



## Financial Institution Costs and Risks

# Risk Management from a customer care perspective



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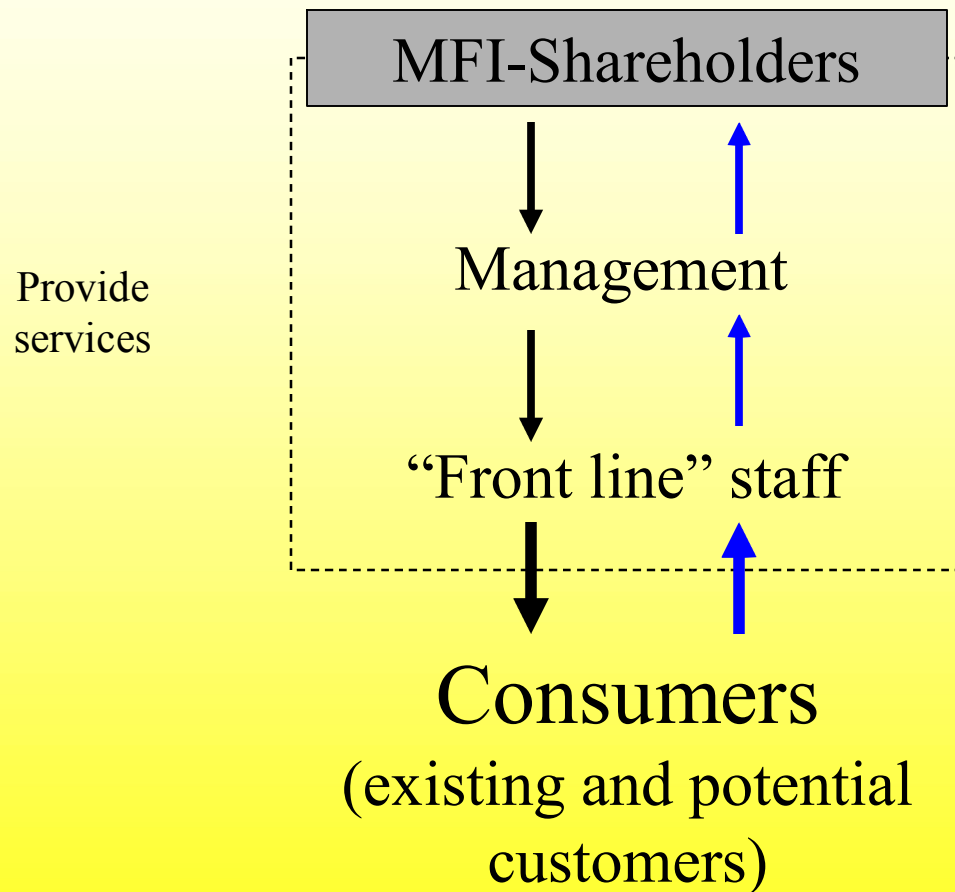


## Presentation Outline

- 1 Introduction: Do you understand your customer well enough?
- 2 “Understanding your customer – a major risk management factor for MFIs
- 3 Investing in understanding your customer: Strategies, Experiences, Challenges
  - a) Consumer Financial Education (CFE)
  - b) Customer Care Policy
  - c) Customer Information Management
- 4 Conclusion: The “understanding your customer”-checklist for MFI managers



# 1 Introduction: Do you understand your customer well enough?



Understand  
your customer

= manage your  
risk

Who are they?  
What do they do?  
What do they need?  
Who provides how?



## 2 “Understanding your customer” – a major risk management factor for MFIs

### Excuse: What is risk?”

- a) A potential future event AND
- b) An idea about how likely it is to happen

Technically:  
Uncertainty organised by numbers



## 2 “Understanding your customer” – a major risk management factor for MFIs

For Example

Will the customer pay back his loan?

- (i) She paid back timely throughout 15 loan cycles
- (ii) In the last three loan cycles she recorded delays in payment
- (iii) The agreed schedule is delayed

-> **it becomes more likely that she will not pay back.**

**Affects portfolio at risk, profitability**

Will the customer save regularly?

