KENYA POST OFFICE SAVINGS BANK

POSTBANK

My Bank, My Choice, My Future

STRATEGIC PLAN 2021-2025

Theme:

"Setting the Base for KPOSB's Growth and Sustainability"

SEPTEMBER 2020

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ABBREVIATIONS AND ACRONYMS

ATMs	Automated Teller Machines
BCP	Business Continuity Plan
BFA	Big Four Agenda
CBK	Central Bank of Kenya
CCK	Communication Commission of Kenya
CSR	Corporate Social Responsibility
ERS	Economic Recovery Strategy
FSA	Financial Services Authority
GDP	Gross Domestic Product
GOK	Government of Kenya
HOD	Head of Department
IFMIS	Integrated Financial Management Information System
ICT	Information Communication Technology
ISO	International Organization for Standardization
KPOSB	Kenya Post Office Savings Bank
KP&TC	Kenya Post and Telecommunication Corporation
KRA	Kenya Revenue Authority
KRAs	Key Result Areas
KYC	Know Your Customer
NIFC	Nairobi Integrated Financial Centre
MD	Managing Director
ME&R	Monitoring, Evaluation and Reporting
MTP	Medium Term Plan
MTS	Money Transfer System
NIMES	National Integrated Monitoring Evaluation System
PESTEL	Political, Economic, Social-Cultural, Technological, Environmental and Legal
PCK	Postal Corporation of Kenya
SDGs	Sustainable Development Goals
SLA	Service Level Agreement
SWOT	Strengths, Weaknesses, Opportunities and Threats

FOREWORD

The Bank has been implementing its outgoing five-year strategic plan since 2016 under the theme *"Repositioning Postbank for Accelerated Growth".* The 2016-2020 Plan was based on five Key Result Areas of Building Capital Base, Maintaining Customer Focus, Ensuring Business Growth; Growing Profitability and Enhancing Institutional Capacity. A review of this Plan was carried out in a Strategic Workshop held from the 22nd to 24th July 2019 in Nyeri. During that workshop, participants constituted of the Board and Bank management had the opportunity to not only reflect on the Bank's performance, but also deliberate on strategies and commitments for the 2021-2025 planning cycle.

The development of the new Strategic Plan 2021-2025 comes at a time when Kenya's economic growth has remained stable but performed below the targeted annual growth rate of 10% given in the country's policy documents. While there has been a mixed performance in the financial services sector, it has generally witnessed an improvement in operational efficiency, total operating income and higher profitability. For Postbank, a number of challenges have continued to depress business performance, notably our limiting KPOSB Act which has made it more difficult to keep up with market demands. Consequently, the Board requested Management to re-look at the 2016-2020 plan, one year ahead of schedule.

Further, the Board has undertaken several initiatives to turn around the Bank's current situation including extensive staff engagements and a situation analysis, a Board and Management Strategic retreat as well as engaging a consultant to undertake a business review which will further provide additional input into the new plan.

General Collin Powell identifies the inability of managers to challenge old, comfortable ways of doing things as one reason why organizations wither, and jobs become obsolete. He asserts that "*The proper response is to obsolete our activities before someone else does, by creating a climate where people's worth is determined by their willingness to learn new skills, grab new responsibilities and thus perpetually reinvent their jobs".* This plan therefore addresses how Postbank will navigate this type of environment and build an enduring enterprise, as we strive to live up to our vision "*The Premier Savings and Financial Services Bank".*

As a Board, we look forward to continued Government support to complete the restructuring of the Bank specially to offer credit and defray any previous deficits so that we can enhance its sustainability going forward.

Finally, we also assure the Management of our continued support and commitment to providing guidance and oversight as we expect positive results driven by a spirit of excellence, compliance and discipline.

Thank you.

NTOROS BAARI OLE SENTEU
CHAIRMAN, POSTBANK

PREFACE

The Bank is launching a new five-year strategic plan covering the period 2021-2025. This plan was created in a strategic planning workshop that was held on 22nd - 24th July 2019 where a re-casted Vision, Values and Key Result Areas of the Bank were adopted to usher in the Bank's ambitious turnaround strategy.

The new Strategic Plan comes against a backdrop of various challenges that have impacted on the Bank's performance. Limitations resulting from the KPOSB Act to technology disruption, competition, cyber threats, higher customer expectations, cost management, dwindling revenues and recapitalization have remained key challenges. These challenges and current situation have necessitated an earlier re-look at the current strategic plan in order to identify new value creating opportunities and mitigate the current situation. The new plan therefore focuses on strategies that will ensure that the Bank grows and remains sustainable in the face of this turbulent environment.

Despite these challenges, the Bank has achieved several key milestones over the last plan period. Our network expansion strategy has leveraged on technology through the over 700 Mashinani Agents, 5,000 touch points through VISA and Kenswitch partnerships as well as a Mobile Banking platform, all of which complement the Bank's 98 branches countrywide. We have also renewed the partnership with Postal Corporation of Kenya (PCK) to increase our nationwide footprint.

On Product Development and Innovations, the Bank launched RIA and Xpress Money Transfer Services, M-Sawa Mobile Account and M-Chama and reviewed its youth savings product – STEP product, which is now delivered through a Smart Card and Mobile Phone Wallet. SAYE product is being migrated to the Core Banking System and a Security Incident Management System is under deployment to mitigate against cyber-attacks.

The Bank's bold investments in technology have ensured that we are the best placed Government Owned Entity to disburse various funds such as Pensions, *Inua Jamii,* Presidential Bursary, NYS among others. We have also built strategic alliances by partnering with ten (10) commercial banks under the branchless banking service, two credit product partners, four Money Transfer Services, the National Youth Service (NYS), HELB, State Department for Social Services, among others. This has enhanced the Bank's revenue streams and helped widen financial services accessibility.

In future and as we progress, the Bank is looking to reposition itself with a reviewed vision - ***The Premier Savings and Financial Services Bank*** and the mission - ***To provide quality banking and other financial services, through innovations that build sustainable customer relationships and stakeholder value***. Under these new guiding principles, the Bank is set to focus on the following Key Result Areas and Strategic Goals:

1. **Market Focus -** The Bank targets to Achieve a net deposit of 35.9 Billion and 1.1 Million active accounts by 2025.

