Transparent and Responsible Pricing at Mi-Bospo

INTERVIEW WITH NEJIRA NALIC, EXECUTIVE DIRECTOR, MI-BOSPO

The principle of transparent and responsible pricing rests on the assumption that clients are capable of making smart financial decisions when they have access to and understand all the necessary information. Transparent pricing goes beyond just stating an interest rate. Financial institutions are responsible for making sure that they communicate a product’s true total cost, along with its applicable terms and conditions, in a way that clients can understand, given educational and language considerations.

Responsible pricing means that the financial institution sets prices so that they are affordable for the consumer at the same time that they enable the financial institution to operate sustainably.

“For the success of working women.”

The Bosnian MFI Mi-Bospo focuses on client protection to safeguard both the institution and clients. For Mi-Bospo, transparency and responsible prices are key elements of ensuring client satisfaction. The MFI ensures transparency by screening potential hires, adhering to strict marketing guidelines, and taking time during the loan process to be sure that clients understand their rights and responsibilities.

Smart Campaign (SC): Thank you for the opportunity to learn from Mi-Bospo’s experience. First, can you tell us Mi-Bospo’s definition of “transparent pricing?”

Nejira Nalic (NN): Mi-Bospo develops long-term relationships with clients. Early on, we identified the need to communicate clearly with clients, to ensure client satisfaction and loyalty. Mi-Bospo understands transparent pricing as loan agreements and other
documentation in which the client can clearly understand the repayment schedule on a given loan amount and can easily distinguish between the principal amount and the total interest on the loan. A second important element is clear communication from loan officers to clients.

SC: How do you ensure that pricing is transparent?

NN: We use the following strategies:

• We state the effective interest rate (EIR) in all of our marketing materials;
• We explain costs in cash terms, including the monthly installment payments, before the client signs the loan agreement;
• We use banks as intermediaries for loan disbursement and repayment and we tell our clients about the fees that these banks charge; and
• Loan officers provide clients with clear and complete verbal explanations of product benefits and risks prior to sale. They explain how the MFI calculates installment payments, the consequences of late payment, and how payment will affect the loan. In fact, candidates for positions at Mi-Bospo are screened with this job responsibility in mind.

SC: Are all loan officers required to communicate this information to clients?

NN: Yes, in fact, credit agents use a three-step process to guarantee that clients understand their loan information. First, during the client
visit in the branch, loan officers read loan contracts aloud. At each step they check to see if the client understands the terms of the contract. Then, loan officers test the client’s understanding with questions about loan terms, installment payments and borrower obligations. Finally, loan officers encourage clients to repeat loan terms in their own words to cement their understanding.

Branch managers support this process by emphasizing that loan officers must take the time necessary to ensure that clients understand their loan contracts.

SC: What are the terms and conditions that are most difficult for clients to understand?

NN: Clients usually have the hardest time understanding collateral, including the recording of property and co-signers, and the role these play in loan agreements. Also, clients frequently have questions about interest rates, whether they are getting the loan amount they requested, and the procedure for securing and repaying a loan.

SC: Are your methods for implementing transparent pricing successful?

NN: Yes they are, but some clients still complain if they have repayment problems. Once they encounter a problem they complain about interest rates—I think this is something that many MFIs deal with. However, clients usually acknowledge that the interest rates were clearly communicated during the lending process and they never complain about receiving too little information regarding their loans, or of not being adequately informed of all the details of their loans.

SC: Are these transparency methods efficient/effective from a cost perspective?

NN: Yes, informal cost analyses indicate that they are. It is costly to lose clients. Our experience shows that if a client leaves our branch confused about their loan, or encounters problems during the loan cycle because they lack understanding of the product, they are much less likely to become a long-term client. Mi-Bospo’s leadership believes the focus on transparency has improved client loyalty and strengthened Mi-Bospo’s internal culture.

SC: Moving to the related topic of responsible pricing: How does Mi-Bospo determine their interest rates? Do you target a specific margin and/or ROA/ROE level?

NN: Mi-Bospo makes our pricing decisions only after collecting information on our clients’ businesses, calculating the monthly profits of the various businesses, and determining what percentage of those profits should go toward paying interest on a loan. In that way, client business profits inform our aggregate analysis of the interest rate clients can afford to pay. Then, cost elements such as operating costs, financing, loan loss reserves, retained earnings, etc. are considered. Also, Mi-Bospo compares its loan pricing with that of competitors in the Bosnian market and calculates the optimum return on equity (ROE) level. Initially Mi-Bospo targeted an ROE no higher than 6% of Mi-Bospo’s margin.

SC: Does Mi-Bospo evaluate its interest rate and pricing policy? If so, how often?

NN: Mi-Bospo evaluates interest rates based on demand from clients and through a price comparison of similar competitors in the microfinance industry and even commercial banks. We are always aware of how our prices compare to other institutions. This is done at least annually, and more often if possible. Our management team and board review the pricing analyses, and seek to achieve sustainability for the institution as well as affordability for clients.

SC: Have prices ever been lowered based on pricing analysis?

NN: Yes, they have.

SC: Has Mi-Bospo developed new products
based on customer feedback or adjusted products to better suit customers’ needs?

NN: Yes we have, and even now we are developing products for loyal (long-term) clients that offer a 10% reduction in their original interest rate.

SC: Mi-Bospo has one of the lowest operating costs and costs-per-borrower of all MFIs in Bosnia. How do you think you are able to maintain such low costs?

NN: Mi-Bospo is able to maintain low operating costs by planning carefully. Importantly, we don’t lower operating costs by underpaying employees. Mi-Bospo has a policy of compensating employees well because it believes that by doing so employees will work better and retain more loyal clients. This serves us well in the immediate-term, but it’s also a long-term strategy that helps us maintain efficient operations, which makes a difference in our operating costs.

SC: Thank you for your collaboration and openness to sharing your experience.

NN: My pleasure.

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