

# Building Resilience through a Client-Centric Model Webinar Follow-up Questions

8 November 2016

## Notes

**Q: Now that Afghanistan is moving into digital financial services how do you plan on keeping the client centric model in a low touch high tech environment?**

FMFB is planning to invest heavily in DFS in the coming months. Some of our key future initiatives include:

1. Branchless Banking in collaboration with a telco/agent network provider (We already have a cashless branch at *Shulgara* which disburses loans in M-wallets and allows for repayments at agent locations; we are also finalizing a telco-agnostic over-the-counter repayment acceptance model at agents model with Roshan)
2. Transactional convenience through introduction of alternative delivery channels like SMS alerts, mobile banking, Phone banking, internet banking,
3. Paperless client on-boarding and underwriting/loan appraisals
4. Use of SIM-overlay (SIM-skin) technology in partnership with Bibitel to encourage M-wallets and mobile-phone enabled payments
5. Use of social media - Facebook and LinkedIn to create awareness and receive feedback

A very useful approach to understanding client-needs, preferences, behaviours and aspirations involves the collection of FMFB-A customers' socio-demographic and Grameen PPI data information. This data is collected in a Monitoring, Evaluation and Learning Database, which the product development team leverages for Product Design, as well as its core function of tracking improvements in the quality of life of its clients. Core indicators currently include client profile data (poverty level, gender, etc.); client experience (satisfaction, interdependence between satisfaction and changes in QoL, etc.).

The MRPD team has recently hired a Consultant who will assist in the process of enhancing and systematizing impact assessment and analysis within an integrated Environmental, Social and Governance Management (ESGM) system. This will significantly enhance our analytical capacity, allowing us to further align our products and services to client needs and requirements.

**Q. Which would you say are the key challenges for maintaining banking services during crisis from a provider and from a customer perspective?**

In a prolonged crisis event, services can be delivered, however depending on the crisis driver that will affect the type of delivery and how safe that delivery is. Occupation, insurgency, explosions all have an element of terminal affect, be it reductions in service provision, staff mobility etc. Natural disasters can be recovered from quicker, as that entire community is driven to recovery.

Moreover, we do make an effort not to lose contact with the clients and apprise them of alternative arrangements to bank with us. Our agent banking arrangement with Roshan (a leading telco in Afghanistan) is in the pipeline and the bank will soon be in a position to accept recoveries at agent locations.

The following would be critical resources for maintaining services in a crisis, be it man made or naturally occurring;

- being able to secure the branch to avoid further losses;

- the availability of resources such as glass, brick etc for structural reconstruction (in cities this isn't a huge issue, however in the remote areas it can be)
- availability of tradesmen, is a large scale event all tradesmen are very quickly snapped up for repairs;
- the average assessment is through a crisis event it would take between 7-10 days to reinstate a recognisable delivery standard;

The biggest challenge for any crisis event in Afghanistan is regaining momentum, be it through a bullet above or an unexpected drawback.

**Q: Can you give more specifics on how you go about understanding client needs? Fareed talked about market surveys and prototyping new products. Can you talk a little about your process at FMFB-A?**

FMFB's approach to product development has been shifting from supply to demand driven products. To support this shift, MARKETING has undertaken a number of steps including i) opportunity identification ii) demand evaluation and analysis iii) product design and development and iv) product testing and piloting.

To ensure the product development process adheres to high quality standards an internal product review committee including members from (Marketing, Risk, Compliance, Business, Technology; the senior management team) is in place to review/strengthen the proposition and mitigate risks before piloting new products/channels and any other services that may be deemed fit to add to the bank's offerings.

The process also seeks concurrence at the shareholder and the Board level that has oversight/governance responsibility of all of FMFB-A operations.

The Marketing, Research and Product Development (MRPD) department anticipates customer needs and reacts to shifting client demand in a competitive environment. One of its key methodologies involves conducting customer experience assessments in order to gauge satisfaction with the FMFB-A's products and services. This allows FMFB-A to investigate: 1) how clients perceive the entity's products; 2) how the products satisfy clients' needs and support their livelihoods; and 3) how the products contribute to the changes in clients' Quality of Life (QoL).

MRPD product-testing includes assessing customer reaction to FMFB's new product offerings by means of Focus Group-based qualitative research. Focus Group discussions provide immediate insight and feedback which is frequently useful for improving products and services. They also help identify end-user product requirements and other needs not yet addressed by FMFB and/or competitors.

Last but not the least, we conduct regular Competitor Scanning, and Customer Satisfaction and Exit Surveys to gather insights that lead us to assess service weaknesses and make changes to offerings as in light of collected feedback. Informal internal feedback loops (especially front line-MRPD) are also very useful for generating product development/modification discussions.

**Q: How do you manage the risk from the unpaid loans to the sustainability of your microfinance institutions? do you urge clients to buy an insurance along to protect their loans?**

### **Loan generation**

In the process of a new loan generation, the bank requests a client to provide collateral (Title Deed) and a guarantor that will be satisfactory to the bank. The guarantor must be in sound condition and must be able to cover the loans in future if defaulted. Title Deed is kept with the bank to guarantee loans

proper repayment as per agreement. Collateral must represent a total value of 120% of the overall facility held with the bank.

