

Chapter 2

2.0 SITUATIONAL ANALYSIS

This chapter will briefly discuss the organization background and analyze its product and services, financial performance, and other capability. The chapter also will highlight the IS related problems faced by the Bank.

2.1 The Organization: Bank Kerjasama Rakyat (M) Berhad

Bank Rakyat was established in September 1954 under the Co-operative Act 1948, following a period of in which, the Co-operative Credit Movement was growing rapidly (Bank Rakyat, 1996). Originally named Bank Agong, it became Bank Kerjasama Rakyat Malaysia Berhad (Bank Rakyat) on 6th. January 1973. The Bank Kerjasama Rakyat Malaysia Berhad (Special Provision) Act of 1978 had placed Bank Rakyat directly under the Minister responsible for Co-operative Development, presently the Ministry of Land and Co-operative. The shareholders of the Bank are individual members and co-operatives.

The principal activities of the Bank mentioned in the its 1997 annual report are those of a co-operative which carries out conventional banking activities such as accepting deposits and providing personal, agricultural, property, commercial, leasing and other loan facilities. The Bank also carries out banking activities based on Islamic (Syariah) principles such as accepting deposits and providing personal, property, pawnbroking and other banking facilities. Bank Rakyat is one of the very few financial institutions to have offered full-fledged Islamic banking and financial services throughout its network. The Bank is constantly improving its procedures and mechanisms to further enhance the overall development and growth of Islamic banking in the country. Basically, the Bank confines itself to retail banking specifically acceptance of deposits and providing loans to customers at its 74 branches located in East and West Malaysia.

2.2SWOT Analysis: Strengths

This section present the SWOT analysis on the organization as summarized in Table 2.1. An assessment of strengths and weaknesses reflect the Bank's internal capability while, the assessment of opportunities and threats provide the environmental scanning process. The discussion begins with its strengths namely its product and services, financial strength and loan collection capability.

Table 2.1 SWOT analysis

<p>STRENGTHS</p> <p>Products and Services</p> <ul style="list-style-type: none">• Personal Loans• Deposit (Mudharabah) <p>Financial Performance</p> <ul style="list-style-type: none">• Assets• Profits <p>Loan Collections (BPA)</p>	<p>WEAKNESSES</p> <p>Inefficient IS</p> <ul style="list-style-type: none">• Loan processing• Payment posting• Loan recovery• Accounting• Reporting
<p>OPPORTUNITY</p> <p>Islamic banking</p> <p>E-Commerce</p> <p>Database marketing/Data mining</p>	<p>THREATS</p> <p>Mergers and acquisition</p> <p>Foreign banks</p> <p>BPA facilities open to others</p>

2.2.1 Products and Services

The products and services can be considered as one of the Bank strength. The Bank provides an array of products and services like any other conventional banks in Malaysia. It can accept deposits from public and give financing to individuals, firms, cooperative and even government body. However the products and services offered by the Bank are limited to those allowed by the various laws and regulations in the country specifically, the;

- Banking and Financial Institutions Act 1989 (BAFIA),
- Co-operative Act 1993,
- Bank Kerjasama Rakyat Malaysia Berhad (Special Provision) Act 1978,
- Bank Rakyat By-Law.

Bank Rakyat is grouped under the development bank category together with Bank Pembangunan Malaysia (BPM), Bank Pertanian Malaysia (BPM) and Bank Industri Malaysia (BIM).

a) Financing: Personal, agricultural, property, commercial, leasing

Bank Rakyat has always been known as the bank that provides personal financing to individuals who works in the government sectors and established private firms. The most popular and known product is the Personal loan where individuals can get cash loan up to RM 35,000 based on their monthly salary. The fast and easy financing has made the product as the best selling product for Bank Rakyat since its inception.

Its success is contributed by a number of factors namely;

- The amount offered is higher than what other institutions are allowed to offer under the BAFIA Act 1989 (not exceeding RM 10,000).
- It's a cash loan that allows the borrower to use on any purpose such as for house renovation or for car down payment.
- Unsecured loan compared to collateral based loan.
- The fast and easy processing.
- The monthly repayment via salary deduction eliminates the hassle of having to go to the bank.

The product provides high returns to the Bank because the collection mechanism ensures prompt payments. The collection is done through a third party call Biro Perkhidmatan Angkasa (BPA). The statutory body was founded to promote co-operative movement and to provide the machinery for collecting payments on behalf of the co-operatives at a small percentage on the collected amount. The channel allows Bank Rakyat to secure their loan payments with little or no risk of default. The product stands at almost 80% of the Bank's total loan portfolio. Figure 2.1 shows how the system of collection via BPA works.

