

Increasing Operational Efficiency

Optimizing processes to improve financial institution performance

Growth is no longer enough...

The market has changed

In the past, many strategies of financial institutions (FIs) in emerging economies focused on scaling up portfolio growth. This delivered years of success. FIs correctly recognized unmet demand in the financial services sector and rushed to take advantage of strong opportunities in their home markets. Ambitious business plan targets based on numbers and volumes of loans disbursed were reached by hiring additional staff, developing new products, reaching new client segments, or expanding into new regions.

Understandably, this rapid growth was accompanied by less of a focus on adjustments to processes, often leading to inefficiencies, which grew in parallel to portfolio growth.

Bottlenecks from rapid growth

- Complex organizational structures
- Overlapping job descriptions
- Complicated processes
- High number of employees spending time on processes, not with customers
- Unnecessary control points

Overcoming today's challenges

Today, many FIs face a variety of challenges that are leading to a rethink in their approach:

- Increasing global economic instability has significantly reduced the margin for error for FIs working in unstable or challenging economic environments
- Investors and funders have increased pressure on FIs to deliver stronger results, whether in terms of profits or impact
- The blurring of lines between banking and microfinance has resulted in intense competition in the financial sector
- FIs have seen significant rises in personnel costs – deemed critical to avoid qualified staff being poached by the competition
- Increasing saturation of key markets or client segments has led some FIs to seek new markets or segments – whether to increase profits or out of a social mission

The challenges facing FIs today are significant. Previous strategic approaches that focused more on growth and less on efficiency no longer seem as sustainable in today's context.

Many FIs now recognize that future success – regardless of whether measured by profit, outreach, or market share – is contingent on providing better service to clients more efficiently.

More with less: improving efficiency

... but how to improve operational efficiency?

Many FIs have a strong desire to improve efficiency but struggle to find the best way to do so. The very success in rapidly growing and achieving economies of scale has too often also obscured inefficiencies. For many FIs, the challenge becomes stark when growth starts to slow but costs remain high or even keep rising.

Regardless of their current situation, managers with foresight continuously strive to lower operational expenses and decrease cost-income ratios, but these leaders also often lack the time personally or institutional capacity to: 1) dig deeply to fully understand where the bottlenecks in their institutions may lie, and 2) research and learn from best practices from the sector as a whole.

Avoiding quick fixes: Going deeper with IPC

When facing operational efficiency challenges, the natural tendency for many FIs and managers is to invest in “quick fixes” such as new IT solutions or branch restructurings. Naturally, without a deep understanding of current processes and how these fixes may interact with them, quick fixes may actually cause inefficiency to increase, along with cost.

Changes in strategy, new products or target segments, or expansion into new markets may complicate current operational processes, leading to suboptimal outcomes. As a whole, possibilities for significant efficiency gains often exist locked within the processes and structure of the FI, but

remain untapped, resulting in the misallocation of resources, below-potential customer service, and the reduction of profits. FIs that succeed in optimizing their processes have seized an opportunity to improve efficiency – in essence doing more with the same resources, or fewer.

The efficiency gains from process optimization are clear, but the best method to effectively optimize processes sometimes remains obscure.

IPC’s approach to optimizing processes is grounded in the basic principle that any effective approach improving efficiency must be rooted in a understanding and analysis of processes.

What is process optimization?

Process optimization refers to the systematic multi-layered evaluation of processes in order to:

- A) determine where inefficiencies exist and assess the resulting (negative) impact that inefficiencies cause the institution, and,
- B) based on the above, determine solutions (through procedural changes, staffing adjustments, technology solutions, strategic planning fine tuning, etc.) which enable processes to achieve objectives through the least costly, quickest, and most customer-centric approach.

The IPC approach: Customized but principled

Optimization that meets client needs

IPC's deep experience in the field, identified and refined through IPC's experience with the ProCredit banks and other leading financial institutions, have given IPC knowledge of best practices and the most effective ways to streamline processes and improve efficiency. Our approach is based in IPC's core competency of institution building. Therefore, regardless of the selection of modules discussed below, the result will be institution strengthening in a sustainable manner, thus ensuring continued optimization after project completion.

With each process optimization, IPC offers a standard core component including process mapping and analysis, with solutions for improving operational efficiency.

