

CHAPTER 7

RECOMMENDATIONS

The preceding evaluations suggest that in order to achieve its objectives, BMMB should consider outsourcing its front-office banking functions namely:

- i) Loan origination i.e loan sales
- ii) Deposit origination i.e from deposit sales, account opening, cash deposit and withdrawal, and cheque deposits

In embarking on the outsourcing of its front office functions, the bank should take a phased approach whereby loan sales which is a non-core activity be given a priority over deposit origination for immediate implementation in the 1st Phase.

Concurrent with the outsourcing of loan origination (sales) functions, BMMB needs to complement this with an increase in its sales support functions namely over-the-counter or electronic payment facilities.

Next, upon attaining the desired loan sales volume to arrive at the desired profit level, BMMB should proceed with the 2nd Phase i.e franchising the total branch operation that covers loan origination and deposit origination.

The following are details on the recommended phased approach.

7.1 Phase 1

7.1.1 Outsourcing of loan origination (sales) at branches

Apart from having its in-house sales force (full time employees), BMMB could consider outsourcing its loan origination functions to sales agents. This approach has been practiced by some banks in Malaysia namely Standard Chartered Bank, Citibank, HSBC and others.

BMMB should put the following in place before loan origination functions at branches could be embarked on:

- i) A comprehensive marketing plan that details out:
 - a) Product information i.e features, pricing and other salient value proposition points
 - b) Target market for each product based on micro-market study.
- ii) An efficient loan processing system needs to be in place whereby loan application data could be transmitted by sales personnel from anywhere at anytime to a central loan processing center.
- iii) An effective and efficient loan processing system that could process and convey the loan approval decision back to the originator within a short time in order to meet customers' expectation for a quick loan decision turnaround time.

- iv) An efficient sales back-office support system that includes credit administration (loan documentation and disbursement) and loan management (collection and recovery) functions.
- v) A comprehensive training program for all sales personnel that covers areas of customer service, product features and market characteristics. As supplement to classroom training, full set of product and marketing manuals need to be provided to all sales personnel.
- vi) An effective sales performance reward structure that not only motivates but also addresses the cost of sales issue.
- vii) An effective and efficient sales tracking system that can give an updated sales performance report of all sales personnel at least on a daily basis.
- viii) An effective Service Level Agreement (SLA) that would act as the terms and reference of the roles and responsibilities of the outsourced sales partner.

Upon having fulfilled the above-mentioned pre-requisites, BMMB could embark on the outsourcing of the loan origination functions by adopting the following approach:

- i) Identification of high potential markets through micro market study. This includes:
 - a) Product-market matrix identification i.e targeting the right market with the right product or product-mix and pricing strategy.

b) Resource planning ie assigning resources according to the market potential.

ii) Identification of sales agents (individuals as well as companies) that either carry out face-to-face selling or telephone sales (telemarketers) that is operating within the locality of the identified high potential markets.

The sales agency should be of exclusive arrangement i.e as far as banking products are concern; the agents could only market BMMB's products. However, these agents are not prohibited from selling other products that are not of direct competition with BMMB's products.

iii) To formalize a reward system that does not only recognize the volume of sales generated but also the quality of referrals brought by the outsourced sales partner. This in essence calls for setting the sales volume and quality of referrals (loan loss ratio) as the Key Performance Indicators (KPI) of sales agents.

iv) The commission paid to the outsourced sales partner needs to be structured in such a way that per unit cost decreases as volume increases. Payment of flat commission rate (regardless of volume) should be avoided as this may not result in the reduction of cost to income ratio.

Examples of the two commission structures are as follows:

Table 7.1
Sales commission structure comparison

Commission structure, e.g	RM1,000 for each RM1 mil of sales	RM1,000 for 1st RM1 mil of sales RM1,250 for subsequent RM1 mil of sales from RM2 mil up to RM3 mil RM1,500 for subsequent RM1 mil of sales from RM3 mil up to RM4 mil
Sales volume (RM), eg	4,000,000	4,000,000
Sales commission	4,000	3,750
Income (at ROA of 1%)	40,000	40,000
Cost to income ratio (%)	10	9.4

The tiered structure above shall bring about a lower cost to income ratio with the same level of sales generated.

- v) To put in place a specific unit/department to take ownership of the Service Level Agreements (SLAs) between the bank and sales agents. This monitoring unit should closely monitor the performance of sales agents in terms of volume of sales achieved, product mix, quality of sales leads introduced and other deliverables as laid out in the SLAs.

- vi) In order to manage change i.e the impact of loan origination outsourcing on the existing in-house sales personnel, the following are recommended:
- a) Briefing to all in-house sales personnel on the need for the Bank to embark on a loan origination outsourcing program as a means to achieve a drastic increase in loan volume.
 - b) Introducing a sales performance incentive program that is similar to the reward system for outsourced sales agents. However, unlike the reward for outsourced sales agents that is based on commission per unit of sales, reward for in-house sales personnel should be structured in a way that commission is only payable upon the sales exceeding a certain 'hurdle' (floor) unit sales volume. The 'hurdle' is the number of times the profit (generated from sales) exceeds the in-house sales staff salary plus overhead⁵.
 - c) Establishing a career path for high performing sales personnel whereby high performing sales personnel are given the opportunity rise up the ranks to become branch/sales manager. regional sales manager or any other higher- ranking posts in the bank's Consumer Banking Division.