2. **Business Efficiencies –** Under this key result area, the strategic goal is to improve processes efficiency and effectiveness by 21% by 2025.
3. **Human Capital Development –** The Bank is seeking to enhance employee productivity levels to an average performance rating of 80% by 2025.
4. **Financial Sustainability** – The Bank targets to achieve breakeven status by 2024 and profitability of Kshs. 178.8 Million by 2025.
5. **Governance and Leadership –** Under this key result area, the strategic goal is to ensure 100% compliance to good corporate governance practices.

As I conclude this preface, I would like to recognize the role played by the Board and the National Treasury for their continued support, more so the sound strategic direction given to the Bank.

I would like to thank the Kenya School of Monetary Studies (KSMS) who provided the consultancy services as we developed this plan.

As Management, we look forward to continued Government support to complete the restructuring of the Bank so that we can enhance its sustainability going forward.

Let us endeavor and focus on implementing this new plan to the best of our abilities.

Thank you.

RAPHAEL LEKOLOOL
MANAGING DIRECTOR

EXECUTIVE SUMMARY

Kenya Post Office Savings Bank (Postbank) is the only savings bank in Kenya. Postbank is regulated by The Kenya Post Office Savings Bank Act Cap 493B of the Laws of Kenya. Generally, its mandate as enshrined in the Act is to encourage thrift and inculcate a savings culture among Kenyans, pool personal savings for national development and to provide affordable savings facilities and instruments.

This Strategic Plan is the Bank's demonstration of its commitment to fulfilling its mandate and addressing various policy and environmental factors while outlining the key partners and resources required for successful enforcement of its mandate as provided for in the KPOSB Act 493B. It sets out the basis of the Bank's existence and guides its operations for the next five years from 2021 – 2025. The plan is intended to consolidate institutional and management capacity in the implementation of the Bank's policies and programs, which in turn support the development of policies and strategies adopted by the Government of Kenya as part of the on-going public sector reform process for enhanced service delivery.

In pursuit to achieve its mandate, the Bank is guided by its Vision which is articulated as ***"The Premier Savings and Financial Services Bank".*** The Mission of the Bank is **"*To provide quality banking and other financial services, through innovations that builds sustainable customer relationships and stakeholder value".*** Critical to how the bank operates is its Core Values which include: Integrity; Customer focus; Professionalism; Teamwork, and; Accountability and Transparency.

This Strategic Plan is anchored on five Key Result Areas (KRAs) and five corresponding goals indicating the strategic outcomes for the period 2021 – 2025 which include:

1. **Market Focus**
   Strategic Goal 1: Achieve a net deposit of 39.5 billion and 1.1 Million active accounts by 2025.
2. **Business efficiencies**
   Strategic Goal 2: Improve processes efficiency and effectiveness by 21% by 2025.
3. **Human Capital Development**
   Strategic Goal 3: Enhance employee productivity levels to an average performance rating of 80% by 2025
4. **Financial Sustainability**
   Strategic Goal 4: Achieve breakeven status by 2024 and profitability of Kshs. 178 million by 2025
5. **Governance and Leadership**
   Strategic Goal 5: 100% compliance to good corporate governance practices

In order to achieve the desired Key Result Areas identified above, an implementation plan sets out the critical success factors for successful strategy implementation including effective governance, communication, availability of resource, customer focus, shared values, risk management, appropriate technology, and performance management. To track down implementation of the plan, a monitoring, evaluation and reporting strategy will be implemented. A comprehensive range of annual performance targets will be developed as a basis of operationalizing the strategic plan and as guided by the Strategy Implementation and Monitoring Matrix.

CHAPTER ONE: INTRODUCTION:
HISTORICAL, LEGAL AND INSTITUTIONAL FRAMEWORK

1.1 Background of the Kenya Post Office Savings Bank (KPOSB)

As early as in the pre-independent Kenya, Savings were noted to play a significant role in the economy. The then Kenya Colony under the British rule demonstrated the need for the salaried and the business community of African descent and others in Kenya to make savings from their salaries/wages and business transactions respectively. This was by then in East African rupees. Postal savings services in Kenya were therefore started on April 1st, 1910 as the predecessor of Kenya Post Office Savings Bank (KPOSB). The same services were thereafter initiated in Uganda and Tanzania in 1926 and 1927 respectively to enhance savings through deposits and encourage the savings culture. Between 1961 and 1967, common savings, postal and telecommunication services were offered by the East African Common Services Organization, and later by the successor, The East African Posts & Telecommunication Corporation up to 1977. After the dissolution of the East African Community, this led to the split of all common services to the respective independent East African nations of Kenya, Uganda and Tanzania. The Kenya Post Office Savings Bank (KPOSB) was then established in 1978.

The Kenya Posts & Telecommunication Corporation (KP&TC) was then appointed as the key agent in distribution of savings services throughout Kenya. The KP&TC later split into Telkom Kenya, Communication Commission of Kenya (CCK) and the Postal Corporation of Kenya (PCK). The Postal Corporation of Kenya (PCK) became an agent of the Kenya Post Office Savings Bank.

1.2 Mandate

Kenya Post Office Savings Bank (Postbank) is the only savings bank in Kenya. Postbank is regulated by The Kenya Post Office Savings Bank Act Cap 493B of the Laws of Kenya. Generally, its mandate as enshrined in the Act is to encourage thrift and inculcate a savings culture among Kenyans, pool personal savings for national development and to provide affordable savings facilities and instruments. The specific objectives of this mandate can be listed as:

a) To mobilize savings for national Economic development.
b) To inculcate a savings culture among Kenyans.
c) To offer other financial services to Kenyans.
d) To be innovative within the mandate and come up with products and services that can be carried within it.
e) To enable the Government, achieve its national economic goals.
f) To provide accessible and sustainable banking and other related financial services through innovative delivery systems for wealth creation for the benefit of the customer and other stake holders.

1.3 Specific Functions

As per KPOSB Act Cap 493 B, the Act broadly specifies that the Bank is:

a) To encourage thrift and provide the means and opportunities for the people of Kenya to save;
b) To open, maintain or close branches at such places, as the Board deems appropriate;
c) To provide facilities for savings accounts including the accounts vested in the Bank on the commencement of this Act;
d) To issue such other instruments or facilities for personal saving in such form as it may from time to time deem to be appropriate and desirable in furtherance of the objects of this Act;
e) To invest any surplus funds in Government financial instruments;
f) To establish a corporate body for the purposes of undertaking banking business and other related financial services in Kenya and to utilize such part of the deposit capital as the Cabinet Secretary may authorize;
g) To deal in foreign exchange;
h) To own and hold shares in any corporate body established in accordance with this section;
i) To cover the expenses of its operation with revenue earned from its investments taking one year with another; and
j) To mobilize savings and loan the government (central and county) (bonds) to finance capital intensive projects cheaply.

