

# Reengineering of the Personal Loan Application process in a South African Bank Operating in Africa

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**Abstract**— this paper elaborates the reengineering of the personal loan application process in a South African bank operating in Africa. The primary objective is to improve the existing process for personal loan credit applications in order to create improvements in the process. The research methodology used is qualitative research with research reasoning being inductive allowing the researcher to draw conclusions from facts, assumptions and observations established through the data collection processes. The article offers a comprehensive understanding of the challenges faced in processing of loans applications. Business and institutes are built on good control systems which are needed to address the challenges faced in the processing of personal loan applications. The study contributes to customers service discourse in operations. The recommendation is to reengineering the current personal loan process, taking into consideration technology to improve the process, training of existing employees, implementing a reward system and redesigning of the process.

**Keywords**— Business Process Reengineering, Personal Loan Application, Loan Origination

## I. INTRODUCTION

THE loans origination process at the South African bank studied is predominantly manually driven with no automated end to end workflow and no integration of systems. Retail banking typically embraces high volume transacting and lending, therefore requires a strong focus on customer services if it is to develop and maintain a viable business operation. The ultimate goal of this research is to find ways to increase the amount of new business written to the books at the bank and ultimately to generate profitable income. Due to the lack of systems and inefficient processes management is challenged daily to meet customer expectations. The idea is to overcome these challenges and improve the customers experience when originating personal loan applications so that more business is generated and retained.

Lately customers at the bank studied have expressed dissatisfaction with the existing personal loan application process and with the disbursement of funds to their accounts. Analysis performed on 14930 personal loan applications

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between April 2010 to May 2010 showed that 79.69% of the personal loan applications took between 4 and 60 days to be processed and only 20.31% took between zero (0) and 3 days to be processed. Analysis of data from the Core Banking platform indicated that applications processed to finance the purchase of an asset such as home or vehicle took 2-3 months to finalize, due to the registration and transfer requirements of the asset. Personal loan applications are less complicated and therefore should take a shorter time to process. This can create a competitive advantage for the bank. Surveys done on competitor banks indicated that personal loan applications were processed in 0-3 days. Refer to Figure 1. Applications processed in days.

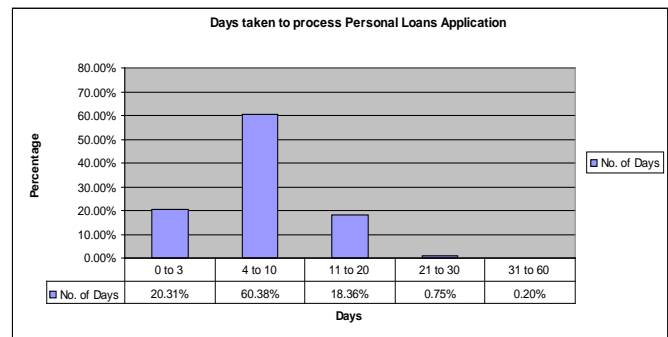


Fig. 1 Applications processed in days  
Source: Core banking origination system

## II. LITERATURE REVIEW

### A. Business Process Reengineering (BPR)

Reference [6] defines BPR as "the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical, contemporary measures of performance, such as cost, quality, service, and speed". The business environment is constantly changing; nothing is constant or predictable regarding market growth, customer demand, product life spans, technological change or the nature of competition. As a result, this has led to entirely new dynamics in the business world regarding customer, competition and change. Reference [6] considers reengineering is the design of the work activities or processes from scratch. It examines the flows and sequence of activities performed in the processes and attempts to remove inefficient activities and increase productivity. It is noted that organizations need to

continuously improve and streamline their processes in order to improve customer services and ensure efficient processing if they are to survive in business given increasing competition which is becoming more global. Businesses that are more efficient, that drive down costs and improve customer service will stand a better chance to survive.

