

**WORKING PAPER
NO.16**

COMPLAINTS REDRESS MECHANISMS IN THE MICROFINANCE INDUSTRY IN UGANDA



AMFIU

ASSOCIATION OF MICROFINANCE INSTITUTIONS OF UGANDA



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Microfinance Industry in Uganda**

About the Working Paper

This working paper presents how complaints in the microfinance sector in Uganda are being handled by the Association of Microfinance Institutions of Uganda (AMFIU). It gives an analysis of the common complaints and how they are handled by the network. It also shares the experience of one of the microfinance institutions in handling the complaints.

Published by

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1. INTRODUCTION

Globally, consumer protection continues to be a key phenomenon in promoting transparency in financial services delivery. Principle 7 of the consumer protection principles states, “Providers will have in place timely and responsive mechanisms for complaints and problem resolution of their clients and will use these mechanisms both to resolve individual problems and to improve their products and services”. The existence of a well functioning grievance redress mechanism for consumers of Microfinance services that is easier, faster and more affordable than seeking redress through court system is recognized as a fundamental element of consumer protection and responsible finance system.

A complaints resolution mechanism is a key leverage point for improving sector-wide practice. When implemented effectively, the system can assist institutions in detecting and responding to all other consumer protection related issues. Additionally, complaints resolution provides an opportunity to implement minimum standards of quality across multiple financial service providers. Additionally, they may create opportunities to aggregate information of sector-wide performance that can serve to inform and influence a broad base of stake holders.

In this working paper, we present how complaints in the microfinance sector in Uganda are being handled through AMFIU.

2. ABOUT AMFIU

The Association of Microfinance Institutions of Uganda (AMFIU) was established in 1996 as a Company Limited by guarantee, with NGO status and has operated as the national umbrella organization of the Microfinance Industry in Uganda for 22 years now. It has also been recognized internationally to be one of the most significant and vibrant Microfinance apexes of Africa. The mission of AMFIU is “to promote a professional, inclusive and responsive microfinance industry that contributes to transformation of livelihoods of Ugandans”

2.1 About AMFIU Membership

AMFIU membership now stands at 112 fully paid active members of which 88 are ordinary members and 24 are Associate members as at June 2018. The ordinary membership comprises of members with microfinance as a core activity, regulated or not, and the associate membership comprises all other stakeholders with interest in microfinance such as wholesale lenders, development partners, academic institutions and private consultancy firms.

AMFIU membership is spread throughout the country with the 88 ordinary members operating in 90 districts, with a branch network of 647 branches cutting across all regions of the country as of December 2017.

AMFIU strives to ensure that its members uphold professional standards and microfinance sound practices through the provision of several services to them that include; training and on-site capacity building, performance monitoring, research, information collection and dissemination, responsible finance initiatives, and ensuring adherence to a member code of conduct. Although the microfinance sector in Uganda boasts of over 2,000 microfinance service providers, AMFIU membership commands 78% of the market share in the entire sector.

3. BACKGROUND TO AMFIU'S COMPLAINTS HANDLING SYSTEM

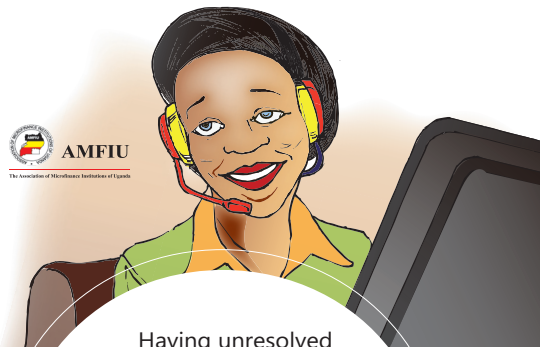
Over the years AMFIU recognized the importance of consumer protection and financial literacy for efficient and transparent financial services in the sector. To address this issue, AMFIU started by focusing on educating financial consumers on their rights and obligations. But there were still many cases in which clients did not fully understand the terms and conditions of the products they were using or they had the feeling that institutions were purposefully not providing clear information.

Some of these cases would become into open-ended conflicts with no solution in sight. In that context, it became obvious that a recourse mechanism that could open a dialogue with MFIs clients and resolve the issues at hand would strengthen the sector.

AMFIU started studying various recourse systems such as the one developed in South Africa by the credit regulator. In 2006 a system was developed and after several years of refining its own complaints handling system, AMFIU now has an automated recourse mechanism that works relatively smoothly.

3.1 Objectives of the Complaints handling mechanism:

1. To provide third party arbitration for aggrieved clients of microfinance institutions/SACCOs.
2. To prevent spill over of complaints to the media that tarnish the image of the sector
3. To educate the public on their rights and responsibilities and other key issues that affect their demand for financial services.



Having unresolved **Complaints** with your Microfinance Institution?

- AMFIU is an umbrella body for microfinance institutions in Uganda and is here to help you with any unresolved complaints
- If you are not satisfied with complaint resolution by your MFI or need further assistance, please call AMFIU Toll Free Line below:

Call AMFIU Complaints Toll Free Line
0800133033

www.amfiu.org.ug

AMFIU House, Plot 679, Wamala Rd
Nagaramukumbi, Off Entebbe Rd
P.O. Box 24554, Kampala - Uganda
Tel: +256 414 259 176, +256 393 265 540
E-mail: helpdesk@amfiu.org.ug

4. To improve transparency, and consumer confidence in the microfinance sector.
5. To facilitate the development of complaints handling structures at MFIs through capacity building of staff.

3.2 Operation of AMFIU's Complaints Handling System

In order to increase consumer confidence, eliminate bad publicity through the media and create an environment of mutual trust between the microfinance sector and its clients, AMFIU introduced a complaints handling system, based at AMFIU, to deal with complaints from clients of microfinance services. Below are the operations of the system.

3.2.1 System Publicity

AMFIU publishes materials to publicize the system and these are distributed to the microfinance institutions. They include posters, brochures, fliers and stickers. Institutions are encouraged to establish internal systems for resolving complaints. However, for unsolved complaints, different channels were established to facilitate clients to log their complaints.

3.2.2 Channels for Logging Complaints

AMFIU established different channels through which complaints are received and these include:

a) Toll free line

MFI clients use the toll free number **0800133033** to forward their complaints. These are recorded by the complaints handling officer who then advises the client on the next steps.

b) Walk-Ins

MFI clients have a right to visit the complaints handling desk at AMFIU during working hours from 8am-5pm, Monday to Friday to register any unresolved complaints by their respective microfinance institutions.

