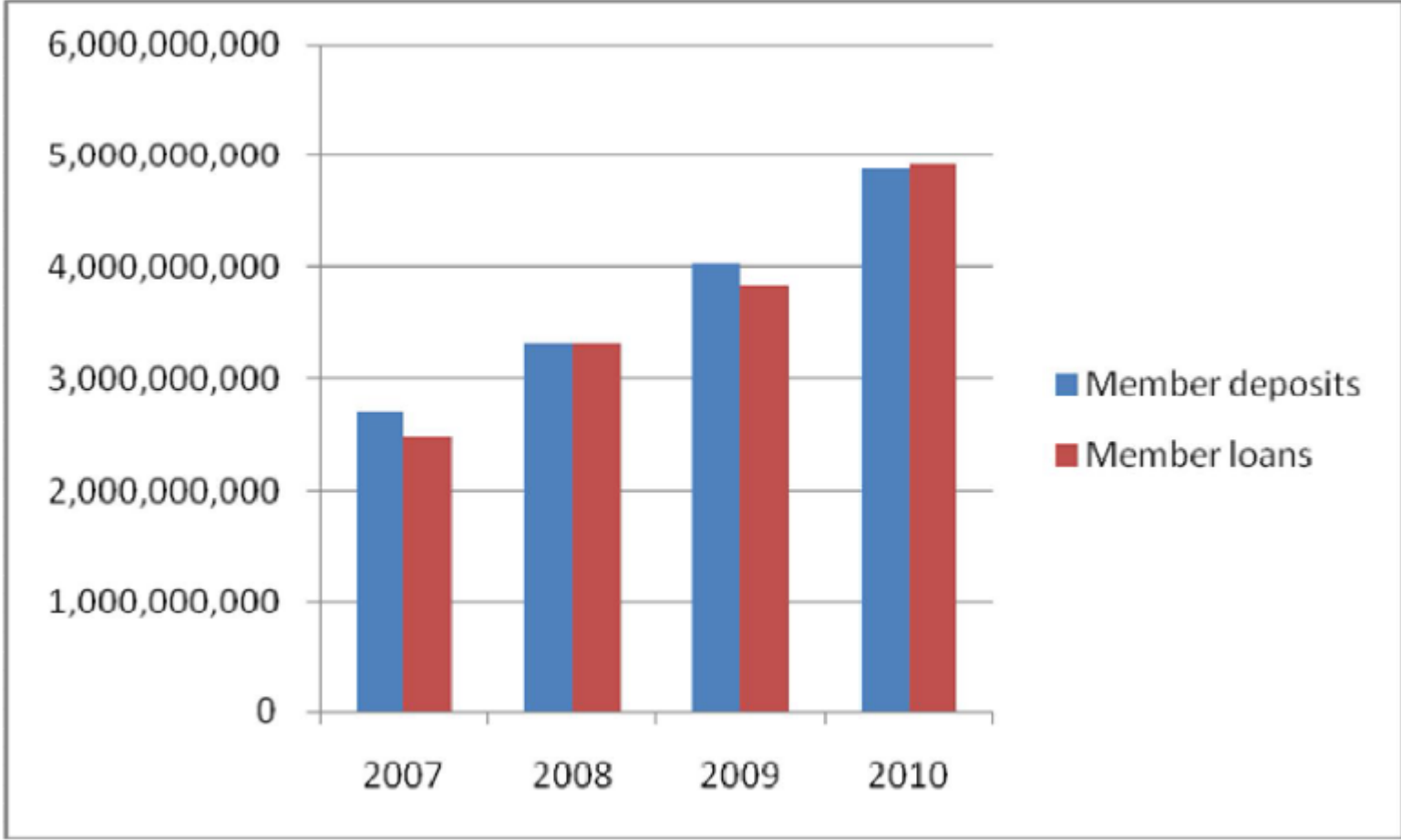
	2007	2008	2009	2010
Cash & Bank balances	14.70%	8.98%	10.87%	10.99%
Loans & Advances	69.71%	76.80%	73.74%	76.48%
Investments	5.01%	4.49%	3.92%	3.32%
Other assets	7.77%	7.69%	10.23%	7.27%
Fixed Assets	2.80%	2.04%	1.24%	1.94%
TOTAL	100.00%	100.00%	100.00%	100.00%

Average rate of members' loans to total assets has been 75% is in tandem with the prudential standards that require this rate to be at least 75% of total assets.

