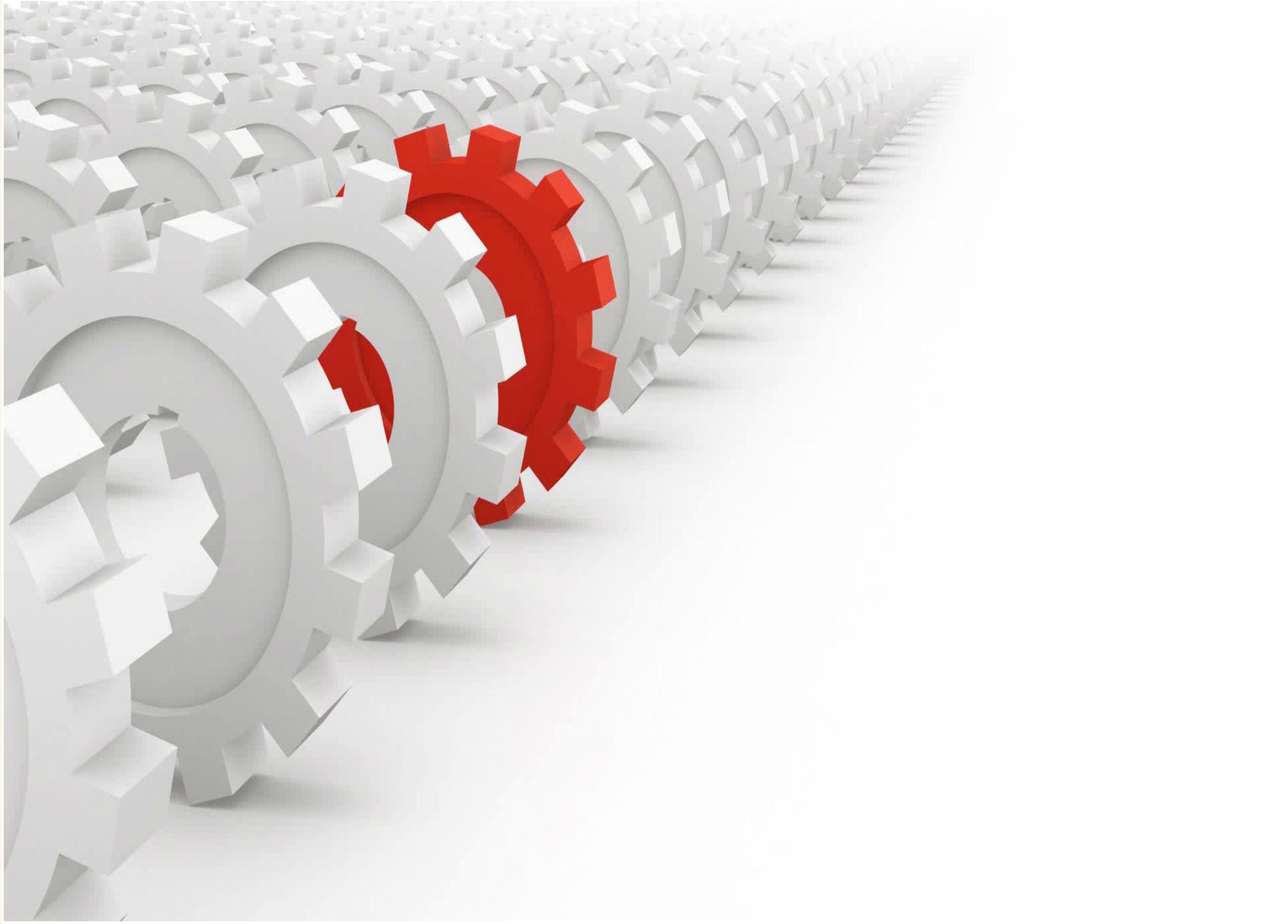

Measuring Performance for Financial Institutions – Key Performance Indicators

ROTIMI ADEYEMI

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Outline

- Appreciate why measuring performance is important at individual and institutional levels
- Understand measurement of outcomes or results which help assess the effectiveness and efficiency of an organisation.
- Know the Financial Performance Indicators (FPI) and Non-Financial Performance Indicators (NFPI)

Quote

Selecting the right measure and measuring things right are both art and science. And KPIs influence management behavior as well as business culture."