According to reference [12] [p1] “*If you always do what you always did, you’ll always get what you always got*”. In some cases the reward can be less even. There is a need to make necessary changes and process improvements. In order to achieve better levels of performance in process and quality improvement, operational performance and customer services, it is necessary to improve the management of planning and administering activities. The suggestion is to improve quality and organizational performance through shorter cycle times and quicker responses to customers.

### B. Technology

Organizations need to be flexible and adaptive to changing environments and to the needs of customer if they are to survive and grow. Reference [10] [p12] commented on the fact that if companies want to succeed in the world of business they need embrace new realities. Customers want results for their money and employees want challenging and rewarding jobs. Technology is providing opportunities to explore ways of moving the organization forward. An organization can only be successful if it uses its processes as a strategic weapon to deliver world-class performance. There is no question that success in this environment is only possible if an organization is ready to focus on using its process or processes as a strategic weapon to deliver world-class performance.

### C. Drivers for BPR

Reference [4] [p56] looked at reasons for reengineering

- “Companies want to customize their business processes for **competitive advantage**, so that they have the ability to respond flexibly by customizing processes that can create considerable competitive advantages and,
- Globalization is also a major driver contributing towards the need for process customization. The challenge for many organizations that respond to globalization is the need to strike the appropriate balance between centralized corporate standards and the autonomy needed to serve local markets.

Reference [9][p62] strongly feel that “effectiveness” is performing similar activities better than rivals or competitors and also refers to various practices that allow an organization to better utilize its inputs by reducing defects in products or developing better products faster.

## III. RESEARCH METHODOLOGY

The research methodology used is qualitative research. The questions that were asked were open ended questions. There was also a quantitative approach taken, whereby the questions that were asked were closed questions. Although the research methodology was primarily focused on qualitative research, a small aspect of the research was based on quantitative

research. The quantitative research, even though small is very important. Reference [14] [p380] mentions that a research design is a master plan specifying the methods and procedures for collecting and analyzing the information. Reference [1] [p151] mentions that data is either quantitative or qualitative. Quantitative research use mathematical measures and statistical techniques to determine relationships and differences among large samples of target populations. Qualitative research is less formally structured than quantitative research and it uses smaller samples.

The approach taken in this research was extensive interviews, documentation and observation data from the view points of the interviewed participants. The statistical information was gathered, analyzed and investigated to identify any factors contributing to the long time it takes to process Personal Loans credit applications. The research methodology gave the participants the opportunity to express themselves with regards to the inefficient process Personal Loans credit applications. This enabled the researcher to understand and explain the social and cultural phenomenon that is contributing to the long time it is taking to process Personal loans credit applications. This has given the researcher the opportunity to achieve the primary and secondary objectives set out. The research reasoning was inductive whereby the researcher draws conclusions from facts, assumptions and observations established in the research. Reference [13] stated that in inductive reasoning begins with specific observations and measures, to detecting patterns and regularities, formulate some tentative hypotheses that we can explore, and finally developing and drawing conclusions of the observation. The research design was of an exploratory nature. At the time the research was conducted the researcher hardly had any knowledge about the subject matter. Literature review and feedback from the questionnaires and one on one interview gave the researcher an in-depth understanding of the issues experienced.

All factors contributing to the inefficient process of personal loan credit applications were explored and investigated by the researcher. Thereafter, suggestions were recommendations that would improve the inefficient process of personal loan credit applications. This approach taken had a format that has less structure and also allows the researcher to ascertain general information about subject matter. According to reference [11] that exploratory research is a less structured format and more flexible than descriptive research. This approach helps the researcher obtain better understand of the topic or the topic is new and it is hard to pinpoint the research direction. The applied research method was used to solve the practical problems encountered in the efficient processors. The researcher obtained adequate knowledge of the problems and then applied the knowledge to solve the problem. The researcher examined internal and external historic data. This gave the researcher more understanding about the subject matter and served as a foundation and awareness of the problem for a more formal research. Also there was no hypothesis testing performed in the research.

