

smart notes

Putting the Principles into Practice

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Appropriate Collections Practices demonstrate respect for borrowers while emphasizing the need for clients to honor their commitments to lenders.



An institution shows appropriate practices when staff treat clients with dignity even when they fail to meet their repayment commitments.

Mexico's FinComún began as a credit union in 1994, promoting savings among its members. Since

2005 FinComún has operated as a regulated financial institution offering savings, insurance, credit, and other financial products. Through alliances with strategic partners it reaches more than 150,000 clients between savings and credit

In 2008, facing rising default rates, FinComún developed an approach called Collections with Dignity and carried out a detailed revision of the collections process to focus more on client outcomes and loan recovery. It put policies and procedures in place to implement this new philosophy. FinComún staff have been very pleased with the effects on portfolio quality and client relations.

Collections with Dignity at FinComún

In 2008, while facing rising default rates, FinComún implemented a new collections philosophy in order to support clients facing the global financial crisis and combat rising default rates. The new philosophy, Collections with Dignity, is based on the belief that collections agents should treat clients how they themselves would like to be treated.

By focusing on client outcomes as well as loan recovery, FinComún was able to strengthen relationships with clients, increase on-time payments, and mitigate some of the effects of the global financial crisis on the institution's portfolio.

RESETTING THE COLLECTIONS PHILOSOPHY

Collections with Dignity deemphasizes collections alone and instead promotes listening to clients and providing them with repayment solutions. The field staff in collections is encouraged to refer to clients as "clients with late loans" instead of "delinquent clients" in order to avoid the negative connotations and disdain associated with this word.

The revamped collections process proceeds according to the following schedule:

1. 0-56 days late: Loan officers handle collections.
2. 56-90 days late: Recovery specialists take over the process, conducting up to three home visits during which they offer financial advice and repayment solutions. During the first visit, the specialist listens to the client's problems to determine why payment is late. In the second visit, the specialist describes different repayment options to the client and asks her to think about which she would prefer. These options include lengthened payment periods, combining cash and collateral for payment, and restructuring the loan. During the final visit, the specialist and the client work together to choose the best solution.



3. 90-270 days late: If no payment agreement is reached, lawyers step in to begin with legal recovery procedures.
4. 270+ days late: Lawyers move forward with the legal recovery process, taking clients to court if necessary.

According to FinComún staff, this client-centered approach has dramatically increased the value of late loans recovered since its implementation. Between 2006–2007 late loans recovered rose from 116% to 140% as a percentage of PAR 30 at the end of each year. Despite the financial crisis, the ratio remained at 127%, higher than levels before FinComún implemented Collections with Dignity.

YEAR	LOAN PORTFOLIO	PAR 30	LATE LOANS REPAID (AS % PAR 30)
2006	292.8	5.89%	20 (115.9%)
2007	471.4	8.51%	56 (139.6%)
2008	493.9	17.84%	112 (127.1%)

Source: MIX & FinComún; Units: million MXP

STAFFING THE COLLECTIONS WITH DIGNITY PHILOSOPHY

Core to the Collections with Dignity philosophy is human resources management. Reversing a previous policy that proved unsatisfactory, FinComún discontinued use of outside collection agents, using internal staff to fill the roles of collections agents. The institution's hiring, train-

ing, and performance evaluation processes are designed to support the Collections with Dignity philosophy. According to FinComún, all employees, from the CEO down, work to support clients who want to pay, but may not have the means to pay on time.

FinComún building on this development with intensive training in communications, teamwork, negotiations, and stress management to transform the collections staff into specialized agents of the new approach.

In 2007, FinComún also created the FinComún Institute, a training center formalizing the institution's intensive training approach, and began offering a Collections Practices module. The module includes topics such as payments solutions (payment options, restructuring, etc.), credit placement to avoid arrears, and improving collections.

COLLECTING THROUGH A DOWNTURN

The global financial crisis affected both clients and FinComún. Many clients who formerly received remittances from the United States and other countries were sent less money, decreasing their purchasing power and ability to repay loans. Simultaneously, many clients saw a drop in sales at their small businesses. The default rate (overdue loans divided by the loan portfolio) worsened dramatically, reaching 28 percent at the beginning of 2009. The Collections with Dignity philosophy aimed to combat rising arrears in this challenging climate, facilitated a reduction of the default rate to 21 percent by the end of the year.

FinComún management believes that Collections with Dignity also yields advantages for the non-financial bottom line. Management is confident that word-of-mouth publicity has improved due to FinComún's reputation as a pro-client organization as a result of its client centered collections approach.

The basics of...

COLLECTIONS WITH DIGNITY

1. The institution's Code of Ethics forbids abusive or coercive collections practices. Loan officers and recovery specialists must treat clients as they themselves would like to be treated.
2. Collections agents are employees of the MFI, trained in its Code of Ethics with attention to specific acceptable and unacceptable practices.
3. The recruitment process for collections agents considers their values as a relevant factor.
4. Collections agents are held accountable for their behavior; the consequences of non-compliance are clearly delineated.
5. During the recovery process, collections agents build relationships through multiple meetings with their clients in order to understand why the client cannot pay on time, maintain his or her trust, and find a mutually beneficial solution.
6. Collections agents' incentives take into account ethics, client complaints, and other metrics that indicate client satisfaction with treatment during the collections process.
7. Internal audit checks collections agents' compliance with the practices outlined in the Codes or the Credit Manual.
8. Clients in collections are included in customer satisfaction surveys to assess their perception of their experiences with the collections agents.



- Values-driven personnel management enables successful client interactions and stronger relationships with clients as a result. Management sees that Collections with Dignity has allowed the collections agents to win the clients' trust.

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PRACTICAL BENEFITS

FinComún managers highlight the following positive outcomes from the implementation of the Collections with Dignity approach:

- Specialized training developed the skills needed for the collections team to maintain a level of recoveries of 10 million Mexican pesos (US\$725,000) per month throughout 2008.
- Each month the collections department returns about 1,200 accounts to the commercial department, each representing a customer who has been re-established in terms of on-time repayments.



Keeping clients first
in microfinance