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# Maintaining a Customer Focus in Collections

## Lessons from our Financial Services Portfolio

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Building businesses that focus on the needs of low income communities and provide attractive investment returns felt unattainable over two decades ago - but we know now that there are customer-centric business models that can successfully deliver services at massive scale to these communities, while also delivering strong returns to investors. In fact, nearly all of our entrepreneurs have successfully demonstrated that. Similarly, in difficult market conditions, our experience shows that it is possible for financial services companies to find a sweet spot/alignment between risk management /collections and customer-centricity. Given the current COVID-19 crisis and state of the world, we reflect on the fact that finance companies that have built their underwriting, risk management and collections processes by staying close to their customer and having a deep understanding of them, are much better placed to navigate these troubled waters.

Needless to say, all high quality portfolios are primarily built on the basis of understanding and assessing the customer's a) cash flow and ability to repay, b) contactability, c) willingness, and d) intentionality to repay - with strong processes and robustness in underwriting procedures and collection capabilities at the lender's end. We have seen over the last several years that customers in underserved markets have not just demonstrated their creditworthiness, but scored extremely high on the "willingness to repay" parameter. For the communities our entrepreneurs serve, catching up on a missed monthly payment can be an uphill task. However, enter the COVID-19 lockdown scenario and cash flows will undoubtedly be stressed, given the current crisis poses much bigger challenges. With businesses closed and an imminent financial crisis, many clients will face the decimation of income streams, jobs and livelihoods - further compounded by physical (and emotional) dislocation en masse on account of reverse migration in some markets (flight to safety 'back home'). Contactability will come into question, and so will the source of cash flows or the state of indebtedness when the situation returns to normalcy.

As everyone navigates through unprecedented mass credit behaviour patterns, and businesses attempt to establish a 'new normal' in collections, we have tried to capture some points, keeping in mind the many challenges and realities at customer level. While we have deep experience investing in financial services models focused on low income communities (and, indeed, businesses that have gone through macro crises before, though nothing like the current situation), these recommendations are enhanced by the experience and wisdom of many of the entrepreneurs we have backed over the years - including companies like Samunnati, Vistaar Finance, Wheels EMI and Credijusto.

## Overall Goals :

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To build an environment of empathy for, and communication with, customers, while maintaining discipline and rigor within your organization.

To unpack the reality of “(in)ability to pay” – distinguishing between circumstantially challenged vs. opportunistic defaulters.

To comprehensively focus on staying on top of the borrower’s repayment priority list.

To set clear expectations with the team, customers, regulators, lenders, shareholders in general, all stakeholders.

## Immediate Responses

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### Understand your customer

Stay close to customers on the ground and engage / communicate more than normal - helps build relationships and assess how the customer is handling the crisis.

- In lockdown scenarios, open personal digital communication channels with clients (e.g. Whatsapp) to enable honest and insightful conversations. Other potential touchpoints could include voice recorded messages and tapping into credible local networks.
- When it comes to discussing repayments, be helpful and clear on what is possible and what is not.
- Maintain a consistent and strong communication line with customers by educating them with respect to regulatory changes and support systems, including the implications of non payment.
- Stay alert with respect to the influence of competing local interests that may not be in the best interests of the customer.

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Broaden customer conversations beyond collections (by field staff, call center operators, mid level management)

- Demonstrate empathy towards the customer and the difficulties they are facing.
- Offer information on how they can take care of themselves and demonstrate ways in which the company can be supportive in these difficult times.

### Adjust and keep fine tuning credit underwriting and risk management

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Tap into fundamental understanding of original cash flows that were underwritten when providing loans and how these have been impacted.

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Be attuned to fungibility between personal and business cash flows and the multiple sources that add up to cater to households’ cash needs.

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Create a task force that includes risk / credit, client services, operation, legal and technology heads to assess the situation and create timely action plans.

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Be proactive (not reactive) with potential credit easing, reprogramming or refinancing facilities in line with country specific regulations and new policy measures.

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## Innovate and facilitate collections

Revisit underwriting criteria - form a fresh assessment of sectors (i.e. classification of most to least impacted), geographies, pricing, tenure, risk profile.