1.4 Legislations, Policies and Guidelines relevant to Postbank

There are several Legislations, Policies and Guidelines that govern and are relevant to the Bank.

1.4.1 Legislations

a) The Constitution of Kenya, (2010) Article 46(2) provides for consumer rights
b) Kenya Post Office Savings Bank Act (Cap 493B Laws of Kenya) - establishes the Kenya Post Office Savings Bank to encourage and facilitate personal saving.
c) State Corporations Act – provides for establishment of State Corporations; for control and regulation of State Corporations; and for connected purposes.
d) Banking Act 2014 – provides for amendment and consolidation of the law regulating the business of banking in Kenya and for connected purposes.
e) Central Bank of Kenya Act (2014 – Cap 491) provides for establishment of the Central Bank of Kenya and to provide for the operation thereof; to establish the currency of Kenya and for matters connected therewith and related thereto.
f) Unclaimed Financial Assets Act No 40 of 2011, Laws of Kenya provides the legislative framework for dealing with unclaimed financial assets.
g) National Payments Act no 39 of 2011, Laws of Kenya provides for the regulation and supervision of payment systems and payment service providers, and for connected purposes.

h) Consumers Protection Act, 2012 provides for the protection of the consumer, prevents unfair trade practices in consumer transactions and to provide for matters connected with and incidental thereto.
i) The Kenya Information and Communication Act 2011 provides for the establishment of the information and communications sector and electronic commerce.
j) Public Finance and Management Act.
k) Anti-Money Laundering and Counter Terrorism Financing Act.

1.4.2 Policies and Guidelines

The strategy formulation is also informed by the following policy instruments:

a) CBK Prudential Guidelines
b) *Mwongozo* – a code of governance for state corporations
c) Vision 2030 – the Country's economic blue print up to the year 2030
d) Medium Term Plan (MTP) II – 2014-2017
e) Performance Contracting Guidelines as released on annual basis
f) National Integrated Management Evaluation System (NIMES)
g) Integrated Financial Management Information System (IFMIS)
h) Report of The Presidential Taskforce on Parastatal Reforms 2013
i) State Corporations Advisory Committee (SCAC)
j) Postbank policies

1.5 Shareholding

Postbank is wholly owned by the Government of Kenya.

1.6 Rationale for development of the Strategic Plan 2021-2025

This Strategic Plan is the Bank's demonstration of its commitment to fulfilling its mandate and addressing various policy and environmental factors while outlining the key partners and resources required for successful enforcement of its mandate as provided for in the KPOSB Act 493B. It sets out the basis of the Bank's existence and guides its operations for the next five years from 2021 – 2025. The plan is intended to consolidate institutional and management capacity in the implementation of the Bank's policies and programs, which in turn support the development of policies and strategies adopted by the Government of Kenya as part of the on-going public sector reform process for enhanced service delivery.

On the other hand, The Government acknowledges the greater potential of KPOSB as an enabler for socio-economic empowerment of the society. This is evidenced by the fact that KPOSB has been categorized as a Strategic Government Owned Entity whose role is to encourage and facilitate personal savings among Kenyans by the Presidential Task Force on Reforming Government Owned Entities. Given this recognition, besides the Bank delivering on the Government's policies and programs the Bank has also the responsibility of being profitable and sustainable.

1.7 Methodology of Developing the Strategic Plan

The new five-year plan took into account the performance of the last four and half years, the anticipated restructuring of the Bank and the various developments in the banking sector and its operating environment. As part of developing the plan the following activities were undertaken: -

a) A discussion by the Management team on the areas of focus in the planning period.
b) Development of Strategic Plan Guidelines that guided the Heads of Departments to provide input into the 5-year plan.
c) An evaluation of the current strategic plan up from 2016 to May 2020.
d) A survey involving all staff to obtain their views on what they considered important and value adding to include in the five-year plan as well as feedback on the current plan.
e) An analysis of the financial services sector environment and the performance of key parameters that guide/drive profitability of banks. These included deposit base, incomes, credit, investments, role of technology among others.
f) The review of the economic performance, globally, regionally and locally.
g) National government priorities as contained in the MTP III and Agenda Four.
h) Other non-financial and non-banking developments in the Country that have an impact on financial and banking business.

CHAPTER TWO: GLOBAL, REGIONAL AND NATIONAL DEVELOPMENT CHALLENGES

2.1 Global and Regional Development Agenda

The Government of Kenya is a signatory towards various global declarations. Globally, development is driven by the United Nation's 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals (SDGs). Regionally, Africa Union's Agenda 2063 which is the strategic framework for the socio-economic transformation of the continent over the next 50 years. It builds on and seeks to accelerate the implementation of past and existing continental initiatives for growth and sustainable development. Its guiding vision is "an integrated, prosperous and peaceful Africa, driven by its own citizens and representing a dynamic force in international arena".

Towards the SDGs, the GOK developed a Road Map domesticating and localizing the SDGs to the Kenyan situation. Kenya's Vision 2030 is aligned to deliver the commitments in these declarations. To operationalize the Vision 2030, various Medium-Term Plans (MTPs) have been developed. The MTP III policies, programmes and projects are aligned with the aspirations of the SDGs Africa's Agenda 2063.

2.2 Kenya Vision 2030

In 2003, the Kenya Government developed the Economic Recovery Strategy (ERS) for Wealth and Employment Creation in order to respond to the global economic crisis which had impacted negatively on the social, environmental and political stability of many nations including Kenya. The strategy was effectively implemented resulting in rapid economic growth from 0.6% in 2002 to 7% in 2007. Poverty levels were reduced from 56% in 2002 to 46% in 2006. Other public sectors such as health, education and business were also impacted positively.

Following the successful implementation of ERS, the Government developed a long term blue print, Kenya Vision 2030. The Vision is motivated by a collective aspiration for a better society by the year 2030 in order to create a globally competitive and prosperous citizenry. The aim of Vision 2030 is to transform Kenya into a newly-industrialized, middle-income country providing a high quality of life to all its citizens in a clean and secure environment.

