

Micro-lenders have huge market opportunities - MFSA

MicroFinance South Africa (MFSA) recently conducted research into the behaviours displayed by credit providers and consumers in the lending industry. The research, which provides valuable insight for credit providers, not only identifies current trends and perceptions held by consumers, but also highlights a wealth of opportunities for those in the micro-finance arena.

Perhaps one of the greatest opportunities that the research underlined was the need for micro-lenders to offer an all-in-one lending solution. When asked what respondents were most likely to use their loans for, the most popular responses were education financing, business opportunities, consolidation of loans, home improvements, luxuries and emergencies. In light of this it seems evident that micro-lenders who offer products or services which address several client needs would have an advantage over others. These products could include lending solutions targeted at small business funding, risk management, education funding, insurance or even emergency and funeral funding.

Flexibility a key factor

Apart from looking at how borrowers utilise their loans, the research also focused on public perception of both finance houses (unsecured non-bank credit providers) and banks and identified where micro-lenders can place their focus to ensure they are the preferential choice. Most importantly, banks were identified as being strict and unwavering while finance houses were perceived to be flexible in their terms and conditions. It is this flexibility and ability to give individual attention which micro-lenders should see as an opportunity to set themselves apart from banking institutions.

Interestingly, focus group respondents also highlighted flexibility as a key reason for remaining at a particular finance house as it was perceived to be an indication of good customer service. In addition, the formation of strong long lasting relationships based on an understanding of clients' needs was seen to encourage loyalty to one credit provider. Here again smaller micro-lenders often have the advantage of being able to form personal relationships with clients more easily than larger institutions.

Defaulters present in the focus groups indicated that they tended to default on repayments not necessarily as a result of poor debt management but rather due to loss of income or employment and because during these times flexibility on the part of the credit provider was essential. The concept that several borrowers apply for loans as a result of desperation points to the need for micro-lenders to strive for openness and flexibility and to accommodate borrowers, where possible, in challenging situations.

Use correct advertising channels

The instant need for cash in times of desperation is often the main reason why respondents indicated that they still made use of "loan sharks" or "mashonisas". Ultimately, as a result of the stringent terms and conditions of credit providers and strong relationships formed with "mashonisas" in the community several respondents ended up returning to them in times of need. To ensure that they counteract this micro-lenders need to promote themselves as a dependable source that consumers can turn to in times of desperation and emergencies for quick and efficient assistance.

However in today's competitive environment, you need to ensure that you are utilising the correct channels for advertising to reach your intended audience. When asked which channels they make use of to gather information on credit providers the respondents pointed to the Daily Sun newspaper as their main source. Second on the list was word of mouth.

Ultimately, the research indicates that those in the micro-finance arena should focus on offering high levels of customer service supported by flexibility and timeous and efficient loan applications to ensure customer satisfaction. They should also investigate opportunities to offer a one-stop-shop solution to cater to individual needs and focus on delivering services that appeal to those requiring a loan during emergencies.

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