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In accordance with regulatory constructs, create a robust system to assess genuine inability to pay and proactively offer solutions (including rescheduling of loans) when the intention to repay is real. Subject to country specific regulations and accounting implications, different alternatives can broadly be clustered in:

- Principal-only deferment or principal plus interest deferment for a pre-established period.
  - Permanent reduction with commitments of repayment.
  - Enhancement of loans with collateral.
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Back to the drawing board on new product constructs that are relevant for the near term (COVID products) and to factor in the new realities of customer cash flows in the months to come for deserving borrowers.

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Try to segment the portfolio and offer customized solutions - one can go a step further and determine if there are systemic or organization wide ways of addressing challenges that customers in general are facing.

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Stress test portfolio to understand potential impact on collections, portfolio quality and provisioning.

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Keep multiple customer service lines open and available.

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Increase collection touchpoints by leveraging local infrastructure like pharmacies, groceries, mobile stores, individual (local) influencers etc.

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To the extent possible, and in particular in lending to small and medium enterprises, try to deal with collections on a customer by customer basis (one size does not fit all).

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Create incentives for good repayment behavior, potentially through products that give access to future liquidity as access to funds is an important incentive - while recognising, and communicating, potential credit bureau implications.

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Put in place disincentives for opportunistic defaulters.

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Adopt digital payment solutions for customers who have made the digital journey. Educate those who haven't. Some examples:

- Periodic messages to customers with digital payment links.
- Videos and recorded calls in vernacular on how to use digital channels to make payments.
- Building digital sleeves (using local languages and / or a digital iconography) on top of apps so that customers can overcome language based barriers - enabling them to use digital channels.
- A dedicated number on all communications, which the customer can call for guidance on how to use digital channels.

# Creating Strategic Opportunities Beyond Collections

## Strategic opportunities

Strengthen brand and engagement levels by aligning interests, particularly by helping customers to generate the cash / access cash required to make payments.

Think through initiatives “beyond” lending solutions that can help customers solve their immediate problems; and leverage institutional strength to solve these issues, by drawing on customer conversations to solve for their realities.

Further segment the customer base and customise engagement, and with new understanding, create offerings that leverage current need gaps:

- Bundle products something that strengthens core products and de-risks (insurance / trade credit / health insurance).
- Think through products or services that significantly enhance engagement with customers while solving for them and give you greater advance visibility into their circumstances (payments solutions / tech solutions for the customer’s business / creating sales or marketing opportunities for customer’s business). Put in place disincentives for opportunistic defaulters.

Re-launch pilot programs to understand the new-normal and re-learn customer behavior in the current context.

Build / partner / collaborate / provide access to solutions that already exist in the market to provide a more comprehensive ‘one stop’ package of solutions and increase your visibility with the customer.

## Aligning Frontline Staff Around the Overall Guidelines (mentioned above)

### Demonstrate concern

Ensure frontline staff are able to take care of themselves and their families first.

Highlight the importance of following governmental advisories with respect to health and safety, and help them to apply their judgement given the realities where they live.

### Increased communication

Online training programmes, periodic video calls, and personal touch points.

Conversations beyond numbers and outcomes.

Direct interactions beyond immediate reportees.

Open forums to address information gaps, reiterate key messages, and discuss potential rumors / clarify myths etc. including those involving the overall health, viability, and strength of the organisation as well as leadership commitment in these times.

## Emphasize the need for customer centricity

Explain why it is critical to increase engagement levels with existing customers and solve for the crisis - with focus on the conviction in this segment. The broader market often tends to question the credibility of low income segments and teams should be guided explicitly by your view on this matter.

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Educate and train them on being sensitive to the external situation when they interact with customers.

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Collective learning - explicit forums to help share observations and learnings from the field and challenges customers are facing.

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## Clear deliverables

Clarity on day to day outcomes / direction - priorities, and circumstances, since these may change on a daily basis.

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Translate organisational principles and values to tangible outcomes.

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## Team structures

Examine team structures and perform a detailed walk through of internal processes to cater to this current phase.

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Identify talent and new leadership within teams and in the current context.

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Some of the above practices may sound counter intuitive, at a time when focusing on collections should be the first priority to ensure business continuity. But our learning from past crises is that there is a balance that can be attained between managing risk and customer interests. In fact, it is our belief that businesses that have an ear to the ground and respond nimbly to customer needs will be the ones that not only manage their risk better, but also create new strategic opportunities from the experience. Empathy with customer segments has been core to all our businesses, and we believe that there is no time like now to tap into this premise and make it a sustainable competitive advantage.