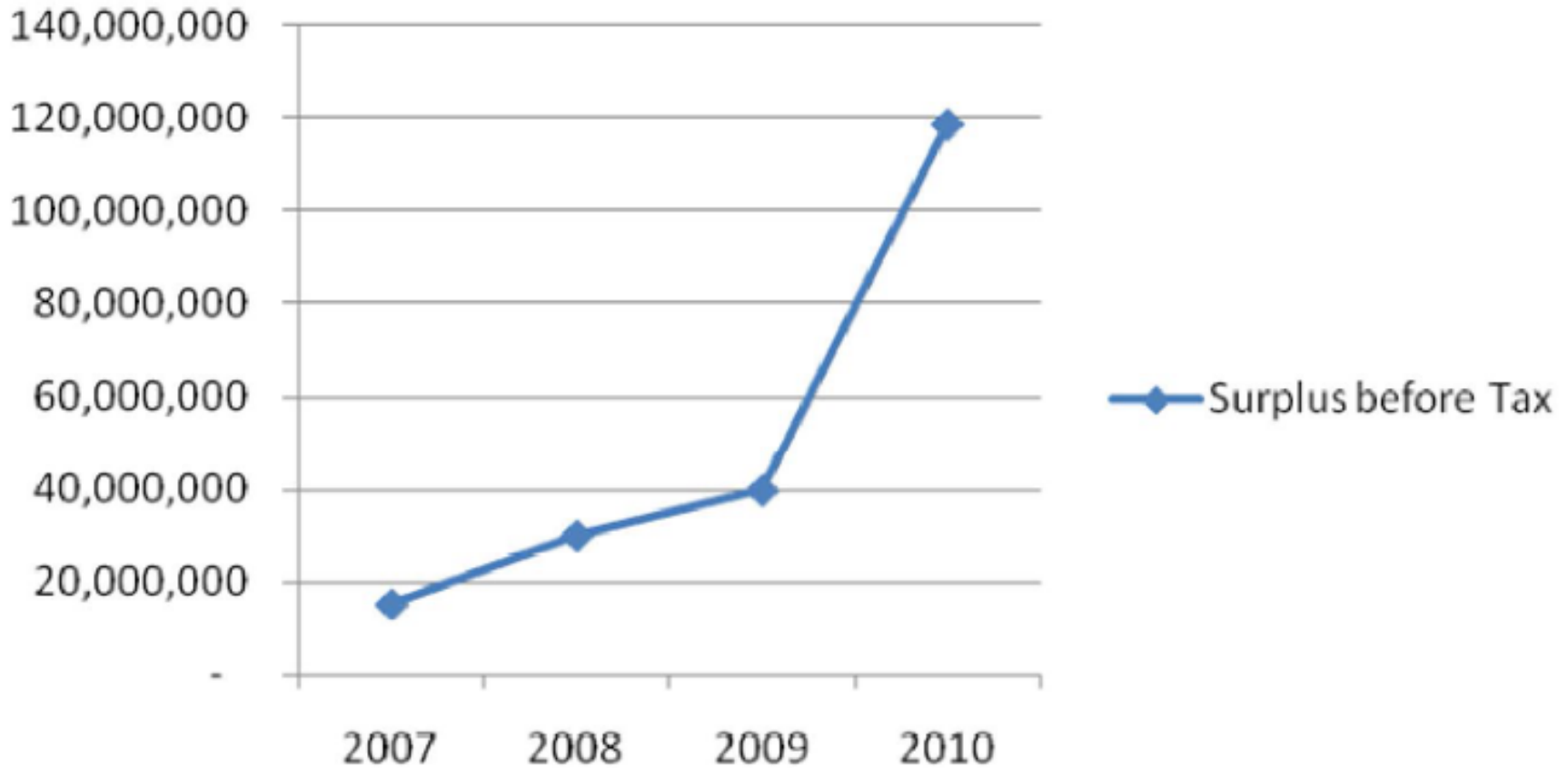
Member deposits



Member deposits have been growing exponentially over the last four years. The deposits grew from Kshs 2.7 Billion in year 2007 to Kshs 4.9 Billion in year 2010.



