MicroSave Briefing Note # 87

Product features of Individual Lending (2/2)

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Briefing Note # 86 dealt with basic product features of an individual lending (IL) product. This note discusses the other 7 Ps of Marketing: Price, Positioning, Process, Promotion, People, Place and Physical Evidence.

Price

Loan price includes interest and fees paid by client and any monetary incentives paid to clients by the lender. In the absence of regular product costing, many MFIs charge the same interest rate for group lending and IL. A few MFIs charge 2-3% less in interest for IL than group loans despite the fact that more time is required for appraisal and monitoring of IL clients, and that IL tends to have higher delinquency levels. It is recommended that product costing be conducted to determine pricing.

From the clients' perspective, the total cost of a loan is more than the interest /fees, and includes a host of other costs such as foregone wages and business revenue, travel costs and time amongst others. When designing the product, the MFI must be careful to optimise the customer experience through efficient processing so that such indirect costs are kept to a minimum.

Clients seek transparency in loan pricing. Equity Bank in Africa and a few MFIs in India changed their interest rate from declining balance to flat rate basis because competitors were charging a flat rate. Depending on informal market norms and practices, flat rate is often easier for clients to understand and verify. MFIs must therefore decide how best to communicate the interest rate and fees.[1]

Positioning

"Position" refers to the customer's perception about the MFI with respect to its products and services. "Positioning" is the effort by the MFI to influence this perception, i.e. the effort to occupy a distinct competitive position in the mind of the target customer. This could be in terms of low transaction cost, low price, high quality, security of savings, quick turnaround time, professional service, etc. Often MFIs aim to reach out to their clients with simple positioning statements. For example: "Loans with flexible repayment options"; "Easy loans to expand your micro-enterprises"; "Loans free of group meetings or joint liability", "Fast and prompt service: 7 days" or by highlighting value added services - high life insurance cover, added health insurance, support in marketing clients' products, etc.

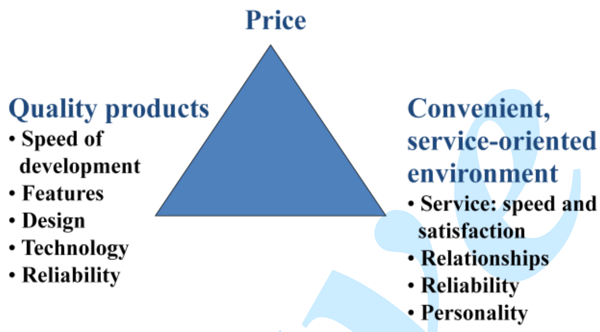

Figure 1 - Perceptual Map

MicroSave often uses the simple perceptual map depicted above as a framework to analyse the positioning of financial service providers in a particular market. MFIs need to think about which differentiators: products, service or price, are most important for their brand. An institution that positions itself in the middle of the triangle (i.e. standing for all three) will have a difficult time differentiating itself from its competitors or explaining itself to customers.[2] For an example, one *MicroSave* partner MFI in India has focused more on convenient and quick service to the client, while charging a competitive price – and keeping processes simple (and quick) through a narrow product range.

Process

MicroSave has been involved in reviewing IL products and processes across many countries for over a decade. This experience has shown that there is usually significant scope for process reengineering to improve efficiencies, and to reduce risk of fraud by staff and clients. MFIs should clearly draft all processes starting from the initial area surveys to loan appraisal, approval and disbursement; loan recovery; and delinquency management. Policies and procedures manuals should be comprehensive, detailing the "who, what, when, where, why and how" of all processes with adequate internal control provisions to mitigate inherent risks. Further, these manuals should be regularly updated and readily available for staff use. Quality manuals, with process maps at their core[4], help in staff training and reference, and simplification and standardisation of client messages including marketing collateral.

[1] Visit http://www.mftransparency.org/ to learn more about transparency in pricing and calculate the effective interest rate charged by your MFI

[2] See *MicroSave* Toolkit on "Strategic Marketing for MFIs"

[3] Maarg (offering exclusively individual loans) is a division of Grameen Financial Services Private Limited (popularly known as Grameen Koota), an MFI based in India

[4] See *MicroSave*'s Toolkit on "Process Mapping for MFIs" for how to reengineer processes through process mapping

Promotion

Promotion can either start with informal communication by the group loan credit officer, or the IL credit officer may directly contact the entrepreneur at her/his enterprise during the initial village/area survey. Promotion, in whatever form or channel, should be characterised by clear and concise communication to prospective clients. Simple brochures in the local language with mostly illustrated product features make clients more inclined to frequently refer to them to understand basic features and requirements. The figure below depicts the elements of the marketing communications mix.

When promoting IL products, MFIs should focus most marketing energy on personal selling, perhaps with some advertising and public relations support if the budget allows, and the media are culturally acceptable amongst the targeted clientele. Promotional strategies and tactics should be aligned with the MFI's brand, with messages focusing on the benefits the product offers the customer, not simply listing product features. Promotional channels should be carefully considered to reach an optimum number of prospective clients in a cost-effective manner.

People

People management in the case of IL is quite involved, as product delivery procedures are more rigorous and staff training and skills more specialised than with group lending. IL credit officers typically need to maintain closer relationships with their clients, a role played by group officials in group lending. IL carries a greater risk of fraud by staff, which necessitates enhanced controls. A well designed staff incentive scheme[5] aligned to the MFI's portfolio outreach, growth and quality objectives is often necessary; otherwise a bias towards fewer clients with big loans may set in.

Place

Place refers to the accessibility of the services. Many MFIs deliver door step service to their clientele and ask the client, spouse and guarantor to visit the MFI's branch office for disbursement only. A number of MFIs offer 100% door step service, including disbursement through demand drafts/account payee cheques, and loan repayment collection. Also, a few MFIs in the Philippines and Kenya have already initiated loan disbursements and repayments using m-banking solutions to reduce operating costs, as well as costs to the client - this is likely to be the future of IL in other countries as well.

Physical Evidence

Physical evidence is the presentation of the product and the systems used to deliver it. Physical evidence includes how the branch looks (tidiness, space, wall painting, notice boards, furniture, etc); the appearance of operational documents and marketing materials (including give-aways); and the appearance of staff. MFIs are increasingly investing in ensuring that their physical evidence creates a positive impression in clients' minds. A well-presented branch inspires trust along with a perception of professionalism, quality customer service, and a serious place to do business.

The proof of repayment is crucial for building trust with the clients as well, reducing the potential for fraud. Technology related challenges include cases where MFIs issue repayment receipts using handheld devices that fade away in a few days, or with m-banking where repayment confirmation SMS message storage is limited by the memory available in the client's mobile handset.

> An MFI in India issues manual receipts for payments received from its clients, but this was not communicated properly to the clients before availing the loan. The MFI depended on credit officers for collection of repayments, and in one instance, a credit officer committed fraud by not issuing receipts to clients for the amount received, and not depositing the received amount to the MFI. Since the MFI conducted reconciliations only between the receipts issued and cash received, the fraud was not detected for a while until a random monitoring visit to a client by the branch manager.

Conclusion

MFIs should finalise the product features based on their strategy and competitive positioning in the market, but should always be aware that offering individual loans is very different from delivering group-based loans. IL is a more complex business, requiring more sophisticated front-line staff, and strict adherence to a systematic loan cycle management system, backed by a robust credit administration[6].

[5] See *MicroSave*'s Toolkit on "Designing and Implementing Staff Incentive Schemes" for how to develop staff incentive schemes
[6] See *MicroSave*'s Briefing Note # 61 "Establishing a Credit Administration & Control Unit"