The complaints handling Officer registers the complaint in the system and informs the clients of the next steps of resolution. Client feedback is given within 48hours from receipt of the complaint.

c) Complaints through Email

MFI clients with unresolved complaints can register their complaint through the AMFIU complaints handling email, which is helpdesk@amfiu.org.ug

The client is given an automatic response on the email received by the complaints handling officer. Clients are required to leave their names, contacts including - telephone or email address and the MFI they are complaining about. On receipt of the complaints, an email is sent out to the client on the various steps that have been taken to resolve the complaint and a telephone call is made to the client to confirm receipt of the message.

d) Complaints through Website

Clients are categorized into two, namely; Un-Registered (New) Clients and Registered Clients. Both clients are able to access the complaint handling system.

Either by clicking on the “**Submit Complaint**” hyperlink which is located under the “**Contact Us**” hyperlink on the top horizontal menu OR by clicking on the banner advertisement for complaint handling.

After the client’s action(s) above, a new web page for logging into the complaint handling system is presented which contains fields for a user ID, secret code and a hyperlink for registering new clients?

Registered users/clients login the system using their telephone numbers as the user ID and a secret code (password) of their choice (defined by each client during registration).

Un-Registered (New) Clients click on the hyperlink for registering and after successful registration, are automatically logged into the system.

After successfully logging into the system clients are able to;

- View all their previously submitted/registered tickets with all their details
- Submit/register a new ticket (complaint)
- Add notes/comments to active tickets
- Edit their profile containing details like names, phone number, email, user photo, sex, date of birth
- Add or remove institutions they are attached to send a message to the administrator, which comes to the administrator in form of an email

e) Short Message Services

Client complaints can be registered through a dedicated telephone line. On receipt of the complaint, a follow up call is made to get details about the complaint.

Diagram 1: Channels for logging complaints



3.2.3 Escalation Process

Institutions are sensitized about the importance of internal complaints handling systems and then encouraged to refer any unsolved complaint complaints to the network. The Association set up structures to manage complaints as follows:

- a) A Complaints handling Officer is always available to register any complaint. The same office captures the information into the complaint handling system – a database designed to capture the complaints, track progress and produce a quarterly complaints handling report
- b) Tools for data capture were developed and the captured information relates to client name, issue and the MFI, being complained about including the contact details. The status of the case is updated as it progresses
- c) The entire process hinges on distinguishing whether the client just needs some explanation or more information or whether there is a real disagreement between the MFI and the client.

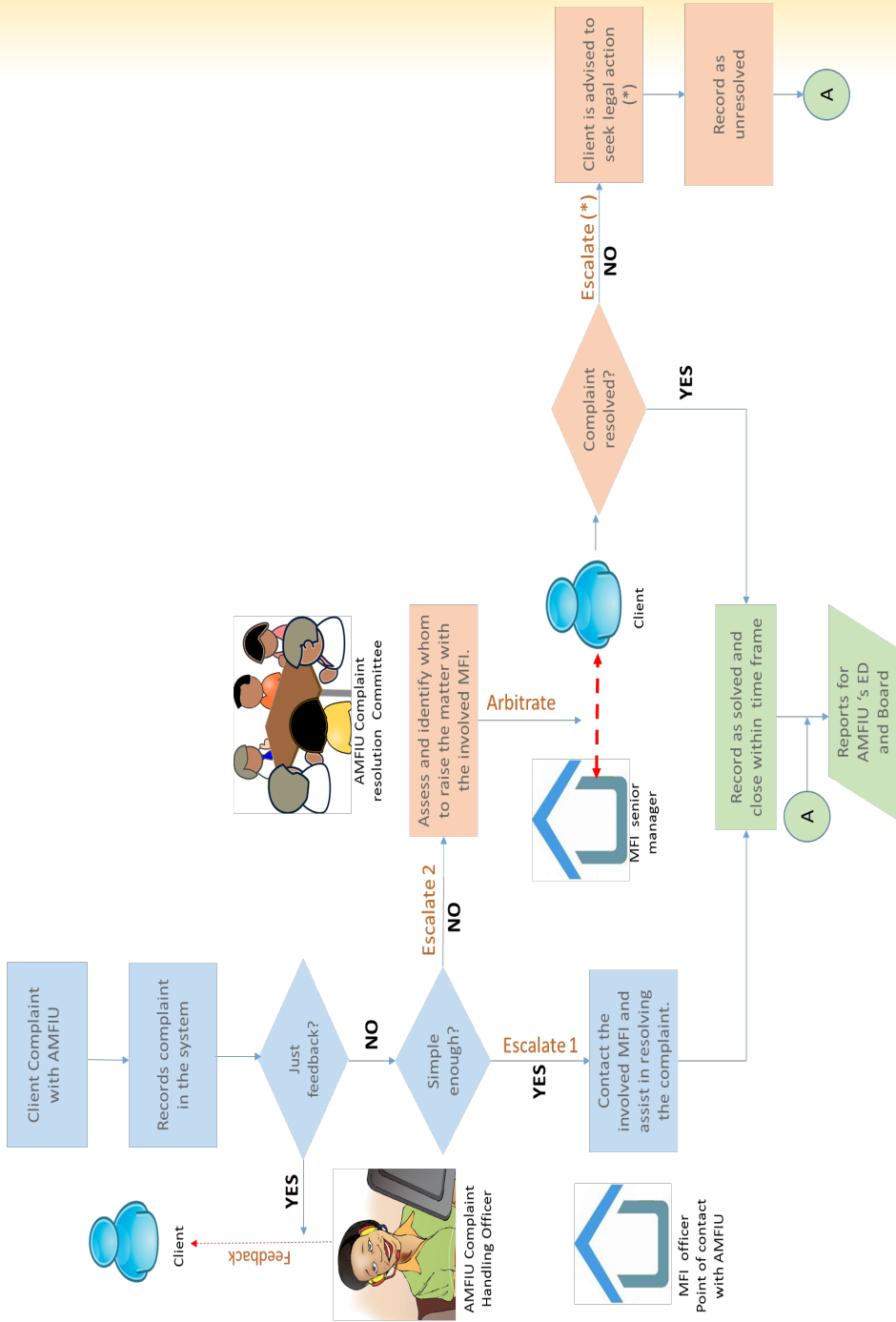
- d) Where more clarification is needed, AMFIU helps the client gain some knowledge that will help him/her and assist the Institution improve its communication with clients.
- e) In case of conflict, AMFIU carefully documents the case and hears both sides of the story. A committee on complaints handling at AMFIU meets to discuss the issues that cannot be resolved at the first point of contact between AMFIU and the client. When these complaints are escalated to the committee, they facilitate negotiations between the parties, namely the MFI senior management and the client.

The escalation process for the complaints is as demonstrated below;

The Escalation Process

Complex Client Complaint Handling Flow

Simple Client Complaint Handling Flow



3.2.4 Handling Unresolved complaints from the Institutions.

- The unresolved complaints from the institution are handled by the complaint handling officer together with the complaints handling committee and the affected Microfinance institution. The AMFIU officer receives a complaint from a microfinance client and records it in the system and the complaint form.
- The officer assesses the complaint and determine whether it can be resolved by immediate action. If the complaint is considered simple, the AMFIU officer will immediately contact the affected Microfinance institution and assist in resolving the complaint.
- The complaint is closed within an agreed timeframe depending on its nature.