IPC recognizes that each institution comes from a different background, operates in a unique environment, and is motivated by particular drivers and budget constraints. Given this, IPC offers various options to add-on modules according to each institution's need or situation.

Core Module: Process mapping and analysis

Regardless of the overall operational efficiency strategy the institution chooses to follow, it is necessary to start with the core of process mapping and process analysis. In this base module, agreed processes will be determined and IPC experts will lead selected staff through our entire process efficiency methodology such that they can observe and participate in the on-site work.

Deliverables of this core module include:

- Mapped processes (both written and what actually occurs with distinctions noted),
- Detailed analysis of each process
- Key recommendations for improving efficiency
- Clear roadmap or guide to implementation explaining how FIs can get there

IPC's consultancy and training approach in three stages:

Stage 1	Off-site	<ul style="list-style-type: none"> • Desk review of policies, procedures, other relevant documents • Determine preliminary process map
	On-site	<ul style="list-style-type: none"> • Current situation analysis • Determination of Working Group • Create initial process maps <ul style="list-style-type: none"> - Resource identification - Process step identification and description • Information organization
	Off-site	<ul style="list-style-type: none"> • Finalization of document based process maps • Feedback sessions
Stage 2	On-site	<ul style="list-style-type: none"> • Walkthroughs and interviews to evaluate 'real situation' on the ground (add-on Module B for time-allocation study could be included here) • Gap analysis ('on the ground' process compared to procedures) • Efficiency analysis of the process • Assessment of effects that noted inefficiencies have on the institution
	Off-site	<ul style="list-style-type: none"> • Finalization of other selected processes to determine where efficiency gains can be achieved • Feedback sessions
Stage 3	On-site	<ul style="list-style-type: none"> • Determining recommendations for efficiency gains and solutions for process optimization to achieve the institution's objectives • Create road map as to how the institution can achieve efficiency recommendations and goals • Ensure institutionalization such that the FI can replicate this process optimization methodology for other processes where needed
	Off-site	<ul style="list-style-type: none"> • Conclusions and final report

Supplementary Module A: Full-scope training and institutionalization of the methodology

While the core component includes participation of selected staff so that they are provided some degree of training and would have the ability to ensure agreed recommendations are carried out successfully, module A includes full training sessions comprised of a mix of classroom, on the job training and coaching sessions whereby selected staff are thoroughly trained in all aspects of how to carry out process efficiency analysis and design improvements for other processes going forward. This module is strongly recommended as it enables the institution to take control of improving operational efficiency for all processes of the institution on an on-going basis.

Supplementary Module B: Time allocation study

In order to get the full picture of where processes are least efficient and the degree to which such inefficiency is negatively affecting the institution, IPC offers to carry out a time allocation study. In this module, IPC will determine the key process areas and carry out a timing study to assess how much time various steps take. Such information is extremely useful to then focus in on those areas where inefficiencies seem greatest.

Why optimize?

Benefits from process optimization for financial institutions

- Increase earnings and lower costs
- Improve service quality and build your brand
- Grow sustainably and gain market share
- Deepen outreach and impact
- Reduce and control risk
- Effectively adopt new innovations and technologies

35 years of experience

IPC's strong track record includes 35 years in development finance and institution-building. IPC has assisted banks worldwide, as well as the banks of the ProCredit group, to optimize their processes and increase their operational efficiency.

Operating
since

1980

IPC projects
implemented
worldwide:

**>850 projects in
>90 countries**

Founded
ProCredit group of
banks currently
operating in

17 countries

IPC: The right partner for your process optimization

Systematic and sustainable approach

IPC does not focus on short-term, stopgap solutions; instead IPC carefully considers the overall impact of all projects and seeks to offer holistic, sustainable solutions that are tailored to the local context.

IT support

Through IPC's partnership with IT software and service provider, Quipu GmbH, IPC can additionally bring in specialized IT staff who can determine the best way to support the integration of various recommended efficiency measures which have IT components to them.

IPC's involvement in process optimization spans more than 35 years in effective financial institution building

Offices and full-time employees based in:
Frankfurt, Beijing, Hangzhou, Moscow, Kyiv, Yerevan, Accra, Maputo, Port-au-Prince

Our services:

- Developing financial services for MSMEs
- Designing efficient processes
- Introducing risk assessment tools
- Organizing and implementing IT solutions
- Training and capacity building
- Bringing green finance into mainstream banking
- Developing and promoting education finance

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