Pearl Zhu, CIO Master: Unleash the Digital Potential of It

Quote

- As someone working on ways to improve organisational performance measures, I know how important it is to look for guidance and the best of what others have done. Those looking to improve their choice and use of key performance indicators will find thought provoking ideas and valuable examples of good practice.

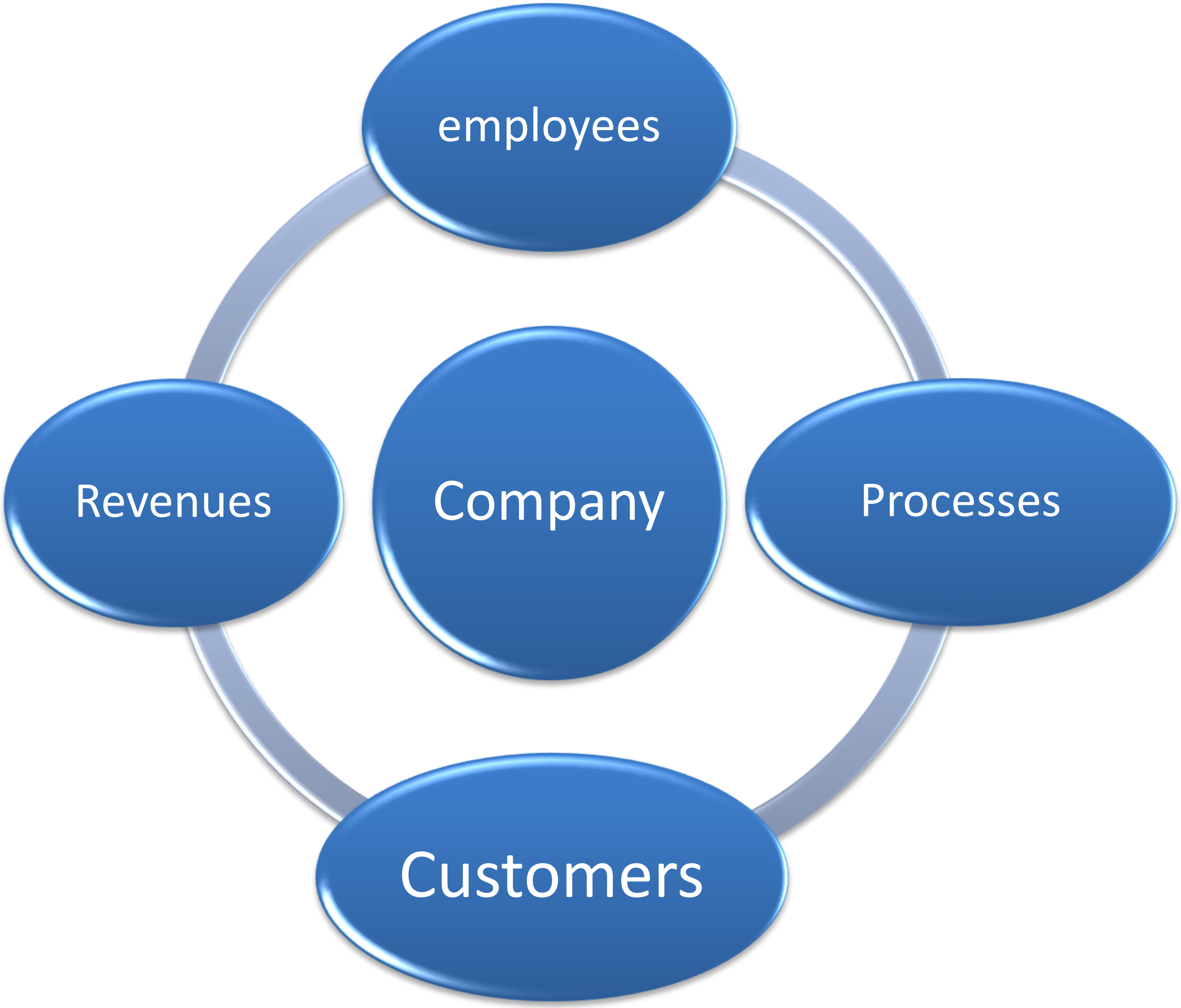
- What are Key Performance Indicators ?