3.2.5 Complex cases

Serious/complex complaints are received and recorded in the same way as the simple complaints. Once the complaint is assessed to be complex (mostly after some investigation) it is escalated to the AMFIU complaint resolution committee. The committee assesses the complaint and identifies whom to raise the matter with in the affected MFI. The Committee then arranges for an arbitration meeting between the client, AMFIU and the Microfinance Institution.

AMFIU facilitates the arbitration process until the complaint is finally resolved. When the complaint is resolved, it is entered into the complaint handling system as resolved and if it is not resolved it is recorded as unresolved and the client is advised to take appropriate action.

4 DATA COLLECTION AND REPORTING TOOLS

The system allows data capture, analysis and can generate reports based on the following categorization.

a) Client

The system assigns a client unique identifier and captures the names, telephone and email contacts, location, and CRB ID where applicable

b) Institution

The details about the institution are also captured and these mainly focus on registration date, AMFIU membership status, telephone and email contact, contact person, location of the institution (town, district) and the branch network contact details. And these are linked to the client and complaint for analysis.

c) Complaint

The details of the complaint is captured focusing on the date complaint is received, complaint number for tracking purposes, concerned institution, contact mode that analyses the different ways in which the complaints are received; telephone, email, walk-in clients and the website, call duration if by phone, complaint type (related to service or product) and the related details of the complaint. Usually if the client has a complicated issue then he/she is advised to get to office in person as the issues raised may not be exhausted on phone but short ones in most cases represent queries as they don't need a lot of time to explain

d) Reporting

Complaints are also analyzed on how long the complainant spent on the telephone. They are classified according to how long or short the client has taken. The system also categorizes the complaints in terms of status - the level at which the complaint is; namely new in the system, work in progress for those that have had a step in resolution but not yet closed and finally the closed ones representing those that have been resolved and closed. The system can further generate reports by institution type and complaint type (services or product related)

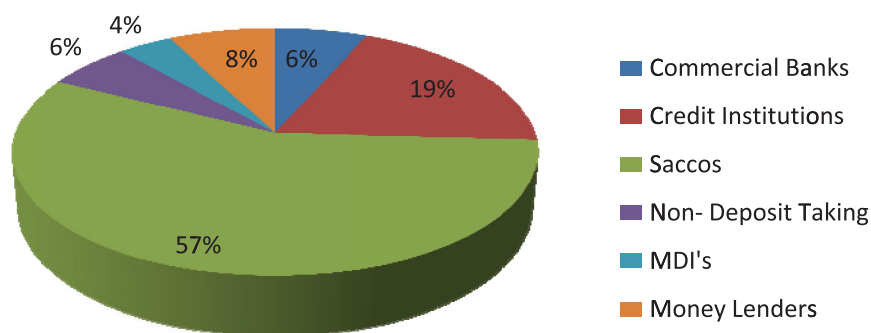
5 ANALYSIS OF COMPLAINTS RECEIVED AT THE AMFIU

A total of 164 complaints were received between 2017- 2018 as highlighted below.

5.1 Complaints by Institutions

Majority of the complaints came from SACCOs (57%) followed by the Credit Institutions (19%) and then the Non-deposit taking institutions and moneylenders at (8%). The Commercial Banks at (6%) and the MDIs (6%) had the lowest number of client complaints. This is mainly because regulated institutions are compelled by the central bank to have internal complaints handling systems. So the complaints are dealt with at institutional level and are only escalated to a third party when consensus cannot be reached at that level and they also have the option of using the central Bank as their third party arbitrator. Therefore, some of their clients may have reported their complaints to Bank of Uganda.

Complaints by Institutional Type



5.2 Complaints in relation to Product Features

Product features considers issues related to repayment terms, interest rates, transparency, collateral release among others. As shown from the graph below, the following were the most common complaints:

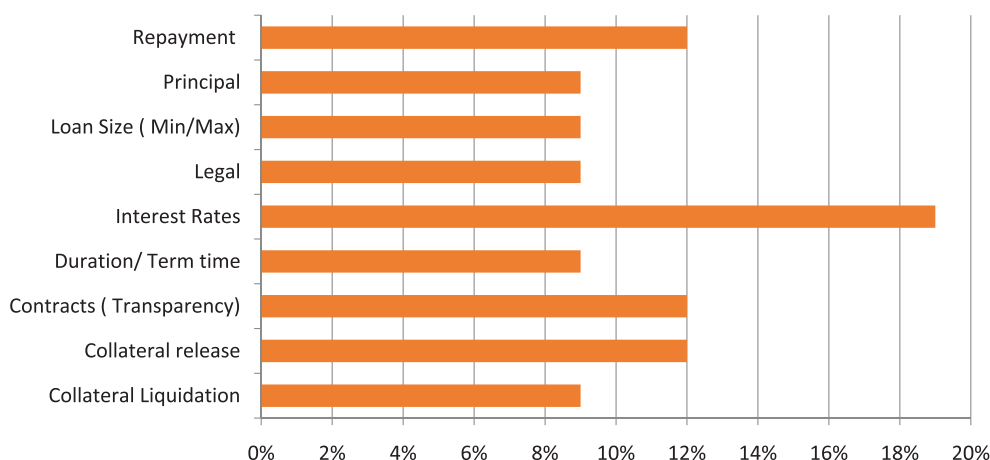
- i. **Fluctuating interest rate** (19%). This was mainly because the majority of the clients did not understand how the interest rate was computed at the time of signing the loan contract and the financial institutions did not take the time to explain it to them. Therefore, during the course of repayment, the clients began to feel that the interest rates were high. Some that had received the loan with the perception that they will be paying interest computed on a declining rate basis found that their interest is computed on a flat rate basis and this causes confusion between the financial institution and the client.

- ii. **For transparency issues (12%)** the clients complained that they were still paying for hidden costs that were not revealed during the process of loan application and the value of the loan disbursed to them would be lower than what they expected to receive and yet they had to pay interest based on the contract sum and not the actual received. The major complaint here is that the staff of the financial institutions don't explain these deductions during the loan application process and they end up causing conflict between the client and financial institutions during repayment.
- iii. **Collateral liquidation (9%)**, the clients complained that their loans were recalled before expiry of the loan period and that their collateral sold off at below the market rates. The clients also complained that the financial institutions do not have clear loan collection procedures and that a loan that is overdue 30days is collected using the same method like the one that has become delinquent.
- iv. **Collateral release (12%)** comprised of Complaints relating to clients who had cleared their loans but the financial institutions were taking long to return their collateral security. The other complaints raised included; unlawful collateral liquidation where clients property was being sold off without following legal procedures,
- v. **Prolonged loan processing periods (9%)** involved complaints where clients applied for a facility but it took over 3 months without disbursement. This affected their plans as some loan applications are made with urgency depending on the purpose of the loan.
- vi. **Loan size (9%)**; This is more of a concern where institutions have a ceiling on the amount above or below which they can't go beyond. Some clients raised issues where they apply for a loan amount and have security not corresponding to the application made giving reasons that they have other sources of income which can repay the loan. However, after consultations with institutions, clients are made aware of how much their security is worth and that institutions consider what they have registered as security only.
- vii. **Principal (9%)**; some clients complained that the amounts they applied for is not what they eventually get due to many deductions being made by the institutions that are not communicated in advance.
- viii. **Legal issues (9%)**. These are issues that arose after one party failed to agree amicably with the other and so court bailiffs were involved while the other party was unaware.