- (i) She has been saving regularly for 2 years
- (ii) She has saved irregularly for the last 3 months
- (iii) She has not saved since she took the last loan

-> **it becomes less likely that she will save regularly.**

**Affects savings portfolio, liquidity reserve, capital cost, profitability**



## 2 “Understanding your customer” – a major risk management factor for MFIs

What is up with this customer?

Did her  
**environment**  
change?

e. g.

- Market
- Enterprise
  - Family
  - Community

Is her  
**Capacity**  
appropriate?

e. g.

- Understanding of contract
- Informed Decision

Did our  
**competition**  
change?

e. g.

- new MFI branch opened
- New products offered in the market



## 2 “Understanding your customer” – a major risk management factor for MFIs

Short term consumer interest	Short term MFI interest
Take small loans that meet immediate needs	Would want to give out big loan amounts
Get free from debt	Continue as a credit client and reduce drop outs
Shop around for the institution that responds to the immediate needs	"Lock-in" of customer, e. g. through quick disbursement without thorough appraisal
Lowest total cost of loan	Highest returns on services



## 2 “Understanding your customer” – a major risk management factor for MFIs

Long term consumer interest	Long term MFI interest
Be transparent to avoid over-indebtedness	<b>Be transparent on fees and interest rates to create trust, i. e. long-term relationship</b>
Sustain a relationship of trust with the MFI to maintain easy access to services	<b>Maintain a relationship of trust with the client to maintain good portfolio quality</b>
Use different services to meet personal needs in the most effective way	<b>Offer a variety of products</b>
Shop around to be informed about the range of services and their best prices available in the market	<b>Maximize efficiency and productivity in order to retain customers and increase the market share</b>





## 2 “Understanding your customer” – a major risk management factor for MFIs

By way of summary, understanding your customer is about

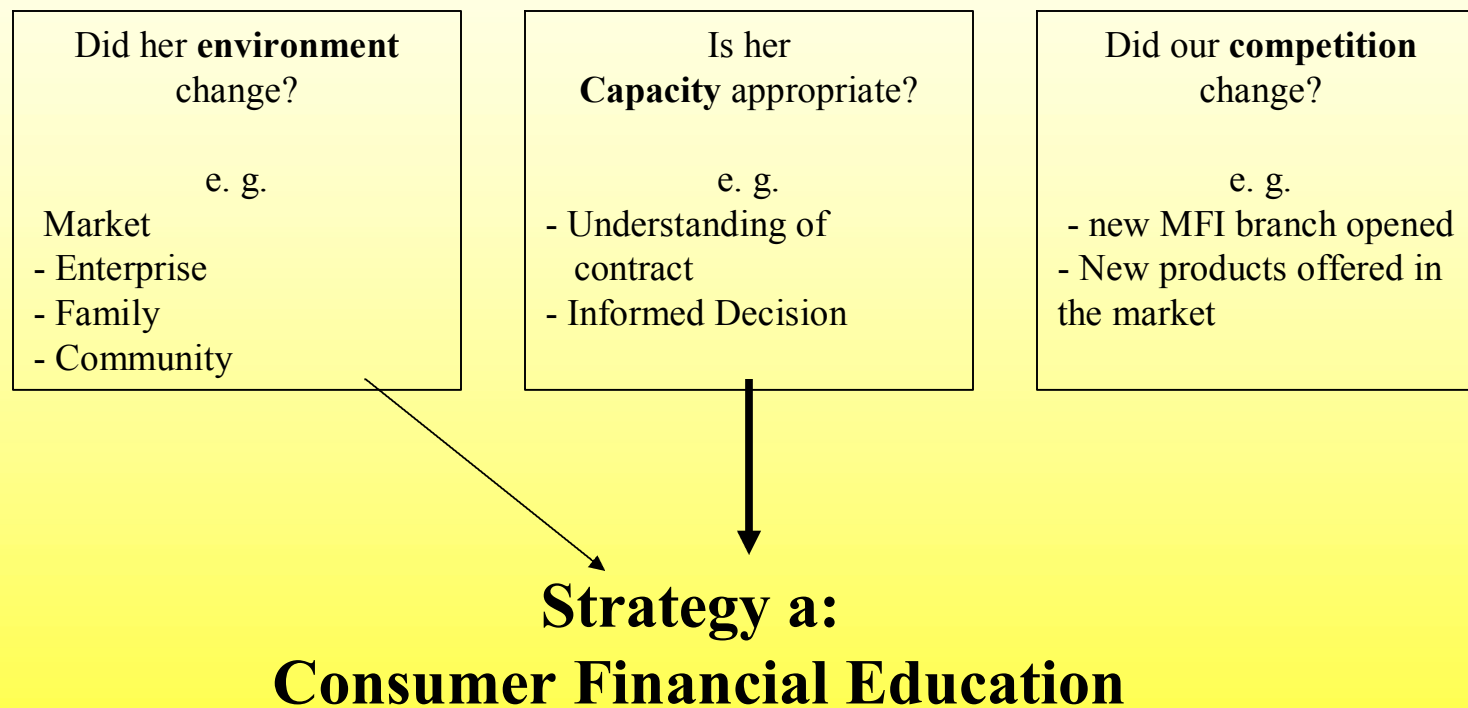
- 1) providing the right products/services
- 2) being profitable
- 3) preventing money laundering
- 4) safeguarding savings (e. g. SACCOs)
- 5) creating a win-win situation for both customers and MFIs
- 6) **limiting risks of the MFI**

