

smart notes

Putting the Principles into Practice

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Treating clients with dignity and respect helps financial service providers adhere to both their social mission and financial goals. It is a “win-win”—the client is satisfied and the provider gains the client’s loyalty and continued business. This dual advantage can motivate providers to improve their policies and procedures governing staff-client relations, including collections practices, ethical standards, complaints mechanisms, and staff training.



The Smart Campaign’s Client Protection Principle on Fair and Respectful Treatment of Clients states: “Financial service providers and their agents will treat their clients fairly and respectfully. They will not discriminate. Providers will ensure adequate safeguards to detect and correct corruption as well as aggressive or abusive treatment by their staff and agents, particularly during the loan sales and debt collection processes.” This Smart Note highlights how FMM Popayán is working to put this principle into practice.

Treating Clients with Respect at Fundación Mundo Mujer Popayán

Fundación Mundo Mujer Popayán (“FMM Popayán”) is a Colombian microfinance institution that invests time and energy in treating clients fairly and with respect. Dubbing 2011 the year of “Excellence in Client Service,” the institution focused on developing higher standards for client protection. This focus resulted in three complimentary policies—The FMM Popayán Code of Ethics, the Client Service Manual, and the Manual on Amicable Debt Collection. Institutionalizing these three policies has instilled in staff the idea that “customer service is an organizational culture that we must live.”¹

FMM Popayán knows from experience what can happen when staff lose focus on client protection. FMM Popayán shared with the Smart Campaign the dilemmas facing the institution in late 2008. Delinquency was high for FMM Popayán’s standards, with PAR >30 climbing to 3.6 percent. The global financial crisis and a series of local pyramid schemes were contributing factors, but the institution looked beyond the obvious. It recognized that debt collection practices were inflexible and sometimes offensive to clients. Through client feedback mechanisms, the institution learned that clients felt uncomfortable with collections after dark and belittled by some loan officers during the process.

At the same time, the institution took notice of a few key differences between high-performing loan officers and their less successful peers. In general, the more successful loan officers had adopted a pro-client attitude which ensured that clients felt respected during all transactions. Popayán sought to replicate this throughout the institution.

Senior managers declared 2010 the “Year of Reclaiming Best Practice.” They started by revisiting the in-

1. FMM Popayán Client Service Manual



Flooding at Campo la Cruz, Atlántico, Colombia.

stitution's Code of Ethics and involving the staff in its remaking, thereby creating a sense of ownership and buy-in. Then management reinforced the Code of Ethics with a Client Service Manual to instruct staff on the finer points of treating clients with respect. Finally, the institution's collections policies were updated to provide more specific guidance about acceptable client treatment and allow clients greater flexibility in repayment and rescheduling. The client protection highlights from each guide are discussed below.

FMM POPAYÁN'S CODE OF ETHICS

FMM Popayán is in the process of transforming into a regulated financial institution and will soon be legally required to have a Code of Ethics. With this requirement in mind, management asked the Human Resources and Legal departments to survey staff about the current state of the institution's ethical culture, and to use this feedback in the institution's governing documents. The idea was not to create a Code from scratch, but to

produce policies that reflected the best attitudes and behaviors already displayed by staff. Existing staff believe that the uptake of the Code has been easier because it institutionalizes the best parts of the pre-existing culture and makes adoption of the code more natural.

The Code is clear that relations with clients should be characterized by "ethical behavior, security, and transparency" and that staff should serve clients fairly, avoiding unethical behavior.

FMM POPAYÁN'S CLIENT SERVICE MANUAL

A mix of customer service philosophy ("give clients more than they expect") and client protection mandates ("we must communicate information very clearly"), the Client Service Manual teaches staff to put clients' first sometimes in very specific ways. The manual provides sample scripts for how to speak respectfully with clients over the phone, and how to address client complaints. As a means to strengthen organizational



Loan officer's motorcycle being transported after visiting a client affected by the flooding

culture, the manual lists common misconceptions about service (e.g. “service is synonymous with subservience”), and skills that every employee should learn. The manual provides direction for specific staff (e.g. cashiers, analysts) and addresses specific situations that commonly lead to breakdowns in respect (e.g. when the office gets congested with clients, when a client closes an account, when a dissatisfied client wants to speak with the manager).

The Client Service Manual also indicates to staff the business case for treating clients with respect: “It is the best competitive advantage. It keeps clients coming back. It makes internal and external customers happy.” Though client protection is primarily concerned with clients’ rights, it is important to acknowledge the positive consequences of client protection, such as client loyalty, staff sense of fulfillment, and an improved competitive position. This can be particularly effective for motivating those staff members who focus on the institution’s financial performance.