The Kenya Vision 2030 is anchored on three key pillars: Economic, Social and Political. The Economic pillar aims at achieving an economic growth rate of 10 per cent per annum and sustaining the same till 2030 in order to generate adequate resources for achieving the Vision's goals. The Social pillar seeks to achieve a just, cohesive and equitable social development in a clean and secure environment. The Political pillar aims for an issue-based, people-centered, results- oriented and accountable democratic system. Each of the three pillars specifies priorities for the respective sectors of the economy which include flagship projects and other high priority programs.

2.3 Financial Sector role in Vision 2030

The anchor Vision 2030 is to transform Kenya into an industrialized middle-income country that provides high quality of life to its citizenry. The Kenya Vision 2030 projection for Financial Services is to create a vibrant and globally competitive financial sector promoting high-levels of savings and financing for Kenya’s investment needs. The key objectives for the financial sector in Vision 2030 are to enhance financial stability, efficient transformation and accessibility to all Kenyans.

The long-term policy objectives of the financial sector in Vision 2030 include:

a) Improved access and deepening of financial services and products for a much larger number of Kenyan households and small businesses;
b) Mobilizing higher levels of savings to support higher investment rates;
c) Greater efficiency in the delivery of financial services to ensure that the cost of mobilizing resources and allocating these resources becomes increasingly affordable and that the range and quality of services better caters to the needs of both savers and investors;
d) Enhanced stability in the system to ensure that all banks and other deposit-taking financial institutions can safely handle the public's savings and ensure that the chances of a financial crisis - with all the costs that this would imply - are kept to a minimum; and
e) To make Kenya one of the ranked financial centers in "emerging markets" by 2030.

2.4 Report of The Presidential Taskforce on Parastatal Reforms

His Excellency the President, Hon. Uhuru Kenyatta, CGH, appointed the Taskforce on Parastatal Reforms on 23rd July 2013.

Under the findings of the report, the Bank was classified as a State Corporation with Strategic Functions, on account of its mandate of being the only savings bank in the country with the specific mandate of encouraging and facilitating personal savings, which is a key deliverable under Vision 2030.The Bank will continue to play this role effectively if this benefit is retained.

2.5 The Third Medium Term Plan (2018 – 2022) and the Big Four Agenda

The Third Medium Term Plan (MTP III) of the Kenya Vision 2030 outlines the main policies, legal and institutional reforms as well as programs and projects that the Government plans to implement during the period 2018-2022. The MTP III has mainstreamed and will implement the 17 Global Sustainable Development Goals (SDGs) as outlined in the United Nations 2030 Agenda for Sustainable Development. The Plan is further aligned to the Africa’s Agenda 2063 which constitute the strategic framework for socio-economic transformation of the African continent by the year 2063.

The MPTP III builds on the achievements of the first and second MTPs and prioritizes implementation of the “Big Four” initiatives. The initiatives are:

- Support value addition and raise the manufacturing sector’s share to 15 per cent of GDP by 2022. This will accelerate economic growth, create jobs and reduce poverty;
- Focus on initiatives that guarantee food security and nutrition to all Kenyans by 2022 through expansion of food production and supply, reduction of food prices to ensure affordability and support value addition in the food processing value chain;
- Provide Universal Health Coverage thereby guaranteeing quality and affordable healthcare to all Kenyans; and,
- Provide at least five hundred thousand (500,000) affordable new houses to Kenyans by 2022 and thereby improve the living conditions for Kenyans.

Additionally, the Plan targets to improve Kenya’s ranking in the Ease of Doing Business Indicator from position 80 to at least 45 out of 189. The MTP III targets include:

- Increase real GDP annual growth from 5.9 % in FY 2018/19 to 7% over the plan period
- Increase Savings and Investments as a percentage of GDP from 18.8% to 23.2 % and 24.4 % to 27.2 % respectively by 2022
- Increase the ratio of formal sector employment from 13% to 40% by 2022 by creating over 6.5 million new jobs over the plan period.

The MTP III focuses on nine key foundations and enablers for national transformation namely: infrastructure; information and communication technology; Science Technology and Innovation (STI); land reforms; public sector reforms; labor and employment; national values and ethics; ending drought emergencies; and security, peace building and conflict resolution.

2.6 The Financial Services Sector in MTP III

The goal for the Financial Services Sector (FSS) in MTP III is “A Vibrant and Globally Competitive Financial Sector driving high level of savings to finance Kenya’s investment needs”. A significant increase in investment is needed for mobilizing both domestic and international resources towards achieving the Vision 2030 envisaged 10 per cent annual GDP growth rate. The FSS is critical for the achievement of this target. The goal of the Sector will be achieved by deepening financial markets focusing on enhancing effective access to financial services and improving efficiency while maintaining financial stability.

Access to formal financial services rose from 75.3 per cent of the adult population in 2016 to 82.9 per cent in 2018. The gross national savings rate increased steadily from 11.2 per cent at the end of 2013 to an estimated 18.3 per cent of GDP by mid-2017. On the other hand, the private and other government investment ratios more than doubled growing from 11 per cent to 24.4 per cent, between 2013 and 2018. This was accompanied by a significant expansion in the Financial Sector with the share of GDP rising from 6.6 per cent to 7.1 per cent in 2013 and 2017 respectively.

In order to achieve the goals FSS goal, several flagship projects and programs have been planned for implementation between 2018 and 2012. These include:

- Nairobi International Financial Centre (NIFC): The project aims at making Kenya a major regional Centre for financial services in the sub-Saharan Africa.
- Financial Services Authority (FSA): The aim of establishing FSA is to enhance the effectiveness of prudential oversight of the nonbank financial sub-sectors and improve the overall efficiency of the regulation structure.
- Digital Finance: This will be a major cross-government initiative with the aim of exploiting Kenya's established lead in digital finance.
- Capital markets deepening: The Sector will continue to implement the ten-year Capital Markets Master Plan (2014-2023).
- Financial Capability: The program is aimed at enhancing access, usage quality and impact of financial products.
- Long-term Saving: The program aims at increasing opportunities for individual savings for personal investments in health, education, housing among others and to reduce vulnerability by providing pensions and insurance.
- Lending and Investment Environment: The program aims at increasing productive investment in small and medium enterprises (SMEs).