Other financing facilities like agricultural loan, property, commercial and leasing also has been well received by the public. Another popular product is the Islamic pawnbroking known as Ar-Rahnu. It offers options to consumer from the conventional practices. The modest and small fee has attracted a steady flow of customers especially at the beginning of school sessions.

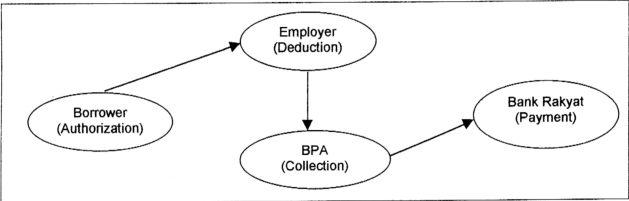


Fig 2.1 Collection through BPA

b) Deposits: Savings Account, General Investment Account

Bank Rakyat source its deposits mainly from its Al-Wadiah Savings Account and Al-Mudharabah General Investment Account (fixed deposits). Like any other savings account found in conventional banks it provides profits payment and use of Automatic Teller Machine (ATM). The fixed deposits facilities has been giving competitive returns to the depositors and has been successful in attracting large

depositors from government and private sectors. Since Bank Rakyat is not allowed to source its funds from the current account operations, these two products are important source of fund. High rates of returns and personalize marketing are the key to attract depositors.

2.2.2 Financial Performance 1993-1997

Another quality that the Bank can rely on is their financial well being. Bank Rakyat has performed tremendously well despite their limitations and historical mishaps. Operating as a co-operative bank requires almost all decisions to be referred to the proper channel for approval thus delaying a number of critical business decisions. This shortfall however were handled diplomatically and swift in order to focus on their customer's needs. The financial problems faced by the Bank back in 1972 (famously known as the Muhammad Ali case), where the government has to come in and provide financial assistance, has strengthen the bank management. The close supervisions by the government made Bank Rakyat as one of the most profitable co-operative in the country.

The total assets of the bank grew from RM 2,863 million in 1993 to RM 5,564 million in 1997 charting a total growth of 94 % within the five years. The highest growth was recorded for the year 1996 with 31 % increase from previous year and the least was in 1997 at 9 %. Like most other financial institution, Bank Rakyat is not immune to the economic downturn, which affected all sectors of Malaysian economy in 1997. The year 1997 will be remembered as the year of currency turmoil, which affected the country's economy, particularly the banking sector.

The loans and advances was the main contributor to its assets growth from RM1,914 million in 1993 to RM4,103 million ended 1997, a growth of 114% in a span of five years. The biggest loan growth was in 1996 at 32% growth compared to the lowest charted in 1995 at 10%. For the year 1997 the Bank's

loan asset grew at 19% despite the economic slowdown. On the liability side its customer's deposits and savings grew from RM 2,481 million in 1993 to RM 4,498 million for the year ended 1997 (81%). The highest growth was recorded in 1996 at 33% and the lowest at 3 % for 1997. Its share capital grew almost five folds from RM 63.4 million in 1993 to RM352.2 million in 1997. Details can be found in Table 2.3.

In term of profit, the Bank has recorded as high as RM 96.09 million (1994) to the lowest at RM46.59 million (1993) between 1993 to 1997. The biggest jump was in 1994 with 106 percent increase from the previous year. Profit for 1997 declined from RM 80,695 to only RM 58,548 despite a 28% increased in operating revenues compared to previous year. The sharp fall was mainly due to increased cost of fund and higher loan loss and provision. Table 2.2 indicates the Bank's five years profit and loss account statement. Overall the Bank has been making good profit in its retail banking business for the passed five years.

