Using Customer Insights to Drive Your Crisis Response: A Four-Part Roundtable Discussion

In October and November, SPTF convened a four-part series of virtual roundtable discussions to explore how customer data can drive the sector's response to the COVID-19 crisis. The series drew upon the over 30,000 interviews from more than 35 financial service providers using the SPTF client interview tool either independently or with the support of FINCA International and 60 Decibels. Over 160 individuals participated in at least one session of the series, and many attended multiple sessions.

The first two workshops in the series were for financial services providers. Their primary objective was to explore the data as a group and to discuss how the data could inform their COVID-19 response. The participants spent most of their time in small group discussions exploring the data and its practical implications for their crisis response and recovery.

The two workshops covered the same materials but convened different groups. The first was held in English with participation from financial service providers in Asia and Africa. The second was held in Spanish with participation from financial service providers in Latin America.

The agenda had three main parts:
1. Reflections on global data and what we can learn from it
2. A case study from Peru that allowed us to dive deeper into one institution's clients and context to identify possible responses
3. Turning insights into action: how institutions have been using client insights to respond to the crisis

The third workshop in the series brought together social investors, global networks of financial institutions and other sector support actors and sought to create a space where investors could:

1. Reflect on the specifics of how vulnerable people are uniquely affected by COVID-19 in different contexts and how the FI sector is positioned to respond
2. Share their experience
3. Explore the opportunities for investors to support/work with FSPs to respond to the evolving needs of client segments

The event began with ADA, Advans and Symbiotics sharing their reflections on the data collected from 14 of their financial service provider partners by 60 Decibels and the challenges facing the sector in a fishbowl-style discussion. The discussion then moved into small groups to discuss how investors can work together with financial service providers and others to address client vulnerability and rebuild the MSME sector as stronger and more resilient. The discussion was followed by a survey to get more specific feedback regarding the potential actions investors may take.

Finally, the fourth roundtable brought together financial service providers, investors, networks and support organizations to explore how the impact of the crisis is shaped by decisions of all stakeholders: FSPs, investors, and policymakers and to identify opportunities for collaboration and action by the sector and various stakeholders to improve outcomes through a client-centred approach. In order to ensure the active participation of all stakeholders, this meeting was held with simultaneous interpretation in English, French and Spanish.

Roundtable Reflections

The survey results suggest that the biggest test for the sector may be yet to come. The majority of clients around the world are emerging from lockdowns and the first wave of COVID-19 in a vulnerable or highly vulnerable state, with on-going reductions in income, depleted savings and in some cases having sold off assets. 60 Decibels' Vulnerability Index classified between 80 and 90% of all clients interviewed as either vulnerable or very vulnerable.

Access to financial services mattered

Financial services—both formal and informal—played a very important role in helping clients weather the crisis. Clients overwhelmingly turned to their savings to cover basic expenses and reduce the shock of the lockdowns. Sixty-five percent reported using savings as a coping mechanism. They also borrowed—formally and informally—to meet their needs. Some clients reported that their loans helped get them through the worst times. Financial service providers responded to the immediate crisis with repayment moratoria and facilitating access to savings, including, in some cases, allowing early withdrawal of term savings with no penalty. Although some institutions stopped lending for a period of time, others took their cues from their clients, providing fresh loans to those who needed them. In some contexts, financial service providers played a role in channeling government subsidies to their clients.

The impact was severe

As many expected the lockdowns had a profound effect on micro and small enterprise, small-scale agriculture, and informal sector workers with few to no social protections. Eighty-seven percent of clients interviewed reported that their household's financial situation had worsened with more than half saying their situation had gotten much worse. The sweeping nature of the closures meant that the majority of clients saw a deterioration of both their primary and secondary sources of income (if they had one).

Food insecurity—a highly sensitive indicator of economic stress—shot up after the lockdowns were imposed, especially in parts of Africa and Latin America where mobility is a challenge and social safety nets, and emergency subsidies did not reach all of the vulnerable population. Overall, half of all respondents reported a negative change in food consumption with 30% reporting hunger.

The impact was unevenly spread

Some countries fared better than others, at least in the first wave. Uganda, Peru, Jordan and Benin had around 70% reporting that their situation was much worse with under 10% holding steady while El Salvador, the Dominican Republic, and the Philippines saw more equally divided effects on their population with an average of 22% who indicated that they were able to maintain their financial situation up to that point in the crisis. Food security data corroborates this perception with over 30% of clients interviewed in Uganda, Peru and Benin reporting experiencing hunger during the crisis.

The impact was unevenly spread within countries as well. There was considerable variation among sectors. In general, agriculture—particularly livestock, poultry and fisheries were less affected than many other sectors. As might be expected, formal sector employees fared better than informal workers. Within the services sector, essential or infrastructure services such as health services, telecommunications, financial services, construction and maintenance and repair showed more stability than other types of services. Personal care, education, religious, real estate and transportation services were among the most affected by the shutdowns. Within retail, essential items such as food and personal items did better than most, while retailers of items such as books, clothing, electronics and apparel saw sharp declines. Though food retail remained strong, food production and food service—the selling of prepared foods were among the most negatively impacted sectors. Because the sectors that women and the poor tend to cluster in were among the most negatively impacted sectors, it is perhaps not surprising that women, the poor and clients over 35 consistently experienced more severe effects from the crisis.