Surplus before Tax

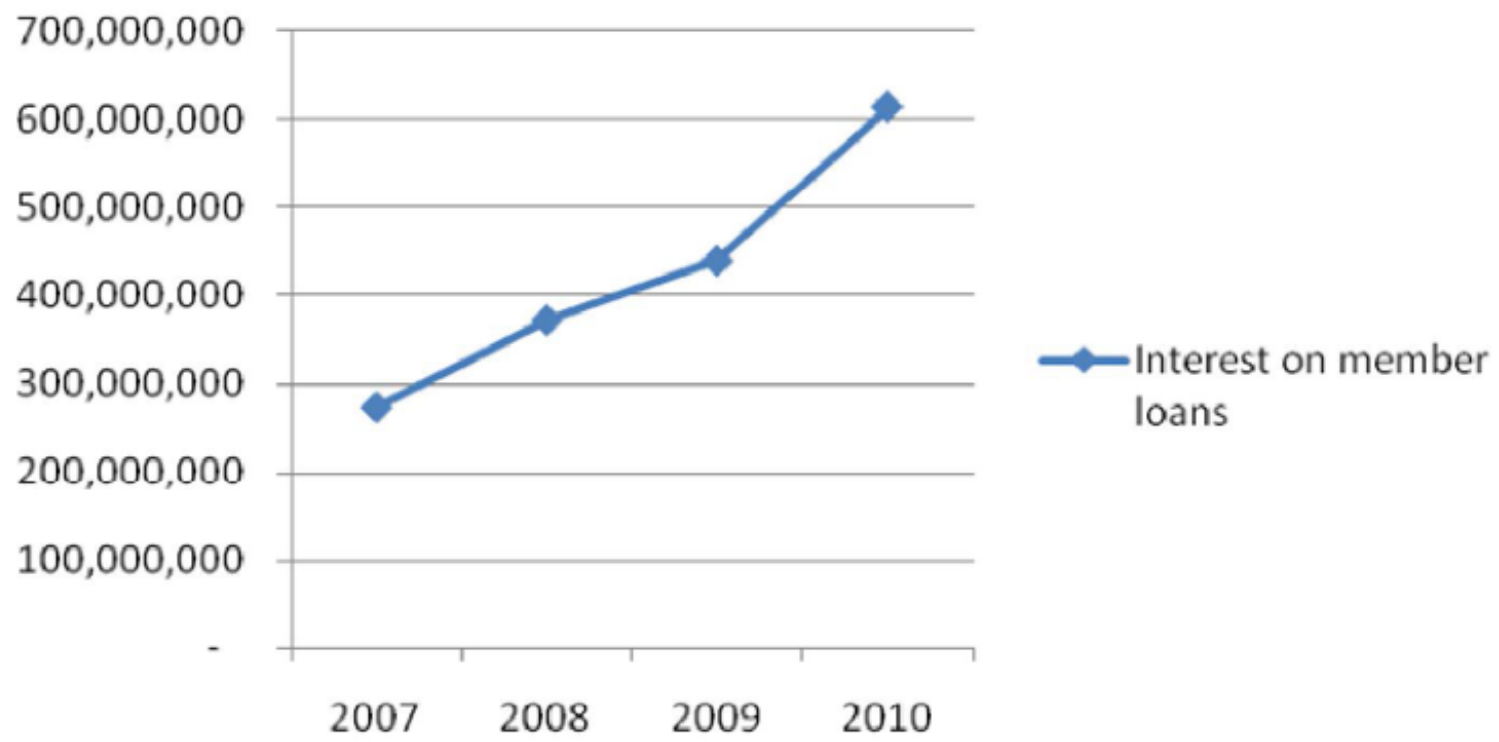


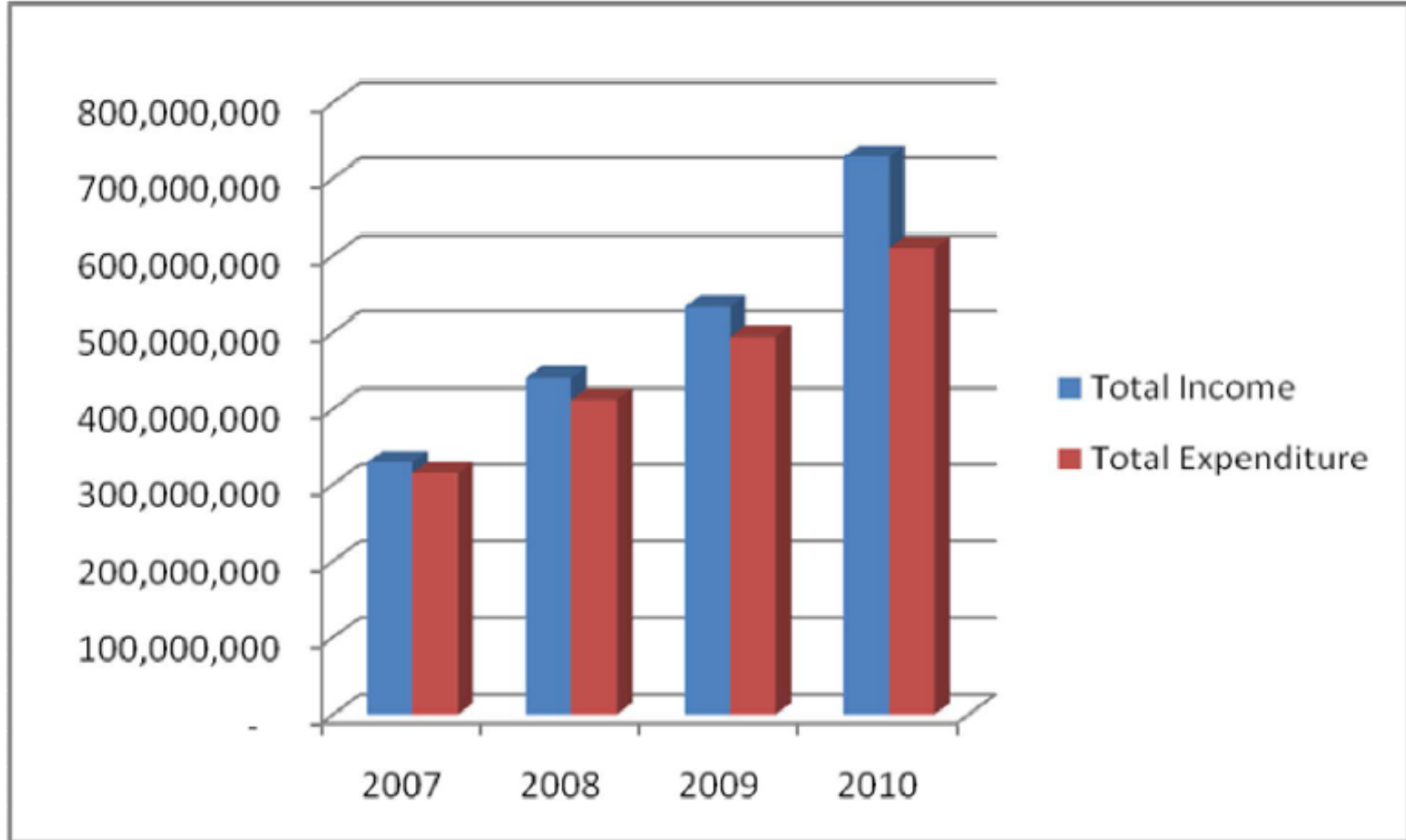
The Sacco surplus grew from Kshs 15.4 M in 2007 to Kshs 118.6M in 2010. This is enhanced by the growth of the Sacco's performance as portrayed by the growth in interest on member loans.