Table 2.2 Profit and Loss Accounts for the year ended 31st December 1993-1997

	1997	1996	1995	1994	1993
Operating revenue	613,892	480,491	360,090	331,006	285,499
Cost of funds	(327,914)	(268,303)	(189,159)	(146,685)	(164,947)
	285,978	212,188	170,931	184,321	120,552
Loan loss provision	(55,337)	(18,371)	(12,676)	(7,826)	(15,265)
	230,641	193,817	158,255	176,495	105,287
Non interest income	12,948	59,779	66,452	51,642	51,212
Net income	243,589	253,596	224,707	228,137	156,499
Operating expenses	(160,631)	(148,070)	(120,562)	(101,877)	(82,019)
Profit before tax and zakat	82,958	105,526	104,145	126,260	74,480
Tax	(21,209)	(23,020)	(9,963)	(30,006)	(27,881)
Zakat	(3,201)	(1,811)	(420)	(156)	(4)
Profit after tax and zakat	58,548	80,695	93,762	96,098	46,595

Source: adapted from Bank Rakyat Annual Reports, 1993-1997

Table 2.3 Balance Sheets as at 31st December 1993-1997

	1997	1996	1995	1994	1993
ASSETS					
Cash and short-term funds	957,881	523,431	446,853	26,953	18,483
Deposits and placements with banks and other institutions	36,653	331,904	275,665	406,046	304,654
Investment securities	235,111	562,334	361,600	240,071	313,424
Other investment	4,715	4,168	1,073	131,381	82,727
Loans, advances and financing	4,103,240	3,453,648	2,610,241	2,378,003	1,914,898
Trade debtors	-	-	-	-	-
Other debtors, deposits and repayments	26,031	13,579	19,333	9,804	21,814
Stock	-	-	-	-	-
Development properties	-	-	-	-	-
Interest in subsidiaries	84,039	80,063	62,887	104,652	131,563
Interest in associated companies	14,100	9,853	14,335	15,262	15,997
Fixed assets	103,119	109,236	104,960	82,998	59,799
Goodwill on consolidation	-	-	-	-	-
TOTAL ASSETS	5,564,889	5,088,216	3,896,947	3,395,170	2,863,359
LIABILITIES AND SHAREHOLDERS' FUND					
Bank overdrafts (unsecured)	-	-	-	8,193	3,804
Customer's deposits and savings	4,498,917	4,360,414	3,288,963	2,884,423	2,481,820
Trade creditors	-	-	-	-	-
Other liabilities	294,332	183,429	159,633	143,754	112,517
Loans from Malaysian Government	65,208	77,367	82,832	85,111	94,223
Retirement benefits	22,869	18,158	12,094	6,645	-
SHAREHOLDERS' FUNDS					
Share capital	352,191	154,810	107,654	86,554	63,465
Share redemption fund	5,000	1,358	2,137	2,659	3,078
Reserves	326,372	292,680	243,634	177,831	104,452
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	5,564,889	5,088,216	3,896,947	3,395,170	2,863,359

Source: adapted from Bank Rakyat Annual Reports, 1993-1997.

Bank Rakyat is the biggest co-operative bank in the country and growing in term of assets and branch network. They manage to generate considerable profit for the passed five years and able to pay out up to twenty percent of dividend and bonus to its shareholders. The Bank has successfully position itself in the retail-banking segment that other banks are unable to penetrate. Operating under the Co-operative Act do provide some advantages beside the restriction imposed under the Act.

2.2.3 Credit management: Collection via salary deduction through BPA

Bank Rakyat is the only bank allowed to collect their loan repayment through salary deduction via the Biro Perkhidmatan Angkasa. This is because the facility can only be enjoyed by cooperatives registered under the Cooperatives Act 1993. Bank Rakyat as a cooperative can consider their uniqueness as a blessing and strength. The facility has given Bank Rakyat the edge over their competitors in selling its product targeted to the government servants. Furthermore the facility reduced the rate of default to almost to none and this is important and profitable to the bank.

2.3 SWOT Analysis: Weaknesses

Bank Rakyat similar to other organizations faced a number of problems at strategic, business and operational levels. These problems are discussed in the following section to provide the understanding for future IS planning.

2.3.1 High transaction processing volume/payment posting

As mentioned earlier Bank Rakyat is focused on retail banking services specifically servicing the public needs. The volume of transactions are large compared to banks that cater the smaller market segments for example the

corporate and business enterprises. Like any other retail business the emphasis is to provide quality services at lowest cost. To achieve these goals, efficiency and economy of scale have always been the target of discussion in Bank Rakyat's meeting rooms. The transactions involved will be discussed in this section.

i. **Loan application and processing**

The number of loan applications varies from branch to branch depending on the area of coverage and targeted loan amount to be given out by each branch. Branches are classified into four categories i.e. A, B, C, and Mini depending on a list of measurable criteria. For example, a class A branch can have on average as high as three hundred (300) applications per month compared to only sixty-seven (67) applications for the Mini branch. The average monthly disbursement of personal loan is shown in Table 2.4. Each application has to be assessed individually by the processing officer and forwarded to the approving committee or respective authority.