- iX. Repayment (12%)** This issue related to those who had failed to pay their loans on schedule and needed rescheduling.

Below is the graph that summarizes the categorization of complaints by product features.

Categorisation of Complaints by Product Features



5.3 Complaints by Service Features

Analysis of complaints related to services was made and below are the issues identified.

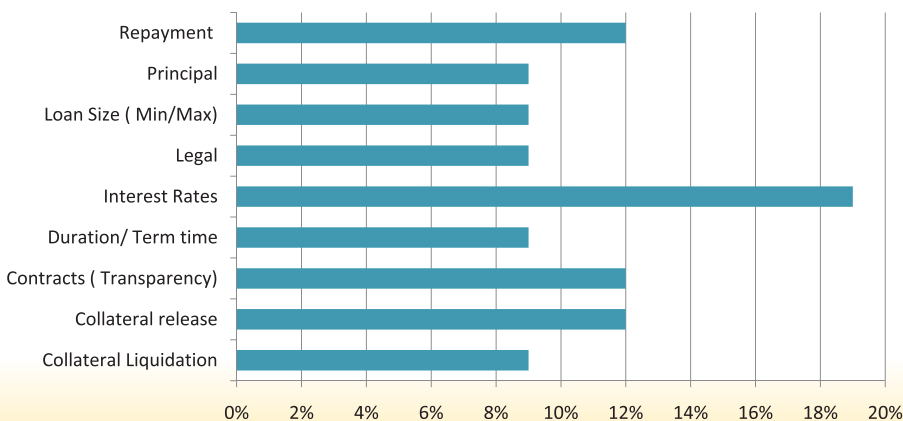
- (i) Lack of transparency (20%)**, with the financial institutions withholding information that is vital to decision making for the client to determine whether to take the loan or not as shown in the graph below.
- (ii) Poor customer care (13%)**, with the majority of clients complaining that they are not attended to at the financial institution when they have complaints and that the financial institutions do not have channels through which they can complain.
- (iii) Inappropriate loan collection practices (11%)** which are rather harsh and end up embarrassing clients.
- (iv) Double deductions at (11%)**, where clients are deducted more than they ought to and when they follow up with their respective institutions, they are informed that the error will be rectified which is not followed up until

after continuous visits to the offices sometimes leading to escalation to management.

- (v) **Fraud cases (10%)** are mainly revolving around credit officers who demand to be motivated in monetary terms for the clients to receive service quicker.
- (vi) **Insurance payments complaints (9%)** had issues where clients paid insurance fees but when their businesses got issues, Institutions were not willing to compensate them instead they inform clients that the amount they paid for was general Insurance. However those that genuinely lost their businesses to natural disasters would be helped by their respective Institutions but after such a long time of visits and bureaucracies to and fro the insurance company offices.
- (vii) **Savings refund (8%)**; Institutions encourage their clients to deposit compulsory savings before acquiring a loan, however at completion, Institutions keep requesting from clients more time as they mobilize money.
- (viii) **Client over-indebtedness (8%)**; Institutions don't conduct and analyze clients' repayment capacity and methodologies for assessing credit worthiness.
- (ix) **Timely Service (10%)** Clients complained that they were taking long to receive the loans they had applied for and therefore their plans were being distorted by the delays.

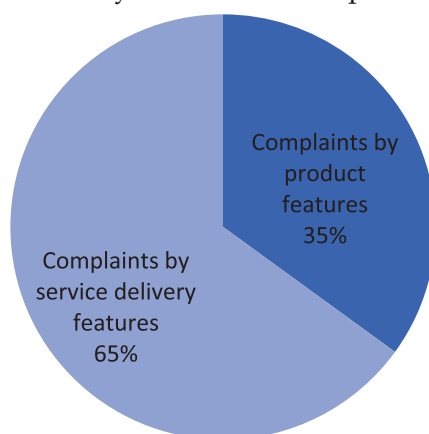
Below is the graph categorizing complaints by service features.

Categorisation of Complaints by Product Features



5.4 Service Features Vs Product Features Complaints

According to the complaints received during this period, majority of the complaints from the clients were related to the service delivery. This meant that majority of the clients felt that the service delivery mechanisms of the financial institutions were not satisfactory as shown in the pie chart below;



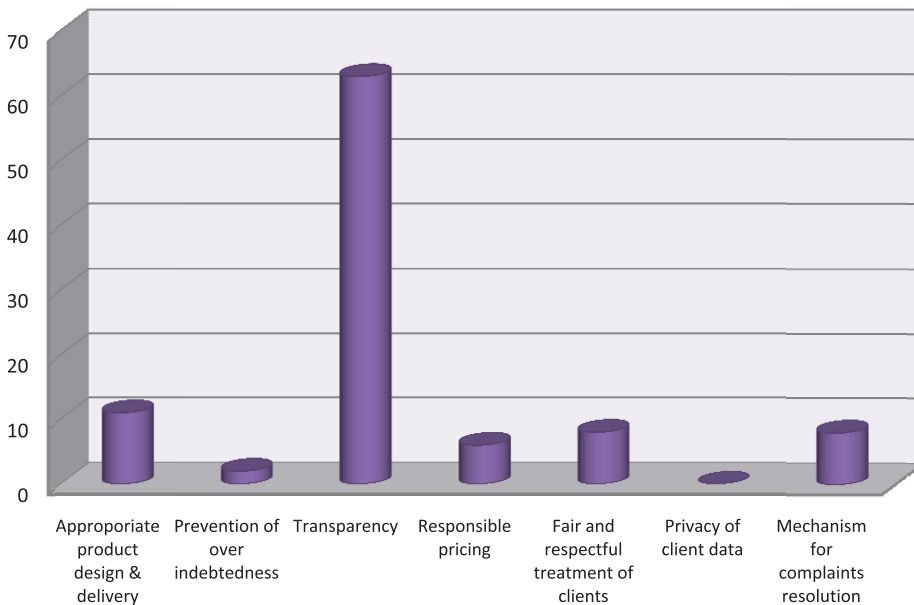
5.5 Complaints by the 7 principles of client protection

Complaints were further analyzed based on the 7 principles of client protection. The majority of the complaints were from lack of transparency (65%), followed by appropriate product design and delivery (13%), complaints resolution and fair and respectful treatment of clients at (9%) and responsible pricing at (5%), prevention of over indebtedness (2%), mechanisms for complaint resolution (5%).