RETURN ON INVESTMENT

Year	% Dividends	%Interest	Total Amount (Kshs.)	%Increase
2004	8.0874%	5.068%	86,380,000.00	-
2005	8.012%	5.15%	101,800,000.00	18%
2006	16.41%	6.2%	145,500,000.00	43%
2007	10.225%	7.579%	211,000,000.00	45%
2008	11.938%	8.469%	288,000,000.00	36%
2009	12.59%	8.75%	362,000,000.00	26%
2010	15.10%	9.02%	452,000,000.00	25%

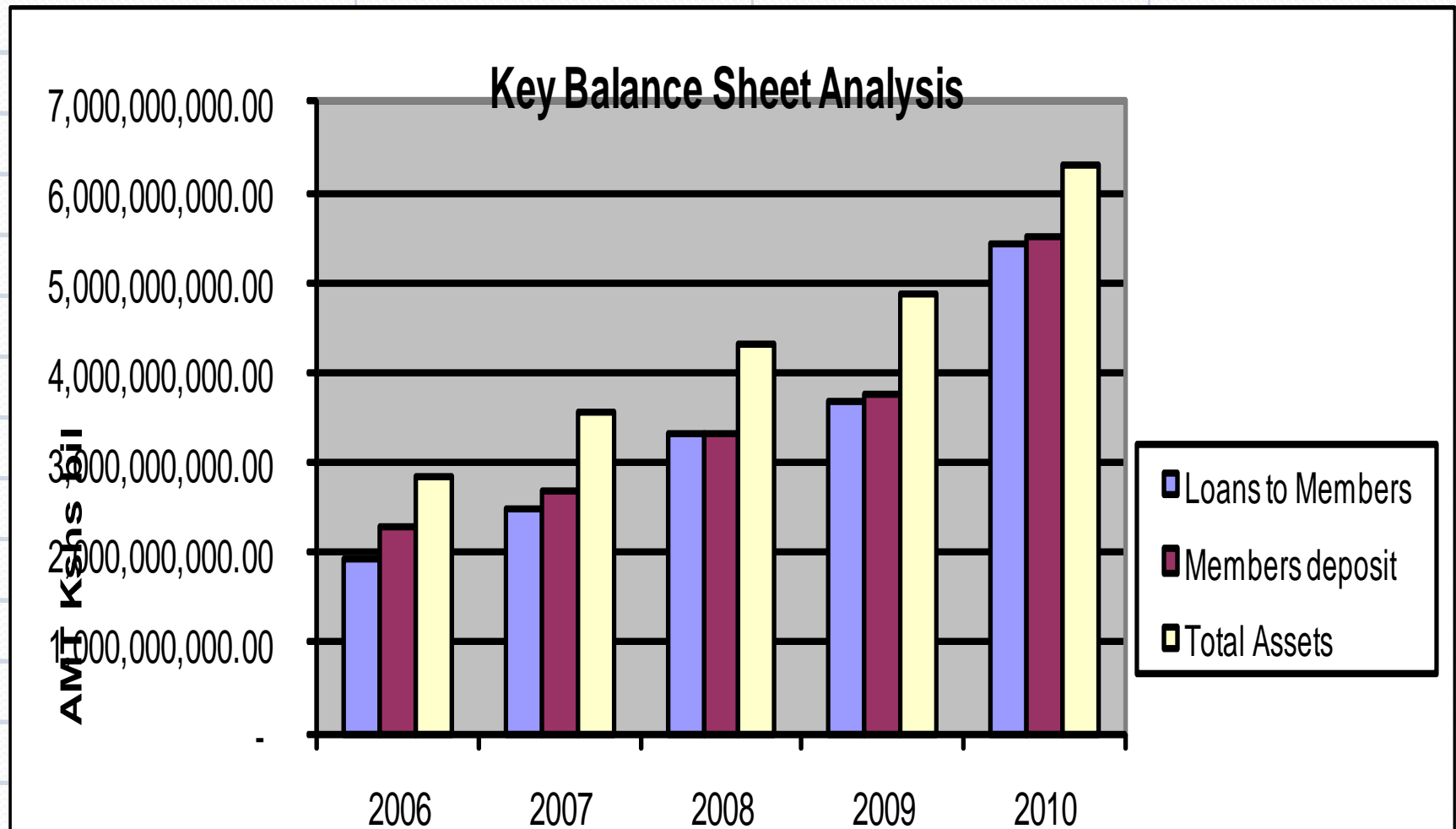
Interest on member loans





The Sacco's performance has also been impressive in the first half of year 2011 with a total income of Kshs 424M against an expenditure of Kshs 126M and hence a surplus of Kshs 297M.