The above rules apply to SMEs and individual borrowers; they do not apply for smaller value loans (less than \$1,00), which may be offered without collateral.

Further, the bank offers products with variable repayment schemes, which can be adapted to the client's repayment capacity as per the approved business plan. Grace periods are also offered.

### **Loan monitoring**

In case a client falls in past due, an escalation mechanism is triggered. First he/she is approached by a loan officer, above 7 days of delay – by a designated Deputy Branch Manager, and above 30 days – by Branch Manager. A client in past due date over 180 days or identified as unwilling to pay back his loan shall be referred to a recovery unit. Such decision is taken with due precaution, as a defaulting client will not be liable to obtain new loans from the bank in future.

### **Loan recovery**

Defaulting loan is written off from books after 180 days it becomes overdue. However, the efforts to recover outstanding amounts continue except if it is clear that the debt is irrecoverable. Such cases happen due to the incidents of security threats in Afghanistan (force majeure)

Additionally, in case the customer is unable to/does not repay the installments, FMFB staff approach the guarantor/s to collect the due installments. Our experience has shown that the personal guarantor/s were very helpful to recover the amounts due.

FMFB-A has put in place a Security Repossession Policy, which aims at recovery of dues in the event of default and is not aimed at deprivation of the immovable or movable asset. The policy recognizes fairness and transparency in repossession, valuation and realization of security. FMFB-A follows the Fair Practices Code for Lenders in this respect. The borrower is contacted in the process to discuss his/her current repayment situation in an amicable manner and means to overcome the financial hurdles.

FMFB may utilize the services of external recovery agencies for collection of dues and repossession of securities. The borrower is notified in the event of external agency appointment to ensure he/she does not fall victim to a fraud attempt.

However, if the borrower deliberately avoids acknowledging or establishing contact the bank, repossession of the assets may be considered as the ultimate disciplinary measure.

### **Unforeseen incidents**

In case of natural disasters (flash flood, fire and drought etc.) the bank (after careful evaluation) grants grace period/rescheduling to the affected clients which is a clear example of FMFB's social commitment towards its clients/community.

### **Insurance**

There is no market practice in Afghanistan to request borrowers to insure their financed assets. There is also no insurance provider in the market who would cover all areas where the bank operates, including conflict zones. Further, we would face the cultural and literacy issues with the borrowers. Our clients often come from remote areas, have no knowledge of such facilities and no access to purchase for their own protection.

The bank takes steps to get insurance coverage for the portfolio of loans of value exceeding predefined threshold. Consequently, we were able to recover from the loss incurred recently on lending operations

in an area which fell victim to a terrorist attack. We are also discussing such insurance coverage with financing agencies to ensure an additional protection in case of force majeure.

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Questions for Adeeb

Q: What are the key challenges you face in your Syria response?

We have faced many critical challenges while operating within such none stable state, however Security is one of the key challenges as being in the field , moving on the roads , kidnapping , also client stability in terms of their income , business and geographical location.

Q: How have you responded to the internal mobility of clients as they flee conflict or migrate for economic reasons?

We follow a simple approach; once the clients stabilize in area where we are able to access from security perspectives, they can grant all available services and products that we offer. Further, we study case by case of each of those existing clients to help either as rescheduled, written off, grace period, waiving fees.

Q: Can you please share the best practices in Syria or similar context?

In general:

Proper and strong delegation to the team in the field.

Constant evaluation of geographical areas that we are currently operates within and that could be potential.

Strengthening the connection with local society association / key personnel in each village / area where we have operations to be up to date on any developments, roads status, etc.

Question for Fareed

Q: Now that Afghanistan is moving into digital financial services how do you plan on keeping the client centric model in a low touch high tech environment?

Questions for Both

Q. Which would you say are the key challenges for maintaining banking services during crisis from a provider and from a customer perspective?

I have covered that in the first question.

Q: Can you give more specifics on how you go about understanding client needs? Fareed talked about market surveys and prototyping new products. Can you talk a little about your process at FMI-S?

Input from the field

1. Constant contact with clients
2. Customer complaints / inquiry to the call center.
3. Market survey
4. Many common needs for the whole society emerged due to the crisis ( Electricity shortage, water shortage , shelters , etc)

Q: Which would you say are the key challenges for maintaining banking services during crisis from a provider and from a customer perspective?

## Repeated questions

Q: how do you manage the risk from the unpaid loans to the sustainability of your microfinance institutions? do you urge clients to buy an insurance along to protect their loans?

We do not ask client to buy any insurance policy as this will impact the client heavily financial speaking. However, we follow the following main steps:

Proper assessment of the client's needs / project that not to be overburden by the loan.

Find a solution to any problem that clients might have.

Follow up daily with clients who have dues unpaid.

Place social pressure

Contact guarantors

Take legal actions (as per the documentation)

Off course, building a good relationship with the clients is one of the key points.