2.7 The role of KPOSB in BFA and MTP III

The government, through the review of MTP I and II found that one of the challenges that affected achievement of the planned targets, specifically the economic and social targets were the low levels of domestic savings and investments relative to the GDP in the country. The role of KPOSB within the implementation of Vision 2030 and the Big Four Agenda (BFA) is clearly spelt out in the MTP III. As indicated before, the MTP III has specifically identified the support to achieve the targets of BFA through increased savings and investments. This is in line with the aspirations of the Economic Pillar in Vision 2030. Within the same, the government has identified various initiatives under the Social Pillar that KPOSB can focus on in assisting the government achieve its goals. These include:

- Increase Women Enterprise Fund loan disbursement from a cumulative Ksh10.4 billion to Ksh.25.7 billion targeting 2,157,653 beneficiaries by 2022.
- Scale up Inua Jamii programme for the elderly from 810,000 to 1,800,000 beneficiaries
- Youth Enterprise Development Fund to disburse 20.7 billion and cover 454,000 youths by 2022
- Scale up Uwezo Fund by Ksh.2.5 billion to cover additional 500,000 beneficiaries by 2022
- Implement the National Development Fund for Persons with Disability.

In order to support the achievement of the aspirations of the MTP III and BFA, the KPOSB, within the current strategic plan must:

- Align its priorities to the core mandate of mobilizing savings and investments
- Develop products aligned to the Big Four Agenda
- Develop innovative and competitive products that will enable a growth in savings and investments in Kenya
- Inculcate a culture of savings and investments among Kenyans
- Use and align the KPOSB infrastructure to deliver various government problems

CHAPTER THREE: SITUATION ANALYSIS

3.1 Overview

This chapter provides a situational assessment of Postbank's critical review and analysis of its achievements, challenges and lessons learnt. It further provides analysis of external and internal environment assessment using the Strengths, weaknesses, Opportunities and Threats (SWOT) and Political, Economic, Socio-cultural, Technological, Environmental and Legal (PESTEL) analytical tools. A stakeholder analysis was also undertaken with the aim of ensuring inclusion in implementation of the strategy.

3.2 Review of the 2016 - 2020 Strategic Plan Implementation

The Bank developed a new strategic plan to guide the Bank's strategic direction for the plan period 2016-2020 whose theme is "Repositioning Kenya Post Office Savings Bank for Growth and Sustainability". The strategic plan is built around five key result areas (KRAs)/pillars namely:

a) Capital Base
b) Customer Focus
c) Business Growth
d) Profitability
e) Institutional Capacity

A review of the 2016 – 2020 strategic plan was conducted in June of 2019. The review found the overall implementation level as 78%.

3.3 Lessons Learnt

- Banking is going digital and the Bank needs to focus heavily on digital banking. The high growth of Patacash transactions clearly points out that the growth of the Bank business may be realized through the Mobile and Internet Banking channel.
- The development and implementation of strategic activities needs to be geared towards realizing the strategic objectives of the Bank. Otherwise the Bank will be wasting valuable resources pursuing less impactful activities.
- The increase in Bank deposits and customer accounts does not necessarily translate into growth in revenues. The Bank needs to ensure all efforts geared towards growth in deposits and customer accounts have a direct or indirect effect in revenue growth.
- Excellence in service delivery is critical to attract and retain customers in the highly competitive market.
- Identification and mitigation of risks is vital.
- Flexibility in strategy is key to cope with rapid changes in business and operating environmental changes.
- Need for timely project implementation so as to gain the desired outcomes.

3.4 Environmental Scan

3.4.1 Strengths, Weaknesses, Opportunities and Threats (SWOT) Analysis.

An assessment of KPOSB's Strengths, Weaknesses, Opportunities, and Threats (SWOT) was undertaken. The SWOT notes internal resources (Strengths and Weaknesses) and the external environment (Opportunities and Threats) as outlined in Annex I.

3.4.2 Political, Economic, Social, Technological, Environmental and Legal (PESTEL) Analysis

The external environment analysis identifies factors outside the organisation that may affect performance positively (opportunities) or negatively (threats). The analysis reviews Political, Economic, Social, Technological, Environmental and Legal (PESTEL) factors. The outcome of the analysis is as presented in Annex II.

3.4.3 Stakeholder Analysis

Stakeholder analysis is a process of systematically gathering and analyzing qualitative information to determine whose interests should be taken into account when developing and/or implementing strategy. A stakeholder is an Actor (persons or organizations) who have a vested interest in POSTBANK. The KPOSB Stakeholder Analysis is outlined in Annex III.

3.4.4 Strategic Issues

Based on the situational analysis, several critical issues emerged. These issues indicate areas of priority that KPOSB should focus on in the next strategic period. The issues inform the development of the strategic model in the next chapter. The issues are:

- Customer related issues
- System issues
- Human resources issues
- Financial sustainability
- Governance

CHAPTER FOUR: STRATEGIC MODEL

4.1 Overview

This chapter covers the strategic intent of Postbank which includes the Vision, Mission, Motto, Core Values, Key Results Areas, Strategic Objectives and Strategies.

4.2 Vision, Mission, Motto and Core Values

The Vision, Mission, Motto and Core Values will be the guiding principles that will inspire employees and provide direction towards our objective. The strategic Vision is a pre-requisite for effective strategic leadership. The Mission is the overriding factor that gives our identity and unique purpose. The Motto is a symbol of focus. The Core Values enable good decision making through common guiding philosophy.

4.2.1 Vision

The Premier Savings and Financial Services Bank

4.2.2 Mission

To provide quality banking and other financial services, through innovations that build sustainable customer relationships and stakeholder value

4.2.3 Motto

My Bank, My choice, My Future

4.2.4 Core Values

The core values are the fundamental principles that guide the behaviour of every person or entity working with KPOSB. They are practised and embraced to create an organisational culture that drives KPOSB's vision. The core values guiding KPOSB include the following:

i. **Integrity**

   We are committed to acting at all times with honesty, fairness, accountability, transparency, ethically and above board in all our operations.

ii. **Customer focus**

   The Bank is committed to Placing the customer at the core of the Bank's business and ensuring high quality of service at all times;

iii. **Professionalism**

   We shall strictly abide by professional considerations on the methods, standards and procedures in our work.

iv. **Teamwork**

   We are committed to the principle of teamwork and nurturing staff commitment within the Bank and collaboration with our stakeholders in the provision of our services; Synergy among the staff members shall be highly valued for better achievement of objectives.

v. **Accountability and Transparency**

We shall be transparent and accountable to all our stakeholders. We will also take responsibility for our work and make what is wrong right to the greatest extent possible.