**To that end, we propose 3 strategies**

- a) Consumer Financial Education**
- b) Customer Care Policy**
- c) Customer Information Management**

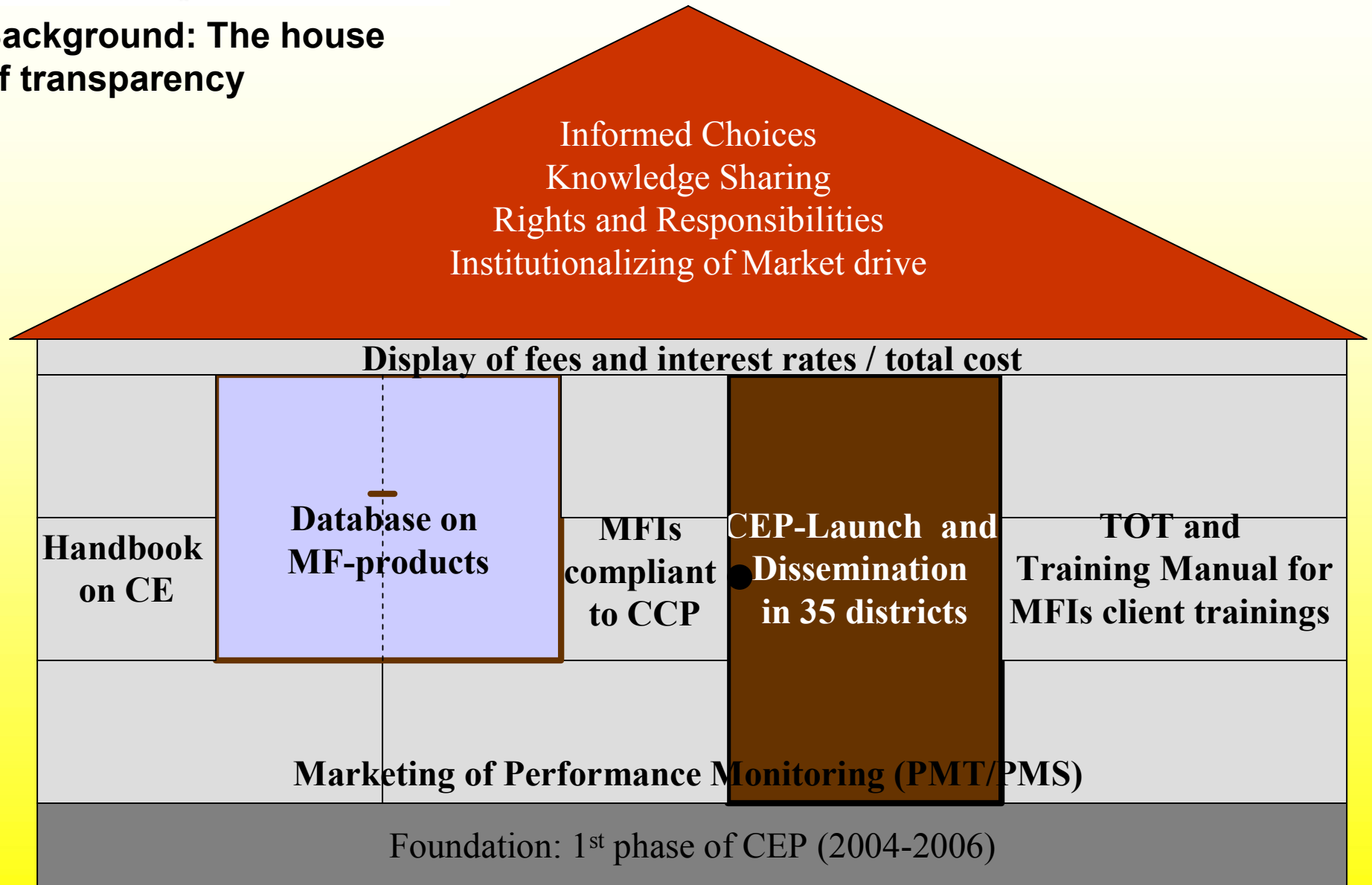


## 3 Investing in understanding your customer: Strategies, Experiences, Challenges