### A. Sampling

The sampling method used was non-probability. The sample technique applied was personal judgment (Purposive) and convenience whereby the audience was selective. Reference [14] [p380] mentions that "In non-probability sampling the probability of any particular member of the population being chosen is unknown. The selection of sampling units in non-probability sampling is quite arbitrary, as researchers rely heavily on personal judgment." The specialist at head office who is knowledgeable and experienced in the subject matter was interviewed by the researcher. There are 60 branches that the questionnaires were e-mailed to. A minimum of two participants from each branch and ten participants from the Assessment centers were required to complete the questionnaire. The questionnaire was received by all participants, however only 90% responded to the questionnaire. This proved insight to what the applications processing agents experience daily when processing personal loan applications. The purposive sampling technique is a type of non-probability sampling. The method used was non random sampling that targeted specific audience. Reference [2] states that the researcher can make an explicit choice based on his or own judgment about the inclusions of the sample. Also purposive technique was used to study a group of people that are knowledgeable of the personal loan application process. The sampling technique is effective when the researcher needs to study a certain cultural area that is knowledgeable. Purposive sampling can be used with both qualitative and quantitative research techniques. The favoritism of the method contributes to its efficiency, and the method stays robust even when tested against random probability sampling. Purposive sampling is fundamental to the quality of data gathered; and reliability and competence of the informant.

### B. Data Collection

The researcher identified stakeholders to participate in this study as part of the data gathering process. The stakeholders chosen are specialists in Personal Loans applications processing. A total of 200 participants were targeted of which 185 responded. The stakeholders that responded were Customer consultant, Analyst, Assessment manager, Loans Officers, and Head Office Support managers.

## IV. RESULTS AND FINDINGS

The analysis of data was done in categories with a focus on people, process, technology and data.

### A. People

- *Sufficient Staff Resources*

The results of the questionnaire showed that 85.00% of the participants from the branch network indicated that there are sufficient staff members to perform the task, whilst 15.00% indicated that there are insufficient staff members to process personal loan applications. This concludes that there is adequate staff in the branch network to process applications. Data shows that 90% of the staff in the Assessment Centre

indicated that there is a shortage of staff. Further investigations performed on application volumes reflected that on average 5000 applications are processed a month. This indicates that on average one branch processes 82 applications a month. Given that there are 60 branches, three Evaluations managers on average will have to process 1666 applications per month. It takes approximately 20 minutes to evaluate 1 application and make a decision, with 3 evaluations managers in credit it is impossible to process all the personal loan applications within the service level agreement. This has a direct impact on the application processing time and is causing a bottle neck in the process.

- *Staff Training*

Results of the questionnaire showed that 70% of the staff indicated that they are inadequately trained. New recruits receive training, however on the job guidance and training is required. 30% of the staff indicated that they are adequately trained and can perform their function adequately without supervision. Another challenge is that a number of employees once trained are being offered better packages from competitor banks, so these trained employees do not stay very long in their current roles.

- *Management*

Management and staff are geared into learning new way of doing business. Staff interviews have highlighted that management is more interested in resolving short term issues and is reluctant to address long term challengers. Staff members also feel that the reward and recognition system is inadequate and that people are rewarded unfairly. The lack of proper retention and succession plans in place is of major concern. Vacancies are filled with people from the outside of the organization, instead of up-skilling and growing existing staff. The morale of staff is low and feel that they are not considered or recognized for their efforts.

- *Fragmentation of Decision*

There are various different factors that play a role in decisioning making and management of staff and future changes. Many managers have tried to take all factors into consideration, however due to the complexity of the issues has resulted in managers en-counting shortcomings. No one single individual had a view of the full spectrum of application and decision making process. Often the decisions are made by top management without consulting subordinates. Decision and changes are made for each business department in silos instead of collectively making a decision that will improve the processing of personal loan applications. The results showed only a few factors being taken into account when decisioning.