FMM Popayán’s Manual on Amicable Debt Collection

Spurred by client complaints in 2008, FMM Popayán strengthened the client protection elements of its collections philosophy and renamed it to reflect the belief that collections need not create conflict between the client and the institution.

FMM Popayán followed a four-step plan to reinvent collections practices. The institution:

1. Identified loan officers with the best portfolio quality.
2. Asked these loan officers about their practices to maintain portfolio quality.
3. Compiled the experiences and used this internal knowledge to form the “Principles of Amicable Collections.”
4. Re-trained all loan officers in the new principles.

“Principles of Amicable Collections” specifies:

- How staff must treat clients during the collection process;

The manual gives very specific guidance on acceptable and unacceptable behavior. For example, staff are permitted to send collection reminders via SMS (text message), but the message must follow a standardized template to avoid inappropriate language. The messages must be sent during daylight hours. Finally, the messages are monitored for compliance.

Based on client feedback, FMM Popayán also set guidelines on how to make clients feel comfortable by dressing appropriately during collection visits. The manual outlines the differences in required dress depending on the client to be visited (rural vs. urban). Feedback also indicated that delinquent clients did not like it when friends and neighbors knew about their repayment problems. Therefore, the manual requires discretion on the part of the loan officer, such as using private office space for collections discussions. All collections meetings must take place during daylight hours.

- And the procedures for restructuring loans.

FMM Popayán understands the importance of careful loan restructuring that avoids further indebting clients who are struggling. Loans can be restructured after properly documented cases of local calamity, natural disasters, forced displacement, and theft. Each case is assessed on an individual basis and loans are only extended if the client or their co-signers can handle the new payments.

This policy was put to the test in 2010 and 2011, when Colombia experienced a series of terrible floods that affected some of FMM Popayán’s clients. Rather than applying blanket restructuring to affected clients, the institution visited each client and made decisions on an individual basis.

“We went to the household of every single client whose house, business, or family was affected by the heavy flooding to understand what happened. To visit some of our clients, staff had to use a little handmade boat (lancha). But they were determined to reach these people.”

“Many people, despite the fact that they lived in an area which was significantly affected, said they will continue to pay their loans; they just asked for two or three additional months. In some cases, we decided to provide additional loans to affected people so that they could start over with new businesses, taking into account the credit history they had with our institution, which allows us to analyze what the client needs.

MONTHLY TRAINING TOPICS FOR 2011

- Customer service
- Interpersonal relations and professional conduct
- Business leadership
- Managing your client portfolio
- Security of information and IT security
- Building client loyalty
- Conflict management
- Organizational values
- Evaluation of corporate risk
- Building financial analysis skills
- Working as a team
- Improving organizational communication

Every decision was made on an individual level.”²

Rather than apply blanket restructuring, FMM Popayán’s restructuring policies call for careful and personal client assessments. Additionally, staff are instructed in how to assess client capacity and willingness to repay a restructured loan. Falling delinquency rates in flood-affected areas have reinforced the efficacy of these measures.

STAFF TRAINING

FMM Popayán knows these policies will only be effective if staff receive training and ongoing support. A full-time Training Coordinator is devoted to developing the “internal client.” The Coordinator analyzes the institution’s annual performance evaluations and feedback from branch managers to determine the most pressing training needs, then drafts a year-long training agenda that meets the institution’s performance improvement goals.

In addition to new staff orientation, the institution holds monthly trainings at each branch office (see box) using experiential learning through participation in dialogue and group activities.

Beyond these topical trainings, FMM Popayán instructs staff on appropriate collections practices, using the Manual for Amicable Collections. Additionally, the institution provides extra support and supervision to loan officers dealing with client non-repayment. For cases in which an individual client is regularly delinquent, the loan officer receives mentoring from a more experienced colleague who works with the loan officer and the client to avoid write-off.

To further solidify staff understanding of portfolio management, staff receive guided practice in credit analysis. Each day, every branch holds a group credit committee during which they examine and discuss a loan from the portfolio of the newest staff member, giving everyone a chance to

practice proper credit selection and delinquency management.

LESSONS FOR PRACTITIONERS

- Look for the good staff practices that already exist, document them, and use them to strengthen the institution’s guiding documents.
- Include staff in the creation of policies that will directly affect their work.
- Reinforce solid client protection policies with ongoing staff training.
- Use problem situations (such as high delinquency) and times of organizational change (such as transformation) to examine the institution’s client protection weaknesses and commit to making improvements.
- Be very specific in describing and modeling appropriate behaviors.

2. Diego Fernando Muñoz, Executive Director of FMM Popayán, in an interview with the Smart Campaign, 2011.



Keeping clients first
in microfinance