KEY BALANCE SHEET ANALYSIS



CONT....

- The total assets of the Society have been increasing at an average rate of 20% for the last six years. The assets have grown from Kshs 2.4 billion in 2005 to Kshs 6.3 billion in 2010

Challenges

- **Changing legal environment**
- **Stiff Competition from MFIs and Banks**
- **Members ever changing needs/demands**
- **Frauds and Forgeries**
- **Capacity to lend limited by deposits/shares.**
- **Decline in membership**
 - **Deaths: Effects of HIV/AIDS**
 - **Withdrawals**
 - **Retirement**

WAY FORWARD

- The model require improvement to keep up with changes in the financial market & serve customers adequately;
- ✓ Products:- alignment to member needs, revamp product features, develop new products, price products to match economic realities
- ✓ Embrace Customer Focus – improve office layouts, training of staff/management, improve turnaround, flexibility, embrace Service level agreement,

Cont....

- ✓ **Build institutional capacity** – retention of profits to build up a strong institutional Capital base, increase share capital levels
- ✓ **Embrace Use of ICT fully** – Efficiency, creation of a platform for IT based products, Mobile solution, etc
- ✓ **Embrace good governance** – Adopt Performance management, recruitment and retention of qualified staff, proper Accountability, Trust, Controls

Cont....

- ✓ Improve internal procedures & controls – implementation/review of operational manuals, training, segregation of duties
- ✓ Embrace Proper Liquidity management & explore new sources of funding – introduce savings products, encourage members savings,
- ✓ Constant members education.
- ✓ Identification of key strategic partners – Financiers, Insurance, Trainers, Strategic Planners
- ✓ Government continued involvement in policy, legal and institutional framework



The Chief Guest who is also the Co-operative secretary Mr. Daniel Maanzo, CBS officially launching the Navision Software & M-SACCO.



A KEY NOTE FROM MR. F. OKONYA-CHAIRMAN, DURING M-SACCO LAUNCH AT NAIROBI SERENA HOTEL 17TH FEBRUARY 2011



The Former Chairman, Mr. Lawrence Mwadime during the official launch of M-SACCO.

KENYA POLICE SACCO 3RD BEST MANAGED COUNTRY WIDE



The V/Chairman Mr. D. Mategwa & CEO Mr. Atsiaya Receiving A trophy from the Minister of Co-operative Development & Marketing Hon. Joseph Nyagah During Ushirika Day Celebration at KICC Nairobi on 2nd July 2011.



**A VISIT TO KENYA POLICE SACCO BY AFRICAN DELEGATES
ATTENDING ACCOSCA CONFERENCE**



MR. DAVID MATEGWA-V/CHAIRMAN PRESENTING TOKEN OF GIFTS TO ACCOSCA DELEGATES FROM THE KENYA POLICE SACCO.



THE SOCIETY'S COMPOSITION OF TOTAL ASSETS			
Cash & Bank balances	14.7%	8.9%	10.8%
Loans & Advances	69.7%	76.3%	73.7%
Investments	5.0%	4.8%	10.2%
	1.7%	7.8%	

HON. MAKGATO MALESU (MIDDLE) MINISTER FOR TRADE & INDUSTRY BOTSWANA DURING HER VISIT TO KENYA POLICE SACCO IN SEPT. 2011.

**KENYA POLICE
SACCO SOCIETY LTD**

m-PESA

NO SMOKING

WELCOM





THANK YOU

“LONG LIVE

***THE SACCO MOVEMENT IN
SOUTH AFRICA”***