- *Segregation of duties*

Segregation of duties is important in order to prevent fraud, assist in validations and elimination of mistakes. Data analysis from the questionnaire has shown that employees do not have dedicated duties. Interviews with staff have also highlighted that staff do not have dedicated job responsibilities and on a daily basis their job requires them to multi task and often processing of credit loan applications takes place after working hours. Most of the branches have people standing in long

queues waiting to enter the branch to apply for a personal loan. The branch staff interviews the customer; gather all information and supporting documents on arrival and processed the loan application after hours so that they can attend to all customers in the queue.

In summary the resourcing of staff is adequate in the branches; however there is insufficient staffing to process the high volumes of applications in credit. The inflow of personal loan applications from  $\pm$  60 branches is creating a huge bottle neck in the Assessment center since there are only three people to deal with the large volumes of application. . These staff members are required to multi task and often the processing of personal loan application become a back office or after hour duty. The decision making process is insufficient and subordinates are not included in the decision making process or empowered to make decisions. Almost all decisions are made by top management. Staff retention is a huge problem and poses a challenge. Many employees stay for a short period and then move to competitor banks for more attractive package.

### *B. Process*

The personal loan applications process is manually driven.

- The relationship manager within the branch work in real time when liaising or interacting with the applicant, while the Screening Officer , Assessment Manager and Loans Disbursement Officer process work a day behind indicating 1 day lag time.
- The Screening Officer fetches the files from the relationship manager once a day at 15:00pm and processes these applications the next day.
- There is significant distance to travel between the branches and the Assessment Centre. In certain instances applicants application files take  $\pm$  5 days via courier to reach the Assessment Centre for final decision. For the purpose of this research we used the time travel by the courier in the eastern region.
- In every department that the applicant's application file enters the information is checked or verified. Thus creating duplication of tasks/activities within the process.
- The courier service picks up applications files once a day at 14:00 pm and delivers the application files the next day at the Credit Assessment Centre.
- High volumes of applications are being lost or misplaced between the branch, courier and Assessment center.

The Account Analyst screens the application files and only applicants that have passed all credit lending policy rules, credit checks and have sufficient affordability is couriered to the Assessment center for a final decision. This is duplication of work. Cycle time analysis showed that the total time it takes to complete the task in the personal loan application process, excluding reworks; waiting period and moving documents are 4 hours and 45 minutes. However, the cycle time for the entire process including waiting period, fetching of application forms and supporting documents, reviewing applications quality, excluding one day late processing and reworks it takes 12 hours and 45 minute. If the one day late, processing rules

within the process, it would take 5 days for the end to end process. The total cycle time is 8 days or more if reworks are included in the process. The loans process is pretty much one size fits all, irrespective of loans facility requested.

Certain personal loan applications are being processed between 0-3 days thereby setting a high customer expectation and expect this service all the time. The analysis of data showed that high volumes of applications are being processed for government guaranteed scheme applications, the process take longer because the branch consultants have to wait for the salary deduction confirmation in order to finalize the process. The factors contributing towards the time delay or inefficient process are the courier service moving applications from the various branches to the Assessment center for final decision, external enquiries performed, submission of data to meet regulatory requirements, incomplete customer information resulting in reworks and the 1 day late processing rule. Original application forms and those that require rework due to missing information are often missed placed or lost between the branch, courier service and Assessment Centre which is a challenge. Regulatory requirements have changed and all banks are required to update the reserve bank with the applicant's loan information.

### *C. Technology*

The core systems do not provide automated functionality for processing loan applications electronically, with no electronic capture screens or work flow capabilities available for originating loans. The existing systems are not integrated to form one banking platform and lack a single view of the customer's portfolio. Each lending product has its own core banking system. When processing loan applications the users access five different systems to gather information in order to make an intuitive decision on whether to approve or reject the loan application. To add to the technology nightmare the same data is captured 5 five times on each system, which could lead to mistakes at the point of capture. Each system enquiry is time consuming and often when the systems are down these applications cannot be processed.