- i) Focusing on transparency, clients hoped that they would be taken through the documents given to them by Institutions instead many of them just ask their clients to sign on the forms even when some don't understand what they are signing, while some it's a problem of low self esteem and language barrier. Clients would want Institutions to provide explanation about interest rates, exchange rates, penalties, premiums and fees in a way that is accurate and understandable.
- ii) Appropriate product design, issues were based on the fact that clients experience sudden unexpected changes in pricing, terms or fees during the course of the product life.
- iii) Complaints resolution; Some Institutions don't have internal policies and procedure for complaints resolution. There are no effective systems, staff training so that they are able to resolve complaints.

- iv) Fair and respectful treatment of clients. It was noted that some Institutions don't commit to code of ethics and mission while articulating their values such as fair treatment of clients.
- v) Client over-indebtedness; Institutions don't conduct and analyze a clients repayment capacity and methodologies for assessing credit worthiness
- vi) Responsible pricing; These complaints came as a result of Institutions not providing reasonable coverage of costs and having internal pricing procedure for each product to ensure competitive and efficient prices.
- vii) Privacy of client data; Institutions should have internal policies and procedures to keep client data private unless otherwise mandated by law.

Categorization of complaints by the 7 principles of client protection



6 DESCRIPTION OF COMMON COMPLAINTS

Complaint classification	
<p>Loan Recovery</p> <p><u>Description</u> Act of collecting loan repayments from borrowers by the microfinance institution</p> <p>Common client complaints :</p> <ul style="list-style-type: none"> • Unfair penalties charged on late payments • Disclosure of client loan details to guarantors and other parties • Loan deductions after loan completion for Government employees borrowers • Wastage of time in group based loan recovery mechanism` 	<p>Interest rate</p> <p><u>Description</u> Proposition of loan that is charged as interest to the borrower in relation to the percentage of the outstanding loan amount</p> <p>Common client complaints</p> <ul style="list-style-type: none"> • Use of calculation of interest methods e.g. use of flat rate method which is relatively expensive • High interest rates for most loans • Adjustment of interest rates due to the effects on inflation by deposit taking MFIs and banks • affecting borrower capability to repay • Unclear interest charges/other fees
<p>Loan Repayment</p> <p><u>Description</u> Act of borrower paying back loan borrowed from the institution</p> <p>Common client complaints :</p> <ul style="list-style-type: none"> • -Delayed repeat loan disbursement on prepaid loans • -Lack of interest rebates (interest waiver) by some institutions • -Unclear communication on loan repayment fees and interest – client feel they have paid more than they expected to. • Unfavorable repayment due dates for salaried loans • -Fraud – loan officer collects money but does not receipt/repay on behalf of a client/ defaulter • -In ability to repay loan due to loss of business/sickness/death in family/lack of crop insurance <p>Loan size</p> <p><u>Description</u> Loan amount specified in the contract and the borrower agrees to repay over a specific period of time.</p> <p>Common client complaints</p> <ul style="list-style-type: none"> • Underfunding and or overfunding • Multiple borrowings leading to over-indebtedness • Fraud – disbursement of larger loan sizes to give the loan officer a kick-back 	<p>Contract</p> <p><u>Description</u> Written Agreement entered into between the client and institutions at the time of borrowing</p> <p>Common client complaints:</p> <ul style="list-style-type: none"> • Language barrier – high illiteracy level • Lack of understanding of the contractual agreement content and implications to borrower • Detailed and legal based content <p>Loan duration</p> <p><u>Description</u> Period of time a borrower is expected to repay a loan in full as per the signed contract period.</p> <p>Common client complaints</p> <ul style="list-style-type: none"> • Shorter loan repayment resulting in high installments beyond client capacity to repay/meet • Majority of microfinance institutions do not allow rescheduling of loans • High interest for long-term loans due to use of flat rate interest rate method

Complaint classification	
<p>Collateral Release <u>Description</u> Giving back the borrower his/her securities after completion of loan outstanding</p> <p>Common client complaints</p> <ul style="list-style-type: none"> • Delayed release of the collaterals • Intentional delays by institution to keep the client • Delay of mortgage release letters • Loss of securities by institutions 	<p>Collateral Liquidation <u>Description</u> This is where the loan security pledged at borrowing is sold off after all recovery measures (including legal/litigation) have been exhausted.</p> <p>Common client complaints</p> <ul style="list-style-type: none"> • Securities sold at lower than market prices when a client fails to find a buyer for the property/item • Securities sold without notice and or client consent • Sale of family properties - without notice or involvement of family members
<p>Processing time <u>Description</u> The time an institution takes to disburse a loan to the customer - period between client training and loan disbursement</p> <p>Common client complaints</p> <ul style="list-style-type: none"> • Delay in loan processing • Loan disbursement later than expected causing loan repayment problems/loss of business opportunities & multi-borrowing 	<p>Fraud <u>Description</u> False misrepresentation by word of mouth or conduct/record falsification/kickbacks/use of company assets for personal use, etc.</p> <p>Common client complaints</p> <ul style="list-style-type: none"> • Collection of loan repayments loan officers and not banking on behalf of client/ updating of client records • Kickbacks given to officers to process loans faster • Upfront deductions of disbursed loans for undisclosed charges and fees • Unclear and lack of disclosures on late payment penalties • Collapsing institutions out of bankruptcy/ corruption/fraud not able to refund clients savings
<p>Staff Behavior (customer service) <u>Description</u> An employee behavior to a particular situation</p> <p>Common client complaints</p> <ul style="list-style-type: none"> • Abusive language to client • Physical fights with clients • Negative attitude of officers towards clients • Confiscating property by force without court order • Embarrassing/unfair treatment of clients in public 	<p>Loan recollection methods <u>Description</u> These are methods used to recover loans which are in arrears or written off by an institution</p> <p>Common client complaints</p> <ul style="list-style-type: none"> • Hire of court bailiffs and recovery officers • Embarrassment of clients - attachment of household goods • Loan collection costs transferred to clients/ very punitive

Complaint classification	
<p>Savings Refund <u>Description</u> Savings are refunded to a borrower by an institution after completion of loan repayment</p> <p>Common client complaints</p> <ul style="list-style-type: none"> • Delay in savings refund • No loans refund in the case of group based loans • Unclear deductions on saving balances • No interest on savings maintained by an institution 	<p>Microfinance Claim Payment <u>Description</u> This is where an insurance company compensates the borrower after suffering business loss or death</p> <p>Common client complaints</p> <ul style="list-style-type: none"> • Insurance only pays if at least 5 businesses are razed by fire • Insurance claims on natural death only pays the outstanding loan amount • For deaths through accident – the outstanding loan amount is paid and the biological family is compensated • Delays by insurance company to process and pay the claims – meanwhile institution demands that the client continue making repayments.