## Background: The house of transparency





### **3 Investing in understanding your customer: Strategies, Experiences, Challenges**

More than 100 trainers have been trained (TOT) already in the 5 modules named below.

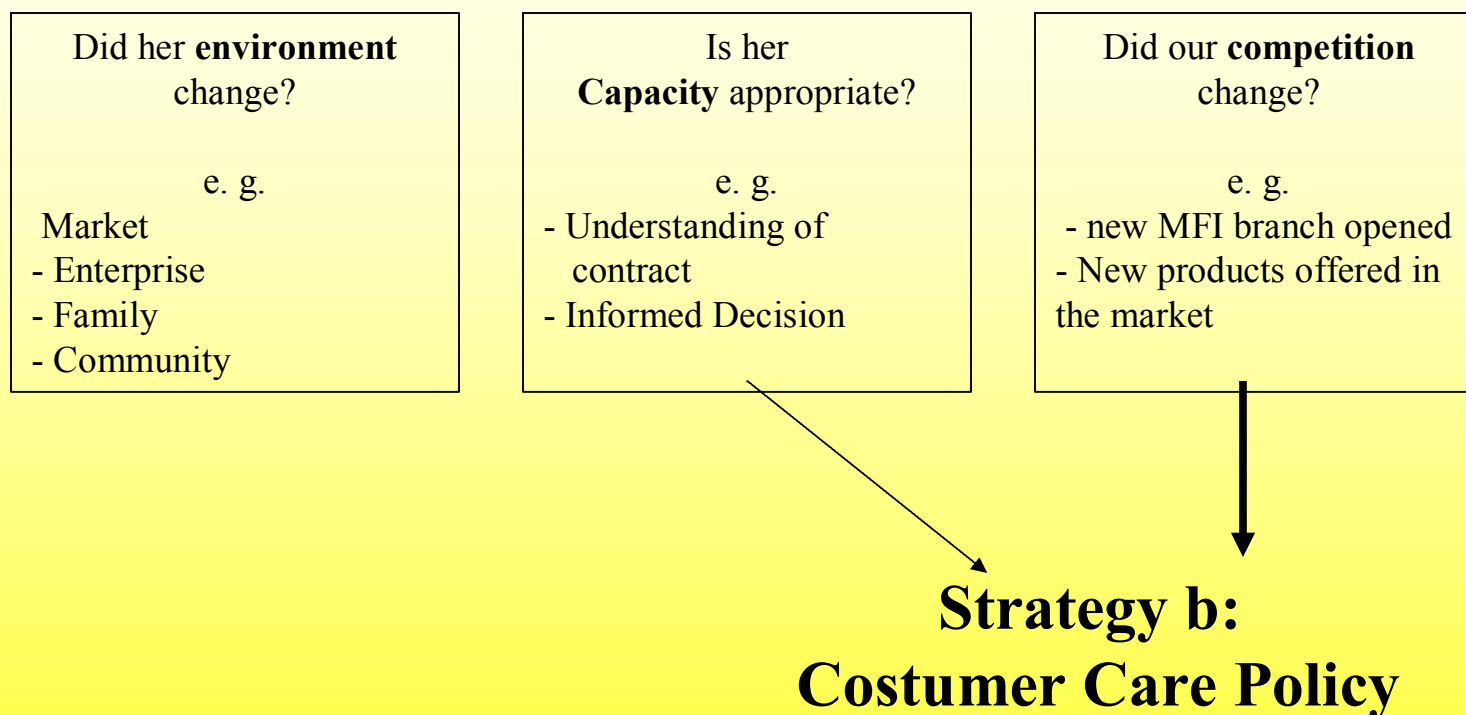
AMFIU developed modules of:

1. Budgeting ( *Use money wisely*)
2. Savings ( *You can do it*)
3. Debt management ( *Handle with care*)
4. Bank services ( *Know your options*)
5. Financial Negotiation ( *Communicate with confidence*)

The above modules strengthen the bond between consumers and MFIs leading to a win-win situation.



## 3 Investing in understanding your customer: Strategies, Experiences, Challenges





### **3 Investing in understanding your customer: Strategies, Experiences, Challenges**

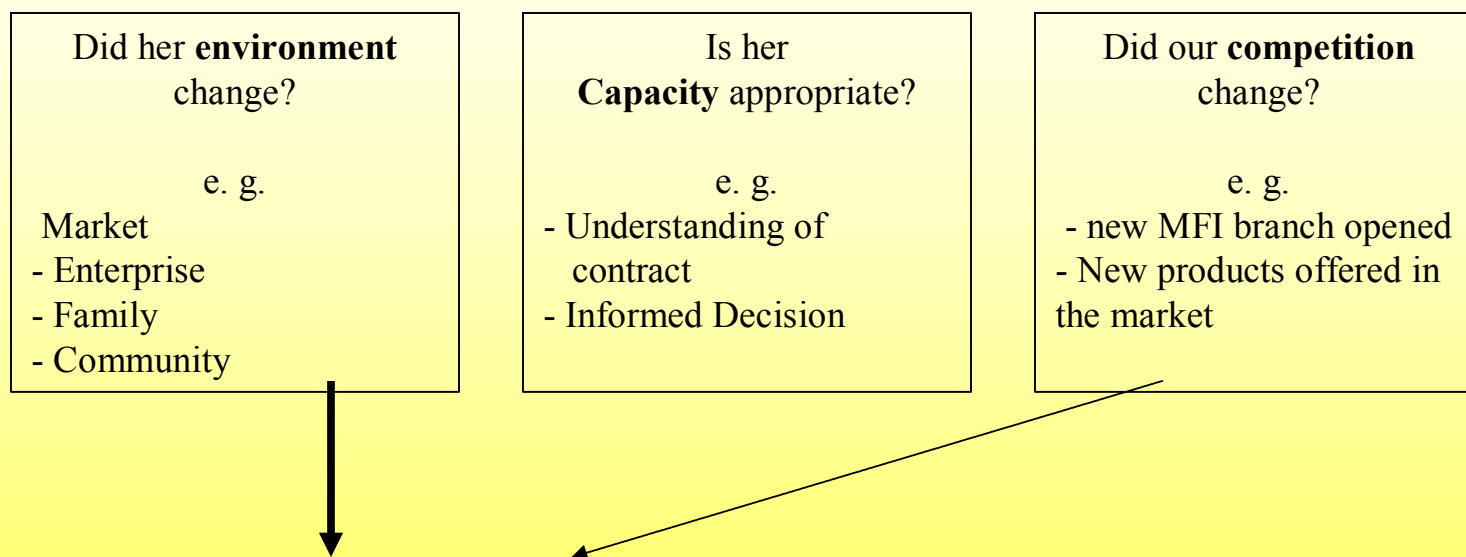
AMFIU has spearheaded the development of an industry-wide Consumer Code of Practice (CCP) for MFIs. It was signed by 42 MFIs in May 2006.