⁵ Refer to Appendix 2 for example of calculation to determine the hurdle for in-house sales people.

- vii) Upon the outsourcing program bearing fruits, i.e BMMB reaching the sales momentum and volume desired, the bank could embark on a Voluntary Separation Scheme (VSS) program whereby in-house sales employee that opts for early retirement be given the first right of refusal to be the bank's sales agent.

In embarking on the loan origination outsourcing programme, for ease of management, we recommend that BMMB starts with appointing agents within Klang Valley where 60% of its current business come from. Upon successful implementation of the program in Klang Valley, similar program can be rolled-out in Johor Bahru, Pulau Pinang and others in stages.

Outsourcing of the loan origination is expected to have a least negative impact on the bank on the following reasons:

- i) The program does not entail any capital outlay. Essentially, it is utilizing the bank's existing branch network as the 'touch points' for sales agents to report to. Sales agents will also utilize the bank's existing loan management system to electronically submit loan applications.
- ii) The program will not put any stress to BMMB's operating cost structure as commissions are only paid to agents on success basis. Furthermore the proposed tiered commission structure could result in lowering the bank's cost to income ratio.

- iii) The legal risk of contravening the banking secrecy under the BAFIA is remote as agents are not privy to the customers' existing banking information.

7.1.2 Outsourcing of payment collection functions

To complement the loan origination outsourcing, BMMB could increase the convenience offered to its customers by outsourcing its customers' payment collection functions.

Currently, BMMB's customers could make their loan repayment either over-the-counter at BMMB's branches or through ATMs. In line with the outward looking sales approach, BMMB should increase the means for customers to repay their loans. Going by the traditional approach, this calls for BMMB to increase the number of its branches and ATMs. This does not seem possible due to the financial constraints faced by BMMB. Nevertheless, BMMB could leverage on its existing MEPS GIRO facility.

BMMB should make the arrangements with other banks that have the MEPS GIRO facility to enable BMMB's customers to make payment of its loans via over-the-counter or other electronic payment modes offered by the collecting banks. With this arrangement, BMMB essentially outsource its loan payment collection functions to the collecting banks. This is beneficial to all parties due to the following reasons:

- i) BMMB can increase its customers' reach without any capital investment in the forms of branches or ATM machines by riding on other banks' branches and ATMs network
- ii) Customers will benefit from the increased convenience ie not to be dependent on BMMB's branches and ATMs alone
- iii) The collecting bank shall earn fee income for the MEPS GIRO funds transfer service.

To effect the MEPS GIRO funds transfer facility with other banks, BMMB may not incur additional cost other than its yearly subscription to MEPS membership (which the bank is currently paying). Furthermore, the fee for MEPS GIRO funds transfer is borne by the customers.

7.2 Phase 2

7.2.1 Franchising of total branch operation that covers loan origination and deposit origination.

Following the outsourcing of loan origination (sales) to agents (individuals and companies) operating within BMMB branches' localities, the next step that the bank could consider is to outsource the total operation of its branches along the concept adopted by Abbey National Bank, UK and ACE Cash Express, USA.

Prior to embarking on the franchising of its branches operations, BMMB needs to have the following in place:

i) Physical branch network strategy

BMMB should have in hand a branch network strategy that detailed the right number of branches that BMMB planned to have, the geographical spread of its branches, type of services that each branch should offer and standardized layout of branches according to the range of service offered.

ii) National back-office support from head office

In order to ensure smooth running of branches, branches need to be freed from carrying out back office functions. All back office banking support functions (loans and deposit management) should be centralized and managed by head office.

In order to ensure efficiency of these back office support functions that shall ultimately affect the overall turnaround time of the bank's deliverable to customers, these back office support centers need to be treated like an external service provider. These centers are to be given clear and specific KPIs on service turnaround time and quality of work delivered to branches. Performance of these centers will be measured against these KPI dimensions and reward shall be tailored accordingly.

The support from head office will also need to include branch operational support i.e. day-to-day troubleshooting and problem-solving eg customer complaints handling through a centralized call-centre.

iii) Operating systems, policies and procedures

BMMB needs to have established operating systems in place that cater for both loans and deposits management. These systems need to be flexible in such a way that they can be broken into modules that are assignable by functions. People involved in the front-office banking functions shall be assigned only with modules pertaining to front office functions. The same goes for back-office supporting functions.

In supporting the bank's business process that stems from the front offices (branches) to the back-office support centers, all the necessary policies, procedures and guidelines that support the business process have to be in place (documented). These documented policies, procedures and guidelines need also to be circulated and easily accessed by the relevant people eg through intranet.

iv) A comprehensive franchising support system

BMMB need to put in place a franchising support system that covers the following:

a) Site identification and Acceptance.