Data has helped financial service providers take a nuanced approach to supporting clients
Understanding the dynamics of what is happening with specific livelihood shas allowed institutions to develop support programs targeting specific sectors to help them adapt to the new circumstances or even undertaking advocacy on their behalf as was the case of SEF in South Africa who successfully advocated for the small neighborhood food and necessities shops (spaza shops) to be allowed to operate.

The effects of the crisis are likely to be long lasting
Even with re-opening, income is not rebounding to pre-pandemic levels for many clients. The second-round data collected by 60 Decibels suggests that the income situation may even be worsening for many key segments such as agriculture, retail and production. Over 50% of clients are in a very vulnerable state experiencing reduced income, food insecurity, and having had to use multiple coping mechanisms including borrowing, drawing down savings and selling assets. That kind of vulnerability is not overcome quickly. It will take time for clients to rebuild their savings, pay back their loans, and rebuild their businesses. In the meantime, they are at high risk of collapse in future shocks—whether they be natural disasters, accidents, market disruptions or a second wave of COVID-19—having already tapped into all their coping mechanisms. Mitigating the risks posed by future shocks while clients are in this highly vulnerable state will require coordination and cooperation at all levels—from financial service providers, governments and investors.

Looks can be deceiving
At the same time that clients were reporting high levels of food insecurity and that their financial situation and income was much worse than before the pandemic, management was observing increased demand for loans, repayments resuming and savings balances increasing. The survey data prompted them to look deeper to better understand the specific situations of their clients rather than take improving financial performance as an indicator of a strong recovery.

Clients need support in adapting and rebuilding their livelihoods
In places where it is permitted, clients are out there working, but the majority of them are bringing in less money than they did before. Demand is down. Supply chains have been interrupted. Prices are less predictable. Some businesses are simply not viable under these conditions, and clients will need help shifting into something else. Others need to be completely rethought and adapted. Financial service providers have realized that many clients will need training, mentoring and capital to rebuild. Many are providing this support either directly or in partnership with others. This is cutting into margins in the short term but is necessary for a healthy and sustainable recovery.

Financial exclusion is a risk we must actively guard against
If we wish to maintain our gains in financial inclusion during this crisis, our approach to risk management cannot focus on the exclusion of risky clients or institutions. Focusing lending only on those clients operating in sectors that have been less severely impacted will inevitably lead to a loss of access for many of the poorest and most vulnerable. We need new ways of assessing creditworthiness and risk in this

situation. By taking a client-centered approach to risk management—focusing our efforts on providing the products, services and support that clients need to navigate this risky *situation* that we are all living through is our best chance to preserve both financial access and the financial health of institutions and people.

The crisis is fueling the extension and adoption of digital financial services
Barriers to mobility and fear of infection are driving clients to seek out lower risk and more convenient methods of accessing financial services. Governments have also turned to digital financial service providers to help rapidly disburse subsidies to large numbers of people. In some markets, the crisis has even brought the digitalization of commerce, making digital payments and other digital financial services even more relevant to people's lives. There is an opportunity to build on this success and expand access even further.

Next Steps on the Road to Recovery

Data, data, data
Among roundtable participants there was widespread support for on-going data collection and more data pooling. Data needs to be pooled and shared widely with social investors, governments, donors, development finance institutions, investors in social investors, financial service providers and networks.

On-going data collection and monitoring will be important for understanding how the situation of different segments is evolving over time and to serve as a warning system to identify when client stress is increasing.

There is a need for patience at all levels of the investment chain
Client vulnerability remains high. The shock in many cases was severe and prolonged. The rebound is uneven with some segments and geographies coming back more quickly and others even worsening. Financial service providers are operating in a context that has been fundamentally altered. There has been massive economic disruption, and the economies of many places may have been fundamentally altered in ways we do not yet fully appreciate. Not only are financial service providers facing repayment risk, but margins are going to be smaller because they are doing a lot to adapt and help clients adapt.

Clients need flexibility and patient terms as they rebuild. Financial service providers need flexibility and patient capital as they provide flexible and patient terms to their clients. Social investment funds need patience from their investors as returns are smaller and longer. We need to explore ways to inject some patient capital into the entire chain to keep funds flowing without putting too much pressure on short-term repayments.

Recovery will require a nuanced and collaborative approach to risk management
There is risk at every level of the investment chain. Clients, who have already drawn heavily on their coping mechanisms to weather the storm, have the fewest resources available to mitigate risks. If we wish to maintain our gains in financial inclusion during this crisis, our approach to risk management cannot focus on the exclusion of risky clients or institutions. Instead, we need to re-invent our risk and credit assessment processes (and train staff on them!) to make sure that we are not excluding good clients fallen on hard times while still taking care to avoid overburdening them. We must design an approach that acknowledges that client vulnerability in the face of on-going economic uncertainty and disruption is

at the heart of risk felt all the way up the chain. If we put client recovery at the center, it is possible to build a stronger and more resilient sector coming out of this crisis.