4.3 Key Result Areas/Strategic Focus Areas

As a result of information gathering, analysis and identification of the key strategic issues in the previous chapter, the key strategic focus areas were identified. These issues were the basis of developing KPOSB's Strategic Priorities. Five strategic areas identified gave direction to the determination of key strategies and initiatives for the period 2021 - 2025. The five priorities include:

1. Market Focus
2. Business Efficiencies
3. Human Capital Development
4. Financial Sustainability
5. Governance and Leadership

While these five priorities are the basis for the determination of key strategies and initiatives for the period 2021 – 2025, it is important to consider that the Bank is currently undertaking a business review that is aimed at identifying interventions that will lead to accelerated business growth and sustainability through a new business model. Hence the strategic areas are likely to be amended given the outcome of the business review.

The above notwithstanding, based on the KRAs identified above, five goals indicating the strategic outcomes were also identified for the period 2021 – 2025 as indicated below:

1. **Market Focus**
   Strategic Goal 1: Achieve a net deposit of 35.9 Billion and 1.1 Million active accounts by 2025
2. **Business efficiencies**
   Strategic Goal 2: Improve processes efficiency and effectiveness by 21% by 2025.
3. **Human Capital Development**
   Strategic Goal 3: Enhance employee productivity levels to an average performance rating of 80% by 2025
4. **Financial Sustainability**
   Strategic Goal 4: Achieve breakeven status by 2024 and profitability of Kshs. 178 Million by 2025
5. **Governance and Leadership**
   Strategic Goal 5: 100% compliance to good corporate governance practices

4.4 Strategic Objectives and Strategies

In order to ensure that the identified Key Result Areas are comprehensively addressed, an operationalization of the same was undertaken. Such involved the formulation of strategic objectives and strategies. Strategic objectives are what KPOSB commits itself to accomplish in the long term while the strategies are the means, the ways, the how's and the methods by which KPOSB will accomplish the strategic objectives and are outlined in Annex IV.

CHAPTER FIVE: IMPLEMENTATION AND COORDINATION FRAMEWORK

5.1 Overview

Plan implementation is the action stage of the strategic plan. The activities central to plan implementation are: establishing annual objectives; devising appropriate policies; allocating resources and reviewing organizational arrangements/structures. Critical to strategy implementation is the Implementation Matrix attached in the Appendix V. For the operationalization of the deliverables in the implementation matrix, the management derive annual action plans from the matrix to guide month on month activities and performance.

5.2 Strategy Implementation Key Success Factors

In implementing strategy, KPOSB will need to consider several critical success factors. These factors will need to be addressed in order to make the transition from the development of this Strategic Plan and the identified strategies to the implementation phase. The figure below shows the key factors which are discussed in the subsequent table below.

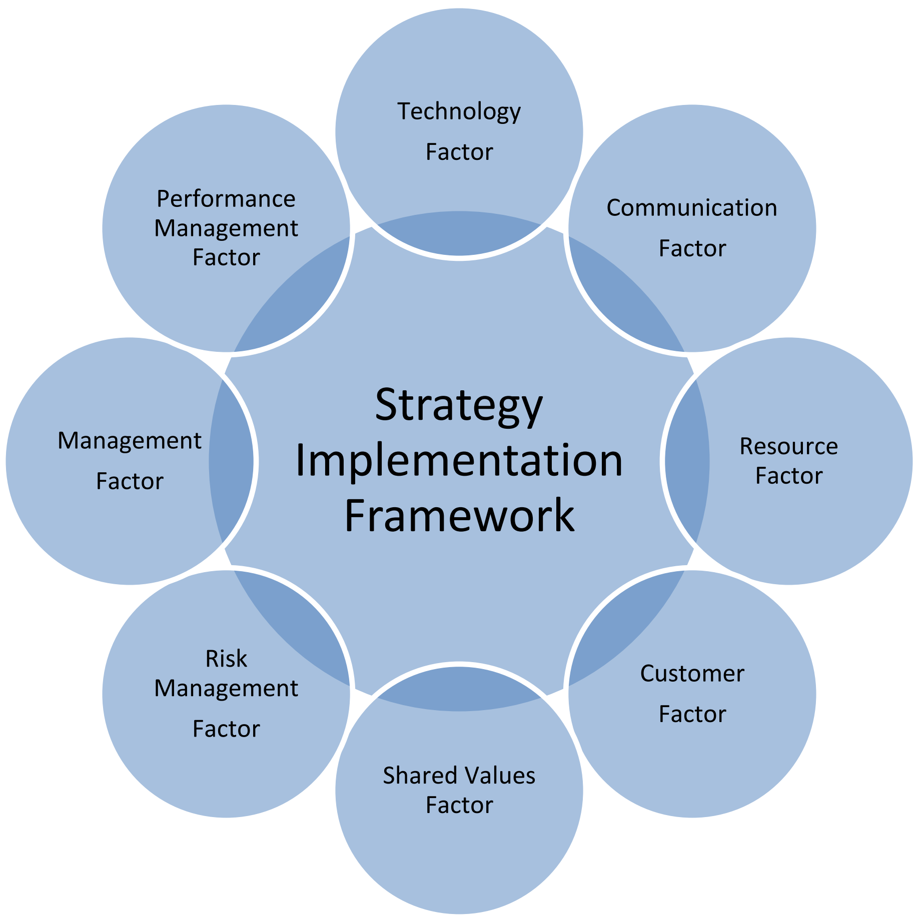

Figure 1: Strategy Implementation Framework

5.3 Structure of the Organization

5.3.1 Departments/ Directorates/ Units

The governance of the Bank is vested in the Board of Directors and the Office of the Managing Director. The Board consist of a team of experienced and qualified professionals appointed by the Cabinet Secretary of the National Treasury. The Managing Director is in charge of the day to day operations of the Bank, together with a team of top management staff.

There are six (6) departments that directly report to the office of the Managing Director – the office of the Chief Operations Officer (who deputizes the Managing Director), Finance and Accounts, Special Projects, Internal Audit, Human Resources & Administration and Legal, Security and Investigations.