6.1 Assessing compliance to the principle of Complaints Handling

The SMART Campaign for Client protection gives the following as indicators for compliance to this principle;

- Clients are informed of their right to complain and how to submit a complaint to the appropriate person
- Financial Institution uses internal audit or another monitoring system to check that complaints are resolved satisfactorily
- Financial Institution uses complaints information to improve products, sales techniques, and other interactions with clients and uses it to correct mistakes that may be harmful to other clients
- Financial Institution has a mechanism for collecting, responding to, and resolving problems for customers
- The financial institution has a complaints handling policy.

7. COMPLAINT HANDLING AT INSTITUTIONAL LEVEL : CASE OF UGAFODE MICROFINANCE LTD (MDI)

UGAFODE Microfinance Limited was launched as an NGO 1994 to provide financial services to economically-active Ugandans. It was incorporated into a company limited by shares in 2010 in preparation for its transformation into a Microfinance Deposit Taking Institution (MDI) in 2011. Since then, UGAFODE has grown extensively with sixteen (16) networked branches offering loans, savings, insurance and money transfer services.

Its mission is to promote economic, social and holistic transformation of our customers through provision of quality microfinance services in a manner that improves on household income. UGAFODE's focus on SPM and client protection has been fully integrated into its strategic plan

As part of this commitment, UGAFODE provides customer-focused financial services that are responsive to their needs and feedback.

The development of UGAFODE's Customer Complaints Handling System (CCHS) was a result of Management's commitment to put excellent customer service at the center of the institution's business growth strategy. For this reason, UGAFODE's management undertook to integrate the Client Protection Principles into business operations.

Policy overview

UGAFODE's Customer Service Policy, approved by the Board of Directors, spells out the institution's mechanisms for customer grievance redress. Among other things, the policy emphasizes:

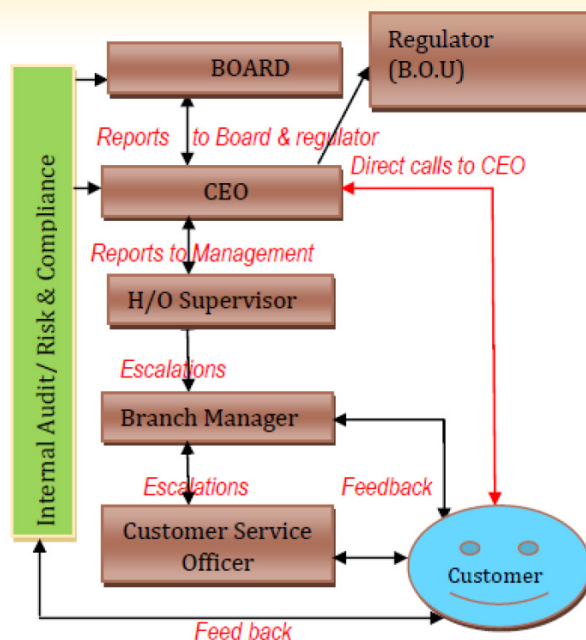
- Customer complaints should be taken seriously
- Complaints must be fully investigated without bias
- Complaints must be resolved and feedback given to clients within a maximum of 14 days
- Timely feedback must be given even for unresolved complaints
- Unresolved complaints must be escalated to the appropriate departments/ units and feedback given within 14 days.

Reporting structures

UGAFODE has established a clear structure for customer complaint handling: from Branch level, to senior Management and the Board as well as the regulator (Bank of Uganda).

Each Branch has a Customer Service Officer who handles day-to-day customer service issues and reports to the Branch Manager. Customers also have unlimited access to the Branch Managers during office hours. It is an “open door” policy, where a client is free to go to the Branch Managers’ office if they feel their issue has not been handled by the field staff. Alternatively, customers may also call a direct line to the CEO’s secretary, especially those who feel their complaints have not been exhaustively addressed or recognized by the Branch in question.

Graph 1: Complaint handling structure



Branch Managers are responsible for customer service in their respective branches and report to head office on these matters.

Branch Managers (on weekly basis) forward a list of complaints received (both resolved and unresolved) to the Head Office Supervisor. The Head Office Supervisor oversees the institutional customer service function and reports to Senior Management/CEO on matters of customer service especially unresolved complaints.

In terms of quality control, the Internal Audit and Risk and Compliance departments check whether customer complaints have been fully and fairly investigated, and resolved in a timely manner. They review all complaints raised. Follow-up calls and visits are made on sample basis depending on the nature of the complaint. All complaints related to unfair treatment of clients by staff are followed up directly.

Solution Details

UGAFODE’s Customer Complaint Handling process revolves around four important factors:

Sensitization of customers on their rights to complain

The institution has trained a group of Credit Officers on the Client Protection

Principles. Client training helps raise awareness on using the suggestion boxes, customer complaint register, customer service desk, Branch Manager's office as well as the direct call line to the CEO's office. UGAFODE's Customer Service officers are also trained on client protection, and they interact with clients who walk into branch offices and talk to clients about the complaint handling system.

Different channels to collect complaints

UGAFODE collects client complaints through a number of means, and ensures that clients can freely provide feedback on products, services and staff behavior without feeling intimidated. This is done through the following:

- All branches have strategically-placed suggestion boxes to collect written complaints. The keys to the suggestion box are manned by the Branch Manager.
- All branches have a complaints/compliments register to collect written complaints.
- All branches have an inquiries desk manned by a dedicated Customer Service Officer (CSO) to collect verbal complaints from the customers. The CSO records unresolved complaints in the complaints register and escalates them to the Branch Manager, who reviews complaints on a daily basis. When the complaints are resolved, they are closed off in the register by the Branch Manager.
- Customers can also call the CEO through a direct line to CEO'S Secretary provided to them during radio talk shows. The secretary takes note of the issues raised and the CEO calls the customer and directs the responsible department to address the issues raised accordingly, and provide feedback to the customer.

Encouraging complaints

UGAFODE also decided to encourage complaints by reducing the formal barriers between clients and management. To do this, it moved each Branch Manager's desk into the branch lobby, so that clients could walk in and get an answer to their question from management at any time.

To create a positive enabling environment for complaints, UGAFODE also looked at the broader role of staff by:

- Training all employees in the Client Protection Principles and customer care. All new staff members receive training as part of their orientation. Additionally, UGAFODE carries out "refresher trainings" on customer care and client protection during annual team-building workshops. UGAFODE also has 2 client protection trainers in every branch, who mentor new staff members after they have been trained.

