Collections Guidelines for Financial Service Providers

Introduction

Financial service providers must treat clients with respect and dignity at all times, even when clients fail to meet their contractual commitments. “Collections Guidelines for Financial Service Providers” is a checklist for institutions to assess their collections policies and practices, with the goal of strengthening client protection during the collections process.

The tool addresses collections policies, practices, manuals, and training of field staff. For each of these topics, an institution can compare “good practice” with its own practice, and identify areas for improvement. With this information, institutions can develop an action plan addressing weaknesses.

Beyond checklists for assessing practices, the tool provides a discussion guide for training staff on appropriate collections—including two group exercises for field staff. This section is important for helping staff understand how to use the institution’s collections policies in their daily work, including handling difficult clients and ethical dilemmas.

The Client Protection Principles (short form listed below, for complete description, see www.smartcampaign.org.

1. Avoidance of over-indebtedness
2. Transparent and responsible pricing
3. Ethical staff behavior
4. Appropriate collections practices
5. Mechanisms for redress of grievances
6. Privacy of client data

---

Section I. Assess the Institution’s Collections Policies

Use this checklist of collections policies to evaluate your institution’s policies, and identify areas for improvement. Each item represents a “good policy” for your institution to consider.

☐ The institution has a clear recovery policy that describes step-by-step the procedure for handling delinquent clients, starting the first day they are late. The policy includes a timeline (e.g., 1 day late; 30 days, etc.) and indicates which staff is responsible for taking action.

☐ The institution’s recovery policy clearly defines specific acceptable and unacceptable behaviors. For example, it prohibits abusive language and yelling at clients, but considers it acceptable to contact a client’s guarantor. The policy does not leave collections agents with the right to decide for themselves which recovery tactics they may or may not use.

☐ In this recovery policy, the following behaviors are always prohibited² (these are the minimum standards; institutions should build on them and provide detail for this list): abusive language, use of physical force, shouting at the client, entering the client’s home uninvited, humiliating the client, and violating the client’s right to privacy as dictated by the institution’s privacy policy.

☐ The institution’s credit policy mandates that loan officers/sales staff inform potential clients of the institution’s collections policies before the loan is administered, and at the time of loan disbursement.

☐ The institution has a clear rescheduling policy, which includes details on the circumstances in which rescheduling is permitted, and approvals required, how interest is handled, and an upper limit on the rescheduled loan amount, such that clients are not further indebted past their ability to pay, and automatic debt extensions are prohibited.

☐ If the institution has a group loan product, clients are informed if they will be responsible for paying for delinquent group members. They are fully informed of the consequences of group guarantee failures. The institution should provide to the group, or ensure that the group establishes steps, timelines, and responsibilities for following up with delinquent group members, and what triggers repayment by other group members.

☐ If clients are required to pledge assets as collateral, the institution has a list of acceptable assets, and does not allow credit staff to decide which assets clients may pledge. The list includes clear guidelines for how collateral is registered and valued. Finally, collections policies should cover the processes and timing for seizure of collateral.

☐ Third-party collections agents should sign an agreement to uphold the same “collections code of conduct” used by the financial service provider. Agents should also agree to provide a mechanism for redress of client grievances. Agents should also submit to a periodic audit of their practices, to ensure compliance with this agreement.

☐ Incentives for staff are not based solely on client repayment rate (low or “zero” delinquency) since this can place them under great pressure to use any means necessary to extract repayment from clients.

☐ Internal audit is tasked with reviewing a sample of loans that are in arrears more than 30 days to determine whether staff followed the appropriate policies and procedures.

---

² Collections techniques may differ based on the reasons for client delinquency—unwillingness to repay, or inability to repay. While institutions may train staff to apply different collections techniques at different times, the same standard of treatment applies to all clients. In other words, inappropriate practices are never acceptable, even when clients are able but unwilling to pay.
Section II. Assess the Institution’s Collections Practices

As in Section I, use this checklist of collections practices to evaluate your institution’s practices, and identify areas for improvement. Each item represents a “good practice” for your institution to consider.