#### The CCP

1. is a statement on how Micro finance Institutions in Uganda are to relate with Consumers.
2. sets out standards of sound practices for the micro finance industry.
3. **provides a framework for a customer care policy including suggested (“standard”) measures, implementation steps and incentives (peer group, marketing tool) to apply it.**



## 3 Investing in understanding your customer: Strategies, Experiences, Challenges



**Strategy c:  
Customer Information Management**



## **3 Investing in understanding your customer: Strategies, Experiences, Challenges**

- Fact: All MFIs carry the potential to know their client better than any other service provider
- Fact: MFIs neglect and even distort this potential

**How can you tap into your potential?**





## 3 Investing in understanding your customer: Strategies, Experiences, Challenges

### Step 1: Areas of interest

What is the client's market?

What is the client's enterprise?

What are the client's challenges?

How does the client make decisions?

#### ***Basic Principle:***

*The five "C" of loan appraisal, i. e.  
capital, collateral, capacity, character,  
conditions*



## 3 Investing in understanding your customer: Strategies, Experiences, Challenges

### Step 2: Data Opportunities

- 1) AGM
- 2) [Savings] Mobilisation
- 3) Loan Appraisal
- 4) Account Access
- 5) Special Events (e. g. Business Client Table)
- 6) Loan Monitoring

- 1) Group formation
- 2) Group meeting
- 3) Complaint handling

***Basic Principle:*** *it is cheaper to acquire data*  
*(i) when the client comes to you,*  
*rather than going there*  
*(ii) before challenges arise*



## 3 Investing in understanding your customer: Strategies, Experiences, Challenges

### **Step 3: Transforming Data into information**

- Market Review report for management and board
- Market-based guidelines for loan appraisal/  
monitoring
- Product adjustment/ development

- Loan appraisal/ monitoring
- Offer of further products
- Provision of Information and Consumer Financial  
Education
- Offer of further products

#### ***Basic Principle:***

*Collect only data you apply*

*Apply all the data you collect*



## 3 Investing in understanding your customer: Strategies, Experiences, Challenges

### Template Customer Care Report

	No. of share-holders/members	No. of clients	Average No. of products per client	No. of borrowers 1 <sup>st</sup> loan cycle	No of borrowers >10 <sup>th</sup> loan cycle	PaR 1 <sup>st</sup> loan cycle	PaR 2 <sup>nd</sup> – 5 <sup>th</sup> loan cycle	PaR 5 <sup>th</sup> – 10 <sup>th</sup> loan cycle	PaR >10 <sup>th</sup> loan cycle	No. of re-regular savers
Mid of year	<b>Customer profitability</b>		<b>Customer detainment</b>		<b>Long range Profitability</b>			<b>Capital cost</b>		
End of year										
Previ ous end of year										



## **3 Investing in understanding your customer: Strategies, Experiences, Challenges**

### **Computerised MIS**

- High volumes of data are easy stored and analysed with computers
- However, the computer will only be as good as the people using it!
- **The key for any MIS is asking meaningful questions**



## **3 Investing in understanding your customer: Strategies, Experiences, Challenges**

### **Manual MIS**

- Track client detainment
- Link PAR to loan cycles
- Create a loan appraisal template
- Check them for all loans that go into arrears

**Tip:** Create the report template that would ideally address your needs, then analyse the process backwards



## **Conclusion: The “understanding your customer”- checklist for MFI managers**

1. Where did you lay down your long-range strategy?
2. How does the board enforce the long range strategy?
3. At which steady rate do your savings grow?
4. Against which time horizon do you monitor client profitability?
5. How do you track detainment/ drop-out rates?
6. Who is responsible for your complaint handling policy?
7. By which system do you expand your product range?



# Thank You very much for your attention



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We are looking  
forward  
to answering any  
questions.



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