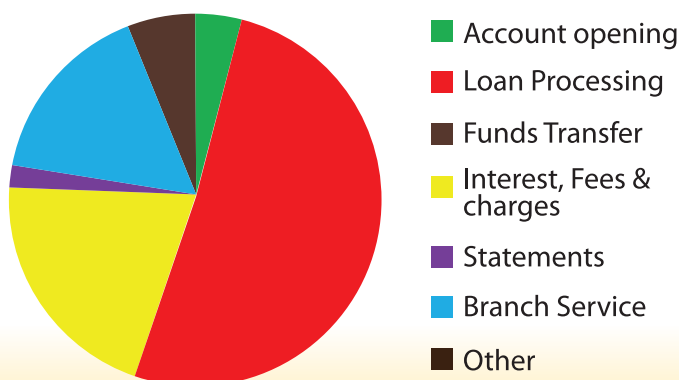
- Adjusting the staff appraisal tool to emphasize social performance indicators by including parameters such as time management, service quality (measured turnaround time, number of complaints/ compliments attributed to the staff member, number of customers served etc.), integrity, and teamwork.

Documenting and reporting complaints

Customer complaints (including verbal complaints) and those placed in the suggestion boxes are recorded in the Customer Complaints/Compliments Register. The Branch Manager reviews the register on daily basis. At the end of the week, the branch compiles all the resolved and unresolved complaints using the record in the Customer Complaints Register and Suggestion and forwards it to head office.

Generally, complaints related to service quality (e.g. turnaround time, queries about accounts, etc.) are handled at branch level. Most escalations relate to complaints on products features and delivery channels like ATM requests, unethical staff behavior (e.g. asking for bribes which is proscribed in the Human resources policy). The Branch Manager escalates complaints that cannot be resolved at branch level (e.g. request for reduction of interest rates or charges, request for ATM Machines etc.) to Head Office through the Supervisor In-charge of Customer Service. The Branch Manager informs the customer about the escalation.

The Head Office Supervisor reviews the complaints from the branches, reaches the customers if necessary, makes and recommendations to Management with a view to resolving the complaint. S/he communicates Management decision to the Branch Manager who then gives a feedback to the customer within 14 days. Complaints are categorized according to the following areas; loan process related, account opening related, fees & charges, funds transfers, delivery



channels etc., with recommendations for management's decision, based on the nature of the complaints. The report is discussed during the weekly Senior Management meetings.

The Central Bank also requires all regulated financial Institutions (like UGAFODE) to report bi-annually on customer complaint resolution. The report submitted to the Central Bank covers a summary of the number of complaints raised during the period under different categories, and actions taken.

Effectiveness and Costs

In financial terms, the system is not very costly to implement, as the tools used are simple and inexpensive. The major cost incurred is in continuous staff training. This is mitigated by having in-house trained trainers, who continue to train and mentor other staff in customer care and rights issues. In terms of time, the activities involved in running the system are part of the job description of the concerned staff, meaning there is no extra burden in terms of time allocation.

The system is effective to the extent that it has enabled the institution to get reasonable feedback from customers about its services. The complaints received are urgently given attention and addressed appropriately. Apart from inquiries and clarifications, on average a branch receives 8 complaints per month concerning its services.

On the other hand, the suggestion boxes have not been effective. The complaints register is fairly effective, but only used by clients who are literate. The majority of customers who are illiterate tend to complain verbally through the Branch Manager

The customer Complaint Handling System has helped UGAFODE in the following ways:

Decision-making:

It has created an opportunity for the institution to get feedback on (and improve its):

- Products and services: for example whether its products and services offered appeal to the needs of the customers in terms of the product pricing and charges, access, eligibility criteria, terms and conditions.
- Processes/delivery channels in terms of convenience of the processes and procedures, accessibility and availability.
- People and staff for example how receptive and friendly they are, their knowledge, professionalism, integrity while handling the customers and how they treat the customers

UGAFODE takes client feedback seriously, and has taken a number of important decisions as a result. For instance it:

- Revised its micro mortgage and agricultural loan products, and introduced grace periods as client feedback
- Reduced interest rates on its loan products across the board
- Revised the loan insurance premium from 1% to 0.85%
- Is currently piloting a mobile banking platform to address customer complaints on the cost of transport to branch offices to make loan repayments.

Public image

Being serious about client complaints helps UGAFODE retain its clients, and create positive word-of-mouth referrals among existing and potential clients – which UGAFODE feels is a less costly approach to marketing. Building a positive institutional reputation will also ensure the long-term financial survival of the institution.

Creating a competitive edge

UGAFODE's attitude to client complaints has helped it beat the competition. UGAFODE was voted by clients across the country as one of the most trusted MFIs in Uganda as part of the Uganda Responsible Investment Award Initiative sponsored by the United Nations and East African Community.

Benefits to clients

UGAFODE also identifies four key benefits of this system to its clients, in that it:

- Provides the means for clients to express their feelings about UGAFODE's

services, which in turn leads to improved products and services that meet clients' needs.

- Helps clients highlight cases of unfair treatment by staff.
- Empowers clients to freely express themselves in terms of their rights, while fulfilling their obligation to the institution.
- Helps to build a positive long-term relationship with the institution.

Developing the System

Getting started

In 2011, UGAFODE embarked on a process of integrating Social Performance Management and Client Protection Principles into its strategy and operations. The customer complaint handling system was developed as part of this. With support from its partner Oikocredit, it started by carrying out an Institutional Self-Assessment on the Client Protection Principles. This assessment gave UGAFODE an insight into their strengths and weaknesses regard to client protection practices, and helped it create an institutional action plan.

Focusing on quick wins

In the institutional action plan, UGAFODE focused on the gaps identified and designed relatively cheaper and easy initiatives that can be quickly implemented to address key gaps, with minimal investment and budgetary constraints. These initiatives included the following:

- Including customer service in the institution's strategic objective to enable management to create various activities aimed at addressing customer complaints
- Installing suggestion boxes at all branches
- Introducing Customer Complaint Registers at all branches.
- Establishing customer service desk at all branches
- Recruiting Customer Service Officers at all branches
- Training all UGAFODE staff in customer service
- Training all UGAFODE staff on the client protection principles, and selecting branch staff to monitor client protection principles implementation at branch level
- Communicating the customer handling process to all staff
- Using a media campaign through the call-in radio talk shows to educate customer about UGAFODE's services and complaints procedures.

Implementation Challenges

The following are some of the major challenges that have affected successful

implementation of an effective customer complaint handling system:

Inadequate commitment from staff: UGAFODE recognizes that staff commitment and motivation are key to creating a conducive environment where customers can freely give feedback on the quality of services, and where customers will not be victimized for giving feedback or complaints.