☐ Credit staff receive practical training for collections. The training defines “acceptable” and “unacceptable” practices, and focuses on the rights of the client. Staff are trained upon hiring and receive ongoing training. Training includes “real life” scenarios in which staff must face difficult collections and determine how to treat clients. Relevant laws are also covered. Staff are tested on their knowledge of collections policies, procedures, and appropriate/inappropriate practices.

☐ Internal audit routinely follows up with a sample of delinquent clients. Management uses internal audit reports on delinquent clients to: understand the reasons for delinquency, better inform and equip loan officers to deal with these reasons, address any issues that are reported (such as violations of the collections policies), and make adjustments in products and services if warranted.

☐ The institution has a complaints handling mechanism—a way for clients to voice complaints and questions directly to the institution, and a system to respond to such complaints. Clients have a way to complain about their loan officer/collections agent without going through these staff members themselves.

☐ The institution asks for guarantees from clients to create moral pressure. However, livelihood-sustaining assets (those needed to survive and run the business) are not used as guarantees. The collateral provided should be commensurate with the value of the loan.

☐ Staff violations of the institution’s collections policies are sanctioned. Sanctions are applied consistently and are laid out in the institution’s credit policy or staff book of rules.

☐ Branch-level managers are trained in techniques for encouraging strong performance from staff without pressuring them into unacceptable collections behavior (e.g., managers hold weekly meetings at the branch in which loan officers share ideas for effective delinquency prevention and management techniques, based on their experience handling clients).

☐ Third-party collections agents receive information on what the institution considers “acceptable” and “unacceptable” collections practices, and are required to agree to uphold acceptable practices. The institution periodically checks the collections practices of third-party agents through spot checks with former clients and through other audit techniques.
Section III. Sample Collections Manual Contents

Institutions should establish their collections policies and practices in a written manual that collections staff read, discuss, and understand. This helps ensure that policies are applied uniformly across the organization and over time. Use the following sample collections manual to assess the contents of your institution’s manual.

<table>
<thead>
<tr>
<th>Topics</th>
<th>Contents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Code of Conduct for Collections</td>
<td>Builds upon the institution’s ethical code, but specifically addresses appropriate and inappropriate behavior during collections.</td>
</tr>
<tr>
<td>Sanctions</td>
<td>Details the sanctions for staff violations of the Code of Conduct for Collections.</td>
</tr>
<tr>
<td>Collections Process</td>
<td>Outlines the stages of the collections process and the procedures at each stage. For example, specific actions to take at 1 day late, 14 days late, etc.</td>
</tr>
<tr>
<td>Staff Qualifications</td>
<td>Establishes the minimum job qualifications that collections staff should meet.</td>
</tr>
<tr>
<td>Roles &amp; Responsibilities</td>
<td>Describes collections duties (e.g. visit to client home, entering delinquent status in database), and the specific staff member who is tasked with that responsibility (e.g. loan officer, database manager).</td>
</tr>
<tr>
<td>Training &amp; Methodology</td>
<td>Sets collections training standards and outlines the training process. Also establishes how often the training takes place, and which staff must participate.</td>
</tr>
<tr>
<td>Incentive Structure</td>
<td>Establishes the monetary and non-monetary incentives agents receive for strong portfolios. Design of the incentive structure influences collections behavior.</td>
</tr>
<tr>
<td>Third-Party Agents</td>
<td>Establishes the ethics agreement that third-party agents are required to uphold. Describes policies for spot-checking agents’ treatment of clients.</td>
</tr>
</tbody>
</table>
Section III. Discussion Guide for Training Field Staff

Once the institution has developed a clear policy on acceptable collections practices, it is essential that field staff (particularly credit agents/collections agents) understand how to use the policy in their daily work. It is not enough to provide staff with a copy of the policy; the institution must provide interactive training in which field staff are free to express their experience with collections, including difficult clients and ethical dilemmas.