Key Performance Indicators ?

- “Key performance indicators” means factors by reference to which the development, performance or position of the business of the company can be measured effectively

- Why measuring performance is important at individual and institutional levels?

1. To monitor company health



2. To measure Progress over time

- Setting the right KPI help you measure your progress towards your long term goals and business strategy

- Track key results indicators

- Compare with set targets at the beginning of the year

- Timely checks

3. To make adjustments & stay on track

- Identification of issues before it is too late
- Using leading indicator KPI to predict what will happen in the future
- Make quick decisions that can make you be on track
- Get timely support .(weak branch/ product)
- Opportunity to validate you business model
- Solve problems and tackle opportunities

4. Analyze patterns over time

- Ability to predict patterns in your numbers
- Proper planning ability
- Ability to use data to talk about consequences (good or bad)
- Effective use of idle time

- Key considerations for effective KPIs

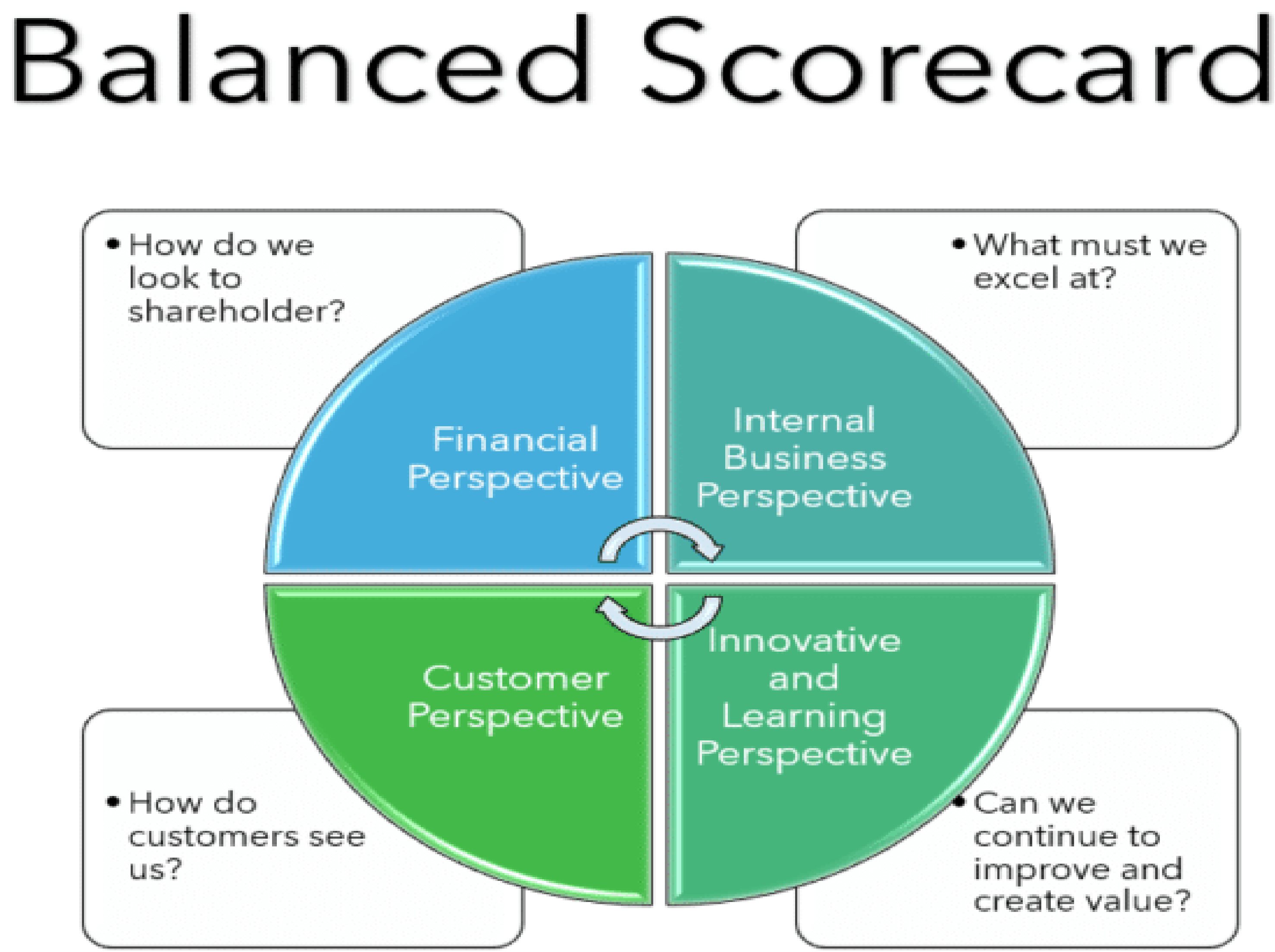
Key considerations for effective KPIs

- Link to strategy
- Definition & Calculation
- Purpose – strategic objective
- Source, assumptions & limitations

Key considerations for effective KPIs

- Future targets
- Trend data
- Segmental – avoid consolidated
- Benchmarking

Key considerations for effective KPIs



- Financial indicators ?

Financial indicators

Measures	Items	Recommended standard for MFBs
Capital	Capital Adequacy ratio	10% minimum
	Maximum investments in in Fixed assets	20% of shareholders fund unimpaired by losses
Asset	Portfolio at Risk	< 5%
	Net loan portfolio as a percentage of Total assets	60%
	Percentage loans to Deposits	80%
	Savings as a percentage of Total deposits	60% minimum
	Adequacy of loan loss provisioning	100%

