

MicroSave India Focus Note 74

Relevance of Customer Service Post the Andhra Crisis

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Microfinance is often seen as a multiple bottom line business. While the jury is out on how many bottom lines it affects, at a very basic level it was supposed to yield both social and economic benefits. However, in last five years, microfinance operations in India have undergone a sea change with organisations chasing numbers driven by an influx of private equity.¹ As a result, MFIs which were operating in one or two states grew rapidly to become pan-India behemoths in order to achieve the generous returns promised to their investors. This is common when private equity starts chasing opportunities to maximise returns. For example, the dot-com industry followed a somewhat similar growth trajectory. However, microfinance was supposed to be special with its social underpinning and origins.



Clients have suffered most of all amongst this rash dash for growth.² This is because some MFIs' focus on quantity over quality of service has led to irresponsible lending practices like multiple lending, coercive collection methods, hidden charges, use of loan agents, misuse of insurance etc. From an industry perspective, the recent 'Andhra Pradesh (AP) Crisis' provides an opportunity to hit the "reset" button, and allows all the stakeholders to take stock of what went wrong.

After the RBI guidelines³, there is clarity on some of the policy issues and on who is going to regulate the sector. However, with both interest and margin cap, and

restrictions on multiple lending and loan amounts, the future of MFIs focusing solely on profit margins and portfolio growth will be challenging. Furthermore, funding to the sector at present is largely constrained, and raising money through off balance sheet arrangements is becoming increasingly difficult.

Therefore, the question confronting Indian MFIs is not just to manage their way through the present crisis but also on how to survive and thrive in the long term. Several measures, including reduction in interest rates/loan processing fees, development of a credit bureau, increased interaction with clients etc. have been taken by MFIs post the AP crisis. However, after the RBI's guidelines, Indian MFIs need to answer the following questions:

1. How to maintain the required yield on portfolio given the interest rate cap and other restrictions?
2. How to ensure that current portfolios remain intact?
3. How to ensure that multiple borrowing does not affect portfolio quality?

One of the ways to resolve these issues is to ensure better retention, which is directly linked to better client service. As a rule of thumb, for an MFI, it is 5-10 times more expensive to acquire a client than to retain an existing one.⁴ Repeat clients are of vital importance to microfinance programmes. Furthermore, reducing customer defections can boost profits by 25-95%.⁵ If customer service is part of the solution, the question arises as to how MFIs can institutionalise the best practices to improve customer service.

But it is important to be clear on what we mean by customer service. Quality customer service is not only about how customers are treated by staff, but also ensuring that they are offered appropriate products, delivered in an efficient manner, at an appropriate price and in an easy to access location with clearly communicated terms and benefits, which lead the customer to use the services of the MFI time and time again.

¹ See *MicroSave India Focus Note 41 "Microfinance – Time to Get to Back to Basics?"*

² See *MicroSave India Focus Note 42 "Microfinance In India: Built On Sales Targets or Loyal Clients?"*

³ http://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=6381, on 3rd May, 2011

⁴ Frederick F. Reichheld and W. E. Sasser, "Zero Defections: Quality Comes to Services," *Harvard Business Review*, September–October 1990, 105–111.

⁵ *ibid*

How To Know What Customers Want?

There are different ways to understand the changing needs and preferences of both clients and staff. These approaches are also useful to better understand the competition and its offerings to benchmark our services and product offerings.

- **Regular Market Research:** Market research focused on the basis of client satisfaction surveys, MIS data and feedback from front-line staff can provide valuable insights for optimising existing products or developing new products. Many of *MicroSave*'s better clients in India, Philippines and across South and East Africa have developed in-house market research teams to develop new products and monitor customer satisfaction as well as the competition's activities.
- **Regular Client Satisfaction Surveys:** Conducting client satisfaction surveys on a regular basis helps an MFI to understand its clients and their needs and respond to these.⁶ *Arohan*, a Kolkata-based MFI hires a market research agency to conduct a client satisfaction survey every year. With a little training and preparation, internal staff of MFIs can also be used to conduct such surveys.
- **Staff Satisfaction Surveys:** Loan Officers (LOs) play an important role in the performance and growth of the MFI. LOs are the face of the MFI for the clients. Conducting staff satisfaction surveys, especially for the field staff helps an MFI to understand the level of their staff's commitment and areas for improvement.
- **Effective Client Grievance Redressal Mechanism:** MFI should build strong and responsive client grievance redressal mechanisms to build confidence among clients. Such initiatives not only help protect clients' interests, but also make staff more responsive and accountable. Simple things like having a suggestion/complaint box which is regularly monitored and followed up on can bolster confidence.
- **Client Exit Interview:** Client exit interviews help to understand and keep track of the reasons for clients leaving the MFI. In addition to understanding the customer needs, it also helps an MFI to understand the competition and their services better. This can help MFIs adapt themselves to market needs and remain competitive.
- **Mystery Shopping:** Many *MicroSave* clients now get new staff members to conduct mystery shopping at branches and in the villages as part of their induction training. This provides valuable feedback to the MFI and excellent initial immersion training for staff. Older staff can also be used to do this as they can compare organisational product and service over time and operational area much better than new ones.

Embedding Customer Service in the System

Understanding the needs of the client and the market is the first step and a relatively easy one. However, integrating and institutionalising client responsiveness in all organisational processes and procedures is more difficult. Embedding the changes in the system and processes will mean that staff will be consistently guided to take decisions that improve customer service. The 8Ps of marketing⁷ provides a structured way of integrating customer service. Some such examples are given in the following box.

8Ps in Customer Services – Some Examples

Product: *Arohan* has designed a loan product for working men and women. Based on the feedback from the target clients, collections are now made at the place of business.

Price: *Sonata* has been following some best practices in pricing including minimal pricing points, transparent pricing by quoting interest on reducing balance basis, not charging for prepayment, no compulsory savings etc.

People: *KGFS* has issued uniforms to both their head office and field staff to make them easily recognisable and increase confidence among clients that they are transacting with the MFI's staff.

Place and Processes: *KGFS* offers all its services through conveniently located branches, and (in response to client demand) through a network of agents. The processes are short, simple and thus convenient for the clients.

Physical Evidence: With introduction of caps on interest rates and processing fees, MFIs like *BASIX*, *Shikhar*, *Ujjivan* etc. have started to print their charges and fees on the loan cards and have also set up displays in their branches that detail the loan product and interest rates.

Promotion: *Svasti* has built a promoting their grievance redressal mechanism into the collection meetings. During the collection meeting their grievance redressal mechanism is repeated to build confidence in the MFI.

Positioning: It is also important that an MFI is seen as it wants to be perceived. *Cashpor* is an MFI that has positioned itself as working with the poorest of the poor. Use of their poverty assessment tool based on the type of house has helped them in targeting the right set of clients.

Conclusion

Post the recent AP crisis and subsequent changes in the regulatory environment, implementing effective customer service is essential to survive and remain competitive. Some of the ways to ensure good customer service are mentioned in the previous section. However, the most essential component is the willingness of the MFI to listen to its clients and adapt itself accordingly. Improving customer service is a continuous process and should be driven by the management's will rather than by external compulsions.

⁶ *MicroSave*'s Customer Service Toolkit includes ServQual and other survey instruments to do this effectively.

⁷ See *MicroSave*'s [Customer Service Toolkit](#)