The staff training must including specific strategies for handling difficult collections. In many cases, staff know the institution’s policy, but their standards weaken when they encounter client unwillingness to pay, or they are under severe pressure to report little or no delinquency in their portfolio.

Use the two discussion tools below to talk with field staff about acceptable and unacceptable collections behavior. We encourage institutions to build on these exercises, and create their own staff training modules appropriate to the local context.

A. Exercise: Identifying Acceptable and Unacceptable Collections Behavior

Using the following collections practices, and/or a list of other collections practices identified by your institution, start a conversation with staff by asking, “Are these good or bad practices?” Many times, the answer will be, “It depends.” In that case, discuss different scenarios and when certain behaviors would be acceptable, as well as behaviors that are never acceptable.

Additionally, ask staff to suggest other collections practices that they have used or have witnessed in the field. Eventually, for each practice, your institution should be able to tell staff whether the practice is acceptable or unacceptable.

Are these practices acceptable or unacceptable?

1. The institution calls or sends a text message to the client a few days before the payment is due to remind him/her of the payment.
2. Loan officers will not disband group meetings until a full payment from the group is made.
3. The institution hires a collections agency and its contract with the agency covers only the financial arrangements, not treatment of clients.
4. Staff leads group members in developing a code of conduct for how they will collect missed payments from their members.
5. The institution posts lists of those in arrears in the lobbies of their branch offices.
6. The institution contacts the guarantor whenever a loan is in arrears over 7 days.
7. The institution contacts neighbors and family members of a client whenever a loan is in arrears over 14 days.
8. The institution rewards on-time payment by providing raffle tickets to clients for each payment made on time, and then provides prizes to the winning ticket at least once a quarter.
9. Loan officers visit delinquent clients at their home. What if the visit is:
   a. At 20:00 in the evening?
   b. On a holiday/during a family celebration?
   c. Every day until payment is made?
10. Loan officers visit delinquent clients at their place of worship.
11. Loan officers remind clients of the contractual sanctions for non-repayment, such as an inability to take out another loan with the institution, and confiscation of collateral.
12. Provide your own practices for loan officers to discuss.
B. Exercise: Case Study and Role Play for Field Staff
Generally, a written collections policy is not sufficient to ensure staff understand how to apply acceptable collection practices in their daily work. In addition to a written policy, institutions should train staff using examples of scenarios they will likely encounter with their clients. This helps staff to identify problem situations and ethical dilemmas before they occur, and to develop strategies for dealing with these issues appropriately.

Use the case study presented here to simulate a situation in which a loan officer must determine if a client is unable or simply unwilling to repay their loan, and how to deal with the client. The institution can also develop its own scenario that is meaningful in the local context.

After reading the case study below, ask the group to split into two groups, with the following directions:

Group 1 – Act out an ending to the story in which Nomsa handles this situation (do not repeat the contents of what has already been written). In the role play, include other staff (besides Nomsa) that would participate in the collections process.

Group 2 – Act out a meeting that Nomsa has with her branch manager and other loan officers where they talk about this case and what they can do to prevent cases like this in the future.

Case study
MacroDreams loan officer Nomsa walked slowly up to the small house where Chipo stayed with her husband and her four children. She knew that times had been tough for the family, and that they had started renting a room in their house to help pay the rent. This was the part of her job that Nomsa liked least: following up on clients that had been missing payments.

As she came to the front door Nomsa spotted Chipo heading out the side door.

“Hey Chipo, good to see you,” shouted Nomsa. “I haven’t seen you in a while.”

“Yeah, sorry about that,” said Chipo. “Wish I could stay and talk but I was just heading into town.”

“That’s okay. I need to go back to town, too. I can walk with you,” said Nomsa.

