

## Commercial Application of ICT in the Banking Sector



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## Brief History of CBA

- Founded in 1962, in Dar (TZ) and thereafter established branches in KE & UG
- 1967 - it was re-incorporated in Kenya after operations were nationalised in TZ.
- CBA originally commenced business as a subsidiary of Societe Financiere pour les pays D'Outre Mer (SFOM), a Swiss-based consortium bank with interests in financial institutions throughout Africa. Initial shareholders were:
  - Bank of America, Commerzbank AG, Banque Bruxelles Lambert and Banque Nationale de Paris.
- 1980 - Bank of America acquired all the shares of the other SFOM partners making CBA a subsidiary of BOA, with 16% of the shares held by Kenyan investors.
- 1991 – local Kenyan investors acquired total shareholding and CBA became wholly Kenyan owned and managed.
- 2005 - acquired First American Bank of Kenya (FABK), and became the largest privately owned local bank in Kenya. This acquisition also marked the re-entry of CBA into the Tanzania since FABK had a 20% equity stake in UBA.
- 2006 - CBA relocated to the new ultra modern head office premises in Upper Hill. CBA also acquired a 33.3% equity stake in AIG Kenya Ltd.
- 2007 - CBA completed acquisition of the remaining 80% equity stake in UBA and re-branded it to CBAT.

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## CBA's Target Customers

### Corporate Customers

- Multinational and medium-to-large Kenyan corporate
- Diplomatic missions and related development organizations
- International organizations and agencies
- Non-Governmental Organizations

### Personal Customers

- Employees of the above organizations
- Medium-to-High Net Worth individuals

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## Financial Growth of CBA

- Business growth as a result of service quality and operating efficiency:
  - Pre-tax profits have risen from Kshs 70 million in 1991 to Kshs 1.46 Billion as at 31st Dec 2007 (audited).
  - Total assets have increased from Kshs 2.2 billion to more than Kshs 42.0 Billion as at 31st Dec 2007 (audited).
  - Shareholders funds have increased from Kshs 240 million to Kshs 4.7 Billion during the same period.

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## Commercial Application of ICT in the Banking Sector



## Introduction

- Rapid advancement in Information and Communication Technology (ICT) has had a profound effect on the banking industry and the wider financial sector over the last 2 decades. ICT is now a tool that facilitates the banks' organizational structures, business strategies & customer services (Dr. R. Jayamaha, 2008)
- In banking, Information Technology is basically used under two different avenues (A. Khanna, 2003)
  - Communication and Connectivity
  - Business Process Reengineering (BPR).
- IT enables sophisticated product development, better market infrastructure, implementation of reliable techniques for control of risks and helps the financial intermediaries to reach geographically distant and diversified markets.



## Evolution & Role of ICT

- The evolution of ICT has occurred in five main stages:
  - Main Frame Computer (early 1940's)
  - Personal Computers (late 1940's)
  - Microprocessor (early 1970's)
  - Internet (1960's)
  - Wireless Links
- Today, effective use of ICT is assisting banks
  - To be more customer-centric in their operations by building a solid foundation for customer relationship management
  - To grow the range of products/services while mitigating fraud levels and improving risk management.
  - To widen their customer base, reduce transaction & operational costs
  - To gain or retain competitive advantage



## Evolution & Role of ICT...Cont'd

- A. Khanna (2003) notes that technology has changed the contours of the three major functions performed by banks
  - access to liquidity
  - transformation of assets
  - monitoring of risks.
- Further, IT and the communication networking systems have a crucial bearing on the efficiency of money, capital and foreign exchange markets.



## Adoption of IT in the Banking Sector

- Notable applications of ICT within the banking sector is the development of products and services such as:
  - Networked branches
  - ATM's
  - Internet Banking
  - SMS & Telephone Banking
  - Electronic Bill Payment (Transfers)
  - POS Banking (Credit and Debit Cards)
- These developments have enabled banks to provide more diversified, secure and convenient financial services.



## Adoption of IT in the Banking Sector...Cont'd

- Recent ICT applications & trends include:
  - More innovative and sophisticated products e.g. ATM services, internet banking, mobile banking, RTGS, M-Pesa, etc.
  - Operational Risk mitigation through development of Business Continuity Plans (BCP's), which are focused on core banking solutions, back-up systems, Disaster Recovery Sites (DRS) and enhanced security systems.
  - Introduction or upgrading of new core banking systems with robust architecture adaptable to the rapidly changing technological environment e.g. CBA, KCB, SCB.



## Benefits of ICT in the Banking Sector

- Technological innovation has brought about several gains to the banking sector in Kenya such as:
  - Convenience - providing remote, reliable, secure and round-the-clock access.
  - Customer centric - more value-added services to meet the customers rapidly evolving needs & preferences.
  - Enhanced customer access and awareness
  - Speedy/faster processing and transmission of information
  - Cost and time effectiveness due to centralized management
  - Reduction of fraud levels and improved risk management
  - Global compliance - adopting trends to provide seamless and standardized services world wide.
  - Easier marketing of banking products
  - Wider networking, regional/global links.



## Some Challenges

- **Security:** Majority of the customer shy away from ICT related banking services due to security concerns.
- **Human face:** Customers still value personalized and responsive services from their bankers.
- **Ignorance** – research has shown that majority of bank customers do not even know whether their banks provide online services.
- **Computer illiteracy** among majority of the population is still significantly high
- Poor and/or lack of **technological infrastructure** especially in the rural areas.



## ICT Application at CBA

### Internal applications

- Core Banking System – CBA is changing to T24
- PELDEC (credit management system)
- MICR (cheque processing system)
- PRIME & ONLINE (credit & debit system)
- Email, Intranet & Internet

### External applications

- Branchless banking
- Internet banking - cba@net
- CBA ATMs and partnership with, VISA, PesaPoint & Kenswitch
- SMS Banking
- Electronic Bill Payment (Transfers)
- POS Banking (Credit & Debit cards)



## Future Trends & Strategies for Banks

- Adoption of newer technologies and upgrading existing of core banking solutions, will be necessary to stay ahead of the game. This is aimed at addressing issues like:
  - Real time responses to customer enquiries via different channels.
  - Multi-channel management & coordination
- Use of common or shared systems instead of propriety systems e.g. PesaPoint ATM network.
- Faster deployment of technology to enhance bank operations
  - Infrastructure – BCPs, hardware, data storage, integration of business processes & security systems.
  - Communication - Use of voice systems, Mobile/PDA software, instant messaging
  - Trading Systems – greater use of electronic trading software, Equities systems etc.



## Conclusion

- The speed and impact of the ICT evolution is a practical proof of Says's Law, which states that *supply creates its own demand*. Successful application of ICT within the banking sector is not just a question of the technology deployment per se, but rather how effectively the banks manage the ICT infrastructure and align it with the business objectives.

End

*"The number one benefit of information technology is that it empowers people to do what they want to do. It lets people be creative. It lets people be productive. It lets people learn things they didn't think they could learn before, and so in a sense, it is all about potential".* Steve Ballmer – CEO Microsoft Corporation