The following directorates/departments report to the Chief Operations Officer: Banking Services – which comprises of the Retail branch network and corporate banking, ICT & Alternative Channels, Strategy & Marketing, Credit Services and Risk & Compliance.

5.4 Staff Establishment

The table below indicates the staff establishment levels as at the end of December 2019 against the approved levels. The staff establishment will be reviewed annually and approved by the Board so that it is in line with the business direction the Bank pursues on an annual basis.

5.5 Financial Resources

Successful implementation of the 2021-2025 Strategic Plan will not only depend on the quality and commitment of the stakeholders, but also on the availability and efficient utilization of resources required to undertake the various activities. Restrictive regulations, maintaining customer loyalty, inadequate financial resources are some of the challenges that Postbank has faced and has had to grapple with over the years. Resource mobilization for assured financial sustainability is a fundamental concern during this strategic plan period.

Due to the on-going business review, the financial resources presented in the plan are for the year 2020. However, once the outcomes of the review are factored in, the income and expenses for the latter years will be included.

5.5.1 Broad Assumptions

The following broad assumptions have guided the development of the business and revenue projections: -

a) The projected GDP growth for 2020 has been revised to 2.5% from an initial projection of 6.1% due to the pandemic. Growth is estimated to pick up sharply to 5.2% in 2021 and 5.7% in 2022, before reaching Kenya’s growth potential of 6.0% in 2023.
b) Headline inflation is projected at 6%, falling within the government target range of 5% ± 2.5%.
c) The Banking sector has over the past years grown at a rate of between 10-15%. The sector has taken a huge hit from the Covid-19 pandemic and with increased provisioning; this is likely to drop in 2021 then rebound in subsequent years.

d) Major infrastructural projects would continue providing an impetus to increased economic activity in the medium term.
e) Impact of the Covid-19 pandemic will slow down deposit mobilization in first half of 2021. This is because of significant contraction due to the structural features of the Kenyan economy i.e. a large informal sector, high unemployment, and self-employment and limited fiscal space. This may extend if the pandemic is prolonged.
f) Lower costs and marginal increase in customer deposits due to deployment of improved technologies, implementation of innovative service delivery and development of market driven products and services.
g) Marginal increase in investment income in 2021 due to marginal increase in customer deposits and stable interest regime. This will pick up post covid-19.
h) Increase in business partnerships and alliances that will promote commission-based income.
i) Higher forex gain revenues due to demand for forex. This is from the expectation that current account deficit is projected to widen over the medium term as the decline in exports of goods and services is expected to be larger relative to the decline in imports.

5.5.2 Deposit Mobilization Assumptions

Internal assumptions that will impact on revenues are outlined in Annex VI.

5.5.3 Loans and Debt Management

The Bank will continue to lend through partnerships and will seek to growth existing partnerships while engaging new ones in a bid to grow commissions on loans income. The Bank will continue to proactively manage debt collections by targeting ex-staff loans and Visa Credit Card

5.6 Risk Analysis and Mitigation Strategies

In the course of their operations, Banks are invariably faced with different types of risks that may have a potentially negative effect on their business. Risk Management is therefore at the core of every banking institution and encompasses all activities that affect its risk profile. Effective risk management is fundamental to being able to generate profits consistently and sustainably and is thus a central part of the financial and operational management of the Bank.

Postbank Management should, therefore, attach considerable importance to improve the ability to identify measure, monitor and control the overall risks assumed to minimize negative effects risks can have on the financial result and capital of the Bank.

Annex VII gives a list of the risks to which Postbank may be particularly exposed to in its operations, their sources and recommended mitigation strategies.

CHAPTER SIX: MONITORING, EVALUATION AND REPORTING

6.1 Overview

Effective planning ends up with effective strategy implementation. But this can only be achieved with an effective functional monitoring and evaluation framework. An effective monitoring and evaluation mechanism will help ensure cost effectiveness, timeliness and quality in achieving the objectives in the strategic plan. This Strategic Plan will be subjected to a continuous review of performance on the various deliverables. There shall also be annual reviews of the plan. The reviews will be focused on how the available inputs have been used and what outputs and short term outcomes have been produced. This review shall also focus on challenges, issues and key lessons learnt. The review and lessons learnt will inform the need to change strategy and interventions.

6.2 Implementation Framework

For any strategic plan to be implemented successfully, it is imperative to link strategies to an implementation framework. Such a framework will entail linking activities and resources to desired results. In ensuring that the strategic priorities are implemented an appropriate methodology will be developed based on the following three areas.

- Performance Objectives - **What strategy must be achieved and what is critical to its success**
- Measure - **How success will be measured and tracked**
- Target – **Performance expectation**
- Resources – **What resources are required to support the strategies**?

The implementation framework is provided in Appendix V.

6.3 Monitoring and Evaluation Framework

This Strategic Plan Monitoring Evaluation and Reporting (ME&R) framework for the Strategic Plan will be based on the various Key Result Areas and specific outputs that the Bank envisages to achieve. Specifically, the ME&R will look at both the organizational and departmental level objective to ensure corrective actions are taken to avoid any deviations from the standards. Performance measures have been expressed in a manner that is as measurable as possible. The Implementation matrix will focus on outputs, activity indicators and indicative budget. The Bank will incorporate these annual targets in its annual performance contracts.

The overall monitoring of the strategic plan implementation is guided by the monitoring plan as provided in the Appendices. The following M&E framework will be adopted in order to ensure successful implementation of the Strategic Plan:-

i. The sole prerogative of strategy implementation and as a result monitoring and evaluation rests on the Board

ii. The Board delegates power to the different relevant committees with the role of monitoring the implementation of the plan
iii. The management should hold regular meetings (preferably monthly) chaired by the Managing Director, to review the status of the strategic plan implementation as it relates to their respective roles. In addition, areas requiring strategy change should be identified and proposed to the Board through the relevant Committees.
iv. The management will avail progress reports regularly (preferably quarterly) to the Board on the progress made towards the attainment of the goals.

6.4 Monitoring

This will involve monitoring the implementation of the planned activities and evaluating their impacts on the desired goals. The monitoring activities will result to identifying any gaps or deficiencies which will then be addressed by management. Daily, weekly, monthly and quarterly reporting will be critical for the monitoring function. To ensure effective participation in plan implementation, there will be need to:

- Establish standard formats for data collection and reporting;
    - Clearly spelt out documents to be prepared, periods covered, and details of information to be supplied;
    - Implement a Performance Management system making every employee to be accountable to the use of resources and attainment of set objectives; and
    - Effectively use available resources to ensure smooth implementation of the strategic plan.