BMMB will carry out demographic research, micro-market analysis and site inspection for opening of new branches and relocation of existing branches.

b) Development Assistance.

BMMB should undertake to develop the physical branch as per its standardized layout.

c) Franchisee recruitment and selection.

Identification of potential franchisee should be a continuous process whereby performing branch managers are invited to join the bank's branch franchising program. These potential franchisees will have to go through a selection process that includes personality profiling test and a requirement to prepare and present a detailed business plan to a panel of interviewers.

d) Classroom training.

All selected franchisees will undergo comprehensive training program that covers areas of customer service, security, risk analysis, point-of-sale training, management and accounting training, collections, products and services and marketing. As supplement to classroom training, BMMB will also provide a full set of manuals and employee training materials to the selected franchisees.

e) Branch opening and On-site training.

During the first week of branch operation, BMMB will place its franchise support representative to ensure that the new franchisee gets off to a good start.

f) Ongoing evaluation and support.

Every franchisee is assigned a franchise support representative as a primary contact for any and all questions. A franchisee support call center accessible by toll-free hotline 7 days a week is also available.

g) Marketing support.

BMMB shall devise the annual marketing plan, national signage program, creative marketing materials and other promotional programs and provides these items to all franchise owners.

h) Point-of-sale system.

All franchise owners are to be equipped with front-end (point-of-sale) system to facilitate quick transactions over-the-counter at the branches. The system, connected to a central processing hub managed by the franchisor BMMB enables quick creation and retrieval of customer information as well as providing comprehensive reporting features that helps franchise owners manage their business.

- i) Free product and system upgrades.

BMMB will provide new products and services along with system upgrades to franchise owners for free.

- j) Annual conference.

BMMB will hold yearly conference of franchisees. With programs that include vendor exhibits and presentations, company update by management, open panel discussion etc, franchise owners could exchange ideas and learn from their peers in improving their businesses.

- k) Intranet

An intranet communication channels will be established for franchise owners to communicate with franchise support personnel more efficiently, offer feedback on center development and stimulate shared communications between franchise owners. Intranet is also the medium to disseminate training manuals, newsletters etc.

Upon having fulfilled all the above-mentioned pre-requisites, BMMB could embark on the franchising program. The program shall be based on the following model:

- i) Franchisee will be selected from the pool of performing branch managers. The selected managers, upon voluntary resignation, will be re-employed on a contract basis and be given the right to own the franchise to operate BMMB's branch on a profit sharing basis.

BMMB, as the franchisor, owns the assets i.e physical branch outlet, operating systems and other assets required for operating the branch. In addition, BMMB is also responsible for supplying the manpower required to operate the branch.

The franchisee (apart from being an employee of the bank) is totally responsible for the following KPIs:

a) Profitability

To drive the whole operations of the branch towards maximizing its profitability. The franchisee will be responsible to manage the branch's sales team to maximize revenue. At the same time, he is also responsible to drive down cost to the minimum.

b) Efficiency

To maintain the overall service efficiency. This will be measured by service turnaround time.

c) Quality of service

To maintain the overall quality of interaction with customers. This will be measured by the number of customer complaints received.

ii) Reward for the franchisee is based on the following:

a) The franchisee will be paid basic salary and other remuneration in accordance to the bank's standard remuneration package.

- b) In addition to (i) above, the franchisee has the right towards sharing the branch's profit. The profit sharing formula shall take into consideration the branch overhead.

The following is an example of the profit sharing formula whereby the franchisee will only have the right to the share of profit upon attaining the minimum total branch income that equals 2 times its total overhead.

Table 7.2

Franchisee sales commission structure

Sales volume p.a (RM),say	300,000,000
Income (at ROA of 1%) (RM)	3,000,000
Branch total overhead p.a, say (RM)	1,000,000
Profit (income - o/head) (RM)	2,000,000
Income margin (%)	0.67
Income to o/head ratio (times)	3
Cost to income ratio (%)	33
Profit sharing formula	2.5% of each RM1 of profit subject to minimum income of 2x the total overhead
Profit share portion payable to franchisee (RM)	50,000

- iii) The bank, as part of the terms and conditions of the contract for employment of the franchisee, has the right to terminate the service of the franchisee as an employee by giving 3 months prior notice. By having this clause, the franchisee is expected to perform at his level best or risk the possibility of termination.

The franchising program should focus on the top 20% branches in terms of loan sales volume on the following reasons:

- i) Franchising success hinges on the ability of the franchisee. By selecting the top 20% performing branches, it is very likely that the branch managers are highly self-driven individuals.
- ii) Going on the basis of Pareto Optimal Theory, the success of franchising the program bank-wide can be inferred from on the performance of these top 20% franchised branches. In the event of any failure, the likelihood of a systematic risk of branches failure across the bank will be mitigated.

Monitoring of the success of the program needs to be done for at least 2 years. Upon successful implementation of the program, it can be introduced to the rest of the bank's branches.

As a whole, the overall proposed time line for outsourcing of delivery means that covers loan origination to other over-the-counter services carried out at branches can be summarized and depicted in the Gantt Chart in Appendix 3.