Chipo stopped walking and turned back to Nomsa. Weariness spread all over her face as she said, “That’s alright. We can talk here if we make it quick. I suppose you want to talk to me about my payments.”

“That’s right,” said Nomsa. “You told me last week you would come by the office and make the payment, but we never saw you. And now you’re late on this week’s payment.”

“I’m very sorry,” said Chipo as she looked at the ground. “I have not forgotten. It’s just that my daughter has been sick for two weeks. I thought she would be well by now, but she isn’t. I’ve taken her to the doctor twice, and then I had to pay for her medicine. I didn’t have enough money left to make my payment.”

“I am very sorry to hear that,” Nomsa replied, putting her hand on Chipo’s shoulder. “You should have told us. I know you must be very worried.”

Chipo’s eyes started to tear up. “I’m really worried. She’s never been sick this long before.”
“I really hope she gets better. Is the medicine working?”

“I think so,” Chipo said, her face brightening. “She actually got up and walked around today.”

“I’m glad to hear that,” said Nomsa. “By the way, I noticed some wires coming out of your house that I haven’t seen before. Is that for an antenna?”

“Umm yeah,” Chipo stammered. “My husband bought a TV a couple of weeks ago.”

“So your husband is working now?” Nomsa asked.

“Oh no, he’s still looking for a job. He used my money for the TV. He said he needed it since the World Cup was on,” replied Chipo.

“And if he had not bought the TV, could you have made your payments on time?” questioned Nomsa.

“Yes,” replied Chipo. “We thought that there would be enough. We didn’t expect our daughter to get sick.”

“So how do you plan to get current on your loan now?” asked Nomsa.

“I am hoping that my husband finds work so that he can pay me back for the TV.”

“Chipo, we can’t wait for your husband to get a job before you repay us,” said Nomsa sternly. “If you can’t take responsibility for making your payments on time, then I don’t know if we can keep you as a client.”

Post-Role Play Discussion

After the two groups have delivered their scenarios, use this discussion guide to reach a conclusion on appropriate and inappropriate collections behavior.

**Question:** What is the proper response to a client like Chipo?

**Discussion:** Likely, the answer depends on how Chipo reacts to Nomsa’s last line, “I don’t know if we can keep you as a client.” The proper response from Nomsa depends on whether or not Chipo is still willing to repay the loan.

1. If Chipo is **willing** to repay but not capable of making the payments on schedule, Nomsa should sit down with her and develop a concrete plan for how she will get back on track with her payments. Nomsa should ask “How much can you pay today, even if it is not the full installment that is due?” If Chipo is truly willing to repay the loan, she should offer a concrete answer to this question. From here, Nomsa and Chipo should develop a written plan for full repayment of the loan.

   Nomsa should also remind Chipo of all the consequences she may face if she does not repay her loan. These consequences should be listed in the institution’s collections manual, and Nomsa should be prohibited from fabricating consequences that do not exist, or exaggerating the consequences to intimidate Chipo. Nomsa can review with Chipo the collections process, including follow-up visits and collection of collateral. In future visits and phone calls, Nomsa can apply additional pressure through repetition of the institutional consequences of non-payment (such as expulsion), contacting co-signers or guarantors (as allowed by the institution’s collections manual), and increased frequency of follow up.
2. If Chipo indicates that she *unwilling* to repay, Nomsa should describe the consequences of non-repayment as described above, and should document Chipo’s position. Nomsa could remind Chipo of the contractual agreements that she holds with the institution, and emphasize the legal action that the institution may take. She should also make it clear that delinquency or non-repayment will negatively affect Chipo’s ability to take out loans from the institution in the future.

The institution should supply Nomsa (and all involved credit staff) with a timeline for handling clients who are unwilling to repay. For example, the timeline for contacting guarantors, collection of collateral, or reporting the client to a Credit Bureau may be shorter. When clients are unwilling to pay, the institution may find it prudent to involve other staff in the collections process, such as the branch director or other senior staff.