Table 2.4 Monthly average disbursement of personal loan.

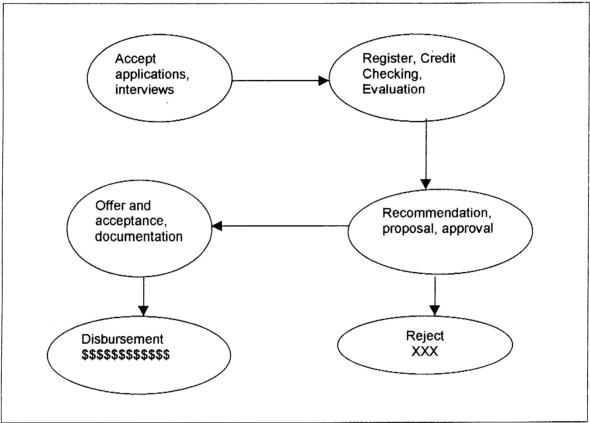
Branch Classification	Targeted loan disbursement per month (RM)	No of applications (base on average of RM 15,000 per application)
A	5.0 million	333
B	3.0 million	200
C	1.8 million	120
Mini	1.0 million	67

Source: adapted from Bank Rakyat Operation report, 1999.

After the approval the processing clerk will prepare the letter of offer to the customer. Upon acceptance the bank then will prepare all the necessary documentation and disbursement of loan. The process is depicted in Figure 2.2. The process for personal loans usually takes about one to two weeks depending on the volume of applications. The bigger the volume the longer it takes for the

branch to complete the process. Bank Rakyat has embarked on a campaign to speed up the processing period to less then seven working days in order to increase customer satisfaction and quality of services. However this has been a futile effort since most of the process is done manually with little automation capabilities.

Fig. 2.2 Loan processing workflow.



ii. Payment posting/ BPA posting

On the collection side the posting of payments are still manually key in to the loan system. The Bank is unable to come up with the solutions to electronically post the data from Biro Perkhidmatan Angkasa (BPA) to its loan system. This tedious job not only ineffective but also exposed the bank to human errors. Branch managers complained that due to the constraint, the branch has to

allocate staff specifically for the task. Some even has to apply for additional staff thus, increasing their overhead.

iii. Loan recovery / notices

Bank Rakyat current system does not facilitate the function of generating reminders and notices either. Notices were sent out based on the monthly status report that list out the defaulters and amount due. The loan recovery unit has to prepare the notices individually by using personal computers. The burden is reduced with the help of basic application such as using Microsoft Mail Merge to produce large number of notices base on a given data. For a C branch like Section 14, Petaling Jaya branch, it is almost impossible to cover a total of 4,380 accounts with a couple of staff. The problem is even bigger for accounts that are maintained manually using conventional ledger cards. The calculation of arrears and balances has to be done first before sending out the notices.

iv. Accounting / General Ledger(GL)

Most of the record keeping and accounting task is done using computer base systems. However, there are a number of systems are done manually for example the share financing loan, housing loan and agriculture loan. The different and mix of systems requires consolidation for overall standing of loan assets. Currently the following system is used in most of the branches;

- ICBA for Personal loan (stand alone system)
- Ledger card system for other type of loans
- Finware for General ledger(GL)(on-line system)
- Finware for Fixed Deposits (on-line system)
- Finware for Savings Account Al-Wadiah (on-line system)
- Perkoma for Ar-Rahnu pawn broking (distributed system)

The different systems caused extra man-hour to consolidate the transactions and accounting entries done daily and monthly. It also creates room for error in result of having to pickup the figures from different systems and these errors are costly to rectify. It will involve careful and detail checking by the responsible officer and extra hours to look for mistakes and to rectify it.

The non-integration also created problems for security and control. Different system has to be equipped with its own security measures and control. The user ends up have to hold a number of passwords for the different systems and to access through multiple workstation. Again these requires longer hours and inconvenience not mentioning the opportunity to wrong doings by irresponsible personnel.

v. Reporting / Monthly / Yearly

The branches have problems in consolidating the daily and monthly reports, which comes from different systems. This caused extra man-hour, room for errors and unnecessary duplication of job. The reports format required by the management also differ from what the computer can generate thus, takes longer time to prepare. This has been going on for quite sometime and creates tension for the staff responsible for the reports.