Financial indicators

Earnings	Average percentage of interest income to gross income	80%
	Average percentage of non – interest income to gross income	20%
	Operating expenses to Total Assets	≤15%
	Staff costs to Total Assets	≤10%
	Administrative expenses to Total Asset	≤ 5%

Financial indicators

Measures	Items	Recommended standard for MFBs
Liquidity	Liquidity ratio	20%
	Maximum investments in placements	15% of total deposit liabilities
	Minimum investments in Treasury bills	Minimum of 5% and maximum of 10%

Weakness of using only Financial indicators

- Lead to excessive focus on cost reduction
- Internal focus vs external opportunity
- Backward looking
- Ignore the drivers of business success

Weakness of using only Financial indicators

- Financial indicators may measure success, but they do not ensure success

- Non financial Performance indicators

Non-financial performance indicators

- Using both types gives better picture of performance
- There may need to be a trade off between financial & nonfinancial aspects of performance

- Non financial Performance indicators examples

Non financial performance indicators

- Measures of product Quality & customer satisfaction
- % of products identified not patronized by customers
- Customer retention rates
- Number of complaints
- Rankings from customer surveys
- Number of CBN / NDIC queries
- Access and availability of products /services
- Number of active clients per loan officer

Advantages - Non- financial performance indicators

- Easier to calculate than financial indicators
- Flexible- in line with the organisation's objective

Problems - NFPIs

- Ignoring financial performance
- Developing too many which conflict , leading to confusion
- Interpretation can be difficult

Problems - NFPIs

- Ignoring financial performance
- Developing too many which conflict , leading to confusion
- Interpreting data on qualitative issues can be problematic

Questions?