### *D. Data*

Information availability covers the aspects of the customer consultant requesting all information to process the personal loan application. The results showed that 30% of the people reflected that all data is available to process personal loan applications. However, 70% stated that all information is NOT available to process personal applications. This resulted in the high volumes of applications being rejected for missing information and would require the customer to come back to the branch to provide the information. This has caused the volumes of reworked applications to increase in the numbers. Frustrated customers simply go to another bank.

## V.RECOMMENDATION

Focus on the entire process with a view to reengineering is required in order to improve the loan origination. Employee should have dedicated specialist roles and reduce the effort of staff having to multi task. Employ people in areas of resource

shortage. Empower people by up-skilling then to make decision and be innovative. Create a reward and recognition incentive system to encourage staff to improve the process.

Invest in electronic capture screens for application forms with automated workflow, queuing systems and audit trail functionality. This will

- Ensure that the system are fully integrated to provide end to end processing
- Reduce the number of applications that get mislaid and also get rid of the courier service that will assist in reducing the cycle time.
- Reduce the output movement. People having to get up and fetch the application files.
- Provide data for monitoring of processes, turnaround times, productivity of employees and quality of applications being processed

The organization should implement automated end to end workflow systems that are integrated so that applications can be processed in real time. Management should avoid activities being processed in linear method. Introduce parallel processes that allow for more than one activity to be performed at once and eliminate duplication of activities which will improve the cycle time. Change the activity sequence or the order in which work is done. For example split the team of people whereby some could work with the previous days back log and others could work with the current work flowing through the day.

Try to reduce interruptions in the process, critical business process activities should be given priority over activities that are less important. Ensure that the location in which the activities are being performed adds value to the process and is not a detriment to the process. Business processes never remain stagnant. They either improve or get worse. Streamlining is one method that can assist with improving the business processes. Design the personal loan product according to the needs of the customer since majority of the applicants are from the government sector. Figure 2 shows the redesigned process.

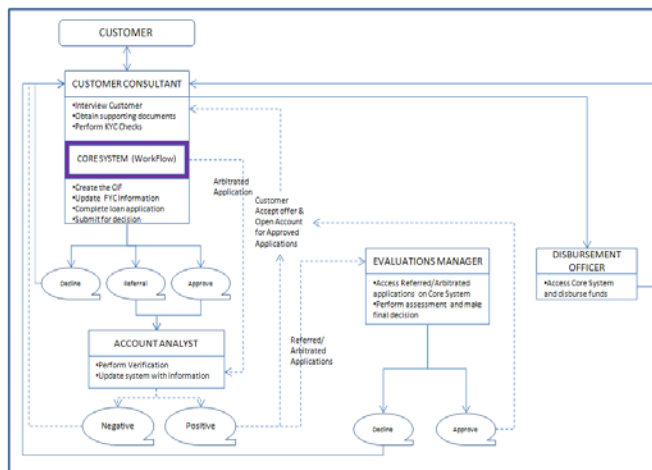


Fig. 2 Redesigned Process

## VI. CONCLUSION

Creating a competitive advantage and gaining market share is critical to the survival of an organization. Reengineering of the Personal Loan application process has brought about the performance improvements required by management. The research findings have allowed management to review the process and implement a redesigned process. This involved removing of duplicate and non-value adding activities. Technology is important to the personal loan application process and is an enabler to the business process. The existing technology was reviewed and a new workflow with end to end integration was implemented. This has helped management to get rid of the courier service and reduce applications getting lost. Management has adopted a culture of continuous improvement that will maintain the new redesigned process and ensure that the process performance is monitored and managed so that future inefficiencies can be addressed sooner.

## ACKNOWLEDGMENT

I would like to thank my husband Paul Anthony Doyle and daughter Liranne Doyle for their support. I would also like to recognize my supervisor Charles Mbohwa for his guidance and support.

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