The following ME&R framework will be put in place by the Bank in order to ensure effective implementation of the strategic plan:

6.4.1 Strategy Implementation Team

The Strategic Planning department will be responsible for overseeing the implementation, monitoring, evaluation and reporting of the Strategic Plan by each department and by collaborative efforts among departments. The Department will maintain close coordination of ME&R activities and ensure that strategies are being implemented, performance is being measured, progress reports are made and discussed, and corrective action is taken where necessary. Responsible department (s) must be accountable for the completion of stated tasks in the Strategic Plan. Where necessary, capacity of various departments to undertake ME&R activities will be built.

6.4.2 Cascading the Plan to all Staff

The Strategic Plan must translate to work. The Plan will, therefore, be cascaded downwards to the lowest levels using the Bank's Performance Management tool, the Balance Score Card or any other Tool that the Bank will consider appropriate from time to time. This will help each member of staff to understand and plan for their respective roles.

6.4.3 Departmental and Individual Annual Work Plans

Detailed work plans with clear performance indicators and responsibility for their achievement will be developed taking into consideration the endorsed activities in the Strategic Plan. The Lead Department must take responsibility to coordinate with other departments in case of joint activities. Key indicators that will inform management decision making will be identified and the frequency of reporting on these indicators will be determined. This will form the foundation of the ME&R system.

6.4.4 Preparation of the Resources Plan

Each and every activity will have adequate resources earmarked in the Bank's annual budget. Each lead Department should include resource requirement in their Annual Work Plan. Materials requirements will also be worked out every year and procurement will be done as per the procurement provisions.

6.4.5 Data and Information Collection Procedures

Elaborate data and information collection templates and procedures will be developed to measure performance as per the indicators and report to management. The reports will describe actions taken by the departments toward achieving the specific strategies of the Plan and will include achievements, challenges and emerging issues, costs, benefits and recommendations.

6.4.6 Scheduled Meetings and Workshops

i. **Monthly Review Meetings at** the Departmental and Unit levels will be scheduled to ensure implementation is on track.

ii. **Quarterly Reports presented to** the Board, Corporate and Departmental levels will be provided to get and give feedback on the pertinent performance indicators.

iii. The overall oversight of the Strategic Plan and its implementation is a critical role of the board. Therefore, progress reporting will be an **Agenda Item in quarterly Board Meetings**.

iv. A **Strategy Review Workshop** will be held annually.

6.5 Linking ME&R to Performance Management

For the implementation of the Plan to be effective, the ME&R will be an integral part of the Bank's performance management system and will be linked to staff appraisal and reward systems. The Bank will monitor and evaluate its activities and performance in the process of reporting on its performance contract on quarterly and annual basis. The tracking of the Strategic Plan will be regularized to become part of this process.

6.5.1 What to Measure

The Bank will apply tools to monitor performance. The major techniques of monitoring and evaluation that shall be used include; variance analysis, ratio analysis, and compliance with approved budgetary levels.

6.5.2 Variance Analysis

The Bank will compare the performance targets with the actual results and interrogate the identified variance(s). As a consequence of variance analysis and identification of causes, appropriate remedial actions will be taken.

6.5.3 Ratio Analysis

Ratio analysis is concerned with efficiency of related objectives. Pertinent ratios will be calculated quarterly, semi-annually and annually and the actual results compared with the target ratios. The differences between target and actual ratios will be identified and analyzed, after which remedial action will be taken

6.5.4 Budget Monitoring

Actual results will continually be checked against planned results and variances investigated. If necessary, action plans will be changed so that they are brought in line with the budgeted results or the budget will be amended to take into account of new developments that require action.

6.5.5 Progress Reports

Reporting the progress of implementation will be critical in adjusting strategic directions and measuring performance. In undertaking M&ER, data will be collected on the various output and outcome indicators which have been developed and included in this Strategic Plan. The Lead Department will be required to submit the following reports to the management as well as to the Board on their progress in implementation of strategies under the Strategic Plan:

- Quarterly report – Management and the Board
- Half-yearly – Management and the Board
- Annual Report – Management and the Board

Each of the reports will contain the following elements:

a) Progress against the Plan
b) Causes of any delays in the implementation of actions under respective strategies
c) Actions or resources required to remedy delays stated if any
d) Proposed revisions to the strategies.

6.6 Evaluation – Mid Term and End Term

The purpose of evaluation is to measure the actual performance against target levels and establishing the size of variance, causal factors for the variance and recommending appropriate remedial measures, including a review of the objectives and/or strategies. The evaluation plan will help determine objectively the relevance, effectiveness and efficiencies of the activities proposed in the strategic plan. A mid-term evaluation will be undertaken with the purpose of verifying that the plan is on the right track and provide information to correct observed deficiencies including the revision of objectives, strategies or activities. The mid-term review will be conducted mid-2023. The final evaluation will assess the achievement of the activities of the plan and identify and document the success or failure. The final evaluation will be undertaken at the end of the plan period which is 2025.

The evaluations will be guided by key questions to address key evaluation criteria including relevance, effectiveness, efficiency, impacts and or sustainability including:

- To what extent were the planned objectives consistent with customer needs and expectations?
- How were the financial, technical and human resources utilized to achieve the desired results?
- To what extent the objectives were achieved, or are expected to be achieved, taking into account their relative importance?
- What were/are the positive and negative effects achieved/produced during the strategy implementation period?
- What were/are the major obstacles to reaching the desired goals in the strategic plan? What can be done to overcome these obstacles?
- What are the lessons learnt that can inform further strategy development for KPOSB?

6.7 Review of the Strategic Plan

A strategic plan is a living document that may require changes due to the exigencies of the time. After the mid-term review, the lessons learnt will inform the need for reviewing the Strategic Plan or not. Due to the changes in the operating environment it is imperative to consider the changes and their effects on Strategic Plan. With these changes, it may be necessary to review the Plan. At a minimum, during the strategy period, and after the mid-term review, a workshop/retreat will be undertaken for the purposes of re-orienting the strategy based on the realities of the time. The output of this will be a revised strategic plan.