This is being addressed through:

- Carrying out a staff satisfaction survey and using the report to address issues that affect staff motivation and performance
- Including customer service as key parameter on staff appraisal
- Continuous staff sensitization is also being to enable staff take customer feedback as an opportunity to enable them improve on the service.

Illiteracy levels of the customers limit the usage of some of the tools like suggestion boxes, as they cannot read and write.

Fear factor: Some clients are afraid to report cases of mistreatment by staff, especially credit officers, as feel they may be denied future service. This is being addressed through constant sensitization of customers, by encouraging customers to feel free to air their dissatisfaction with the services.

Un-conducive environment: Despite having a dedicated Customer Care Officer seated in the lobby, the front office environment sometimes impedes the free provision of feedback, especially when the hall is crowded. In this case, a client may feel reluctant to express their complaints when other clients can easily overhear.

Delays in provision of feedback: Sometimes there are delays in giving feedback to customers. This is being addressed by monitoring complaint resolution turnaround time through weekly reports from the branches. The Branch summarizes unresolved complaints and gives an explanation as to why it has not been resolved. Complaints are required to be resolved within 14 days, with updates to the client on the status of their process.

Unsatisfactory resolution: some clients may feel that their complaints have not been adequately addressed and opt out e.g. if a client gave his loan instalment payment to a credit officer without an acknowledgement/receipt and the credit officer refuses to provide this. The client would be made to pay because he does not have evidence of payment, and the institution would fail to take action on the credit officer because there wouldn't be any evidence to support the client's complaint.

Improving the System

A number of ways exist to improve the complaints handling system to make it more effective and bring it more in line with the Universal Standards. These include:

- Installing a toll-free line for receiving customer grievances. This will benefit low-income rural clients, especially when it is costly to travel to the branch.
- Improving publicity about the complaint handling system e.g. through the institution's website, posters, leaflets, etc., which are translated into local dialects.
- Conducting regular customer satisfaction surveys. This will help collect additional feedback from those clients who do not feel they can openly complain through the current system.
- Exploring and developing other tools that are friendlier to clients, especially those who cannot read and write.

UGAFODE reflects on a number of key lessons that emerge from its experience, which it would encourage other microfinance providers to consider when designing and implementing similar systems in their own institutions. These are:

Successful client grievance handling starts with clear strategic oversight and commitment from the Board and top management as stipulated in Customer Service Policy.

It is important to have the systems, tools, processes and procedures for receiving and resolving feedback/grievances from customers.

The systems, tools, processes and procedures for getting feedback/grievances can only be effective if the institution has trained, committed and motivated staff who are willing to listen and to go the "extra mile" to ensure that complaints are received and resolved in a timely manner.

Institutions need to create an environment where staff, tools and procedures in place do not impede or discourage the customers to give vital feedback to the institution.

A good complaint resolution system is one where clients do not feel intimidated to provide feedback on what they feel about services, processes, staff etc.

8 LESSONS LEARNT

A number of lessons have been learnt during the implementation of this program and these include among others the following:

8.1 Complaints handling at Institutional level

Many institutions still have limited systems at institutional level and no designated staff to handle complaints. This means that clients are not given timely and evidence based responses. The way information and evidence is gathered has a major impact on successful complaints handling, response & resolution. If done correctly, the investigations should help establish the root cause of the complaint and the appropriate way to handle it. Most MFI staff are not aware that complaints are a top priority item for their operation.

8.2 Limited legal mandate

The Association still has limited legal mandate to handle complaints from Institutions that don't comply with the required standards within the sector especially the non members. The Tier 4 Microfinance sector was generally not regulated until July 2017 when the Tier 4 Microfinance Institutions and Money Lenders Act 2016 was effected. The law established the Uganda microfinance regulatory authority (UMRA), an independent body responsible for licensing, regulation and supervision of tier 4 microfinance institutions and money lenders.

8.3 Fear of client empowerment by Institutions

Some MFI's are reluctant to hang AMFIU publicity materials for fear that their clients will be empowered and hence become problematic because they will have the right to communicate their grievance to the Association. Many institutions don't want their clients to reveal their weaknesses to the Association.

8.4 Implementation of Client Protection Principles still a challenge

There is still need for continuous institutional staff sensitization on consumer protection rules regarding financial products and services. All necessary institutional arrangements should be in place to ensure thorough, objective, timely and fair implementation and enforcement of the rules.

8.5 Sensitization and awareness campaigns

There is need for continuous sensitisation campaigns to create more awareness about the complaints redress mechanism. For the case of AMFIU, Radio adverts run on various stations, SMS reminders are sent to contacts in our data base for

the public to utilize our toll free line and communicate in case of a challenge with their Institution, a number of publicity materials were printed and continuously shared with our member institutions encouraging them to have them displayed in their banking halls where their customers can easily access them. These publicity materials include; Fliers, brochures, posters, tear drops and banners which are used during various workshops held by the Association.

8 CONCLUSION

Every financial institution is bound to receive customer complaints and as customer focused businesses, they need to be ready to respond. Today institutions may see complaints as annoying and time consuming, irritant to be dealt with as quickly as possible. However, if the financial institutions see complaints as one of the best mechanisms to improve their internal work process, then they have the opportunity to make real changes which not only help their complainants but also make the lives of all their customers better. AMFIU continues to refine the system to address changing needs of the sector. AMFIU is in the process of revamping the system to allow financial institutions to use it to capture their internal complaints and also receive alerts whenever a complaint is logged at the network.

9 ANNEX 1: THE SEVEN PRINCIPLES OF CLIENT PROTECTION

An institution that implements these principles ensures a good relationship with the client and fosters growth for both the institution and the client, which enhances the overall image of the microfinance sector.

1. Appropriate product design and delivery

Take adequate care to design products and delivery channels in such a way that they do not cause clients harm. Products and delivery channels will be designed with client characteristics taken into account.

2. Prevention of over-indebtedness

Providers will take adequate care that clients have the capacity to repay without becoming over-indebted. Providers will implement and monitor internal systems that support prevention of over-indebtedness.

3. Transparency

Providers will communicate clear, sufficient and timely information in a manner and language clients can understand so that clients can make informed decisions.

7. Mechanism for complaints handling

Providers will have in place timely and responsive mechanisms for complaints and problem resolution for their clients and will use these mechanisms both to resolve individual problems and to improve their products and services.

4. Responsible pricing

Pricing, terms and conditions will be set in a way that is affordable to clients while allowing for financial institutions to be sustainable. Providers will strive to provide positive real returns on deposits.

5. Fair and respectful treatment of clients

Financial service providers and their agents will treat their clients fairly and respectfully. They will not discriminate. Providers will ensure adequate safeguards to detect and correct corruption as well as aggressive or abusive treatment by their staff and agents, particularly during the loan sales and debt collection processes.

6. Privacy of client data

The privacy of individual client data will be respected in accordance with the laws and regulations of individual jurisdictions.



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