2.4 SWOT Analysis: Opportunity

2.4.1 Islamic banking

Islamic banking has been introduced to our economy in 1983 with the establishment of Bank Islam Malaysia Berhad to promote banking practices that conform to the principles of Islam. Ten years later a scheme called "Skim Perbankan Tanpa Faedah"(SPTF) or the interest free banking scheme was introduced with the objective of further disseminating and promoting Islamic

banking. The Malaysian government via Bank Negara has been supporting and promoting the newly introduced banking practices to fulfil the request of the public to have an option in their banking needs. Even at the infant stage other Muslim countries have acknowledged Malaysia as the forerunner in innovating product base on the Islamic principles.

Bank Rakyat has embarked into Islamic banking since 1993 and had seen the opportunity to penetrate the market both Muslim and non-Muslim. Product innovation can be the underlying factor in expanding its market share and this can be done through strategic IS. Islamic banking offer great opportunity to Bank Rakyat and with proper IS planning could become the leader in this banking sector.

2.4.2 E-commerce

The electronic commerce or better known as e-commerce can be defined as the use of computer networks to conduct business i.e. buying and selling of goods and services electronically with one's suppliers, customers, and/or competitors (Hayashi, 1996). It is seen as a business driver where cost of doing business is reduced while generating new revenue streams. A number of corporations have effectively utilized the medium namely the Federal Express, Amazon. Com and AT&T, to mention a few. A study carried out in the United States projected the revenue to reach RM 17.1billion by the year 2000 (Stratus, 1997). Another study done by Forrester Research projected revenue of RM 3.8 billion in Malaysia alone by the year 2001. Banking industry too can reap from this technology both, as a service supplier or as a clearinghouse. The concept is still new in the country but it won't be long for the consumers to accept it in their daily life. Bank Rakyat can prepare and grasp the opportunity when the time comes.

2.4.3 Database Marketing/ Data Mining

The banking industry has been known to compile extensive data on their customers through its comprehensive application forms i.e. to open an account or applying for loan. Although banks have employed statistical analysis tools with some success but previously unseen patterns of customer behavior are now coming into focus with the aid of new data mining tools. Data mining is the automated analysis of large data sets to find patterns and trends that might otherwise go undiscovered (Fabris, 1998). By studying these patterns and trends, banking executives can predict with increasing precision;

- how customers will react to interest rate adjustments,
- which customers will be most receptive to new product offers,
- which customers present the highest risk for defaulting on a loan, and
- how to make each customer relationship more profitable.

All these patterns and trends will help the bank come up with the right pricing, products, promotion and timing. The opportunity is huge for a retail bank like Bank Rakyat and it can benefit through proper IS planning.

2.5 SWOT Analysis: Threats

2.5.1 Mergers and acquisition

Recently the Bank Negara has announced to merge the domestic commercial banks and finance companies in preparation for the competition expected from the foreign banks. The merger program, which was announced in early January 1998, is aimed at rationalizing the operations of banks and finance companies to increase their resilience in coping with the effects of a slowdown in economic activities (Hanim, 1999). Currently there are 22 domestic commercial banks and 39 finance companies that the government is planning to reduce. The

Government has also hinted that Bank Rakyat and other development banks might be involved in the program. For example, Bank Islam Malaysia Berhad (BIMB) was repeatedly mentioned to merge with Bank Rakyat by a number of Ministers. The merger and acquisition can create problems to Bank Rakyat IS planning due to different systems architecture and infrastructure between the involved banks. However, the Bank can't do much to anticipate this because it depends totally on the Government decision.

2.5.2 Competition from foreign banks

The World Trade Organization or better known as the WTO has been knocking on the door for more liberal financial market. The threat is very real for the domestic banks especially the smaller domestic banks. This is because the foreign bank equipped with advance IS and huge capital has the ability to offer quality services at the lowest price. Not mentioning their expertise and global experience. Bank Rakyat has to be prepared by increasing its efficiency and effectiveness in their market segment.

2.5.3 BPA facility open to others

The Bank has been enjoying the BPA facility by virtue of being a cooperative. The facility provides the Bank its competitive advantage in the financing business. However this may not last if Angkasa decides to open its door to other banks or business entities. These institutions might offer the same or better package to compete directly with Bank Rakyat. If this happens Bank Rakyat will lose its advantage. Bank Rakyat has to properly plan and implement its IS in order to face future challenges.