Determining Client Satisfaction of Youth Microfinance Clients: Results from a Primary Data Collection in Mongolia

Bachelor Thesis in Banking and Finance

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Full Text Version

Executive Summary

Motivation

The microfinance industry has experienced substantial changes in the last twenty years. The increasing competitiveness has led microfinance institutions (MFI) to increase their focus on understanding their clients' needs and preferences, and on looking for ways to effectively approach the unbanked poor. The youth represents a large share of the world's unbanked population making it an important market for MFIs. There is a widespread believe that providing young people with tailored financial services has a positive influence on their lives as well as on the growth of the economy. However, serving young people with financial products and services specifically designed for them is still a rather new practice in developing countries. Mongolia has a relatively high financial services penetration and the MFI, whose clients have been surveyed, is known as one of the pioneers and success stories in terms of youth microfinance.

Survey Objectives and Methodology

The purpose of this thesis is to:

- Compare the concepts of youth financial inclusion to the products offered by the surveyed MFI;
- Identify satisfaction levels among the surveyed MFI's youth clientele with a specific microloan product through primary data collection and analysis.

To achieve the first objective, the industry and academic microfinance literature on financial inclusion for the youth is reviewed and compared to the MFI's products. The second objective is accomplished by identifying key methodological standards for client satisfaction surveys described in the literature. They are then applied in the primary data collection. Microloan features and the lending process are analysed and discussed with the microfinance specialist of the surveyed MFI and used to identify the microloan related attributes and dimensions of analysis. These are adapted to build a conceptual framework for the empirical investigation. The data is collected using a self-administered standardised structured questionnaire between June 11 and 26, 2015

among the MFI's microloan borrowers aged 18 – 34 years. The survey results in 80 completed questionnaires analysed using descriptive statistics and correlations.

Findings

The following study finds that the surveyed MFI supplies the Mongolian youth with several specific financial products and services which contain many elements described in the theoretical concepts of youth financial inclusion.

This paper surveys the satisfaction of a MIF's young clients with a microloan. The resulting findings show that the youth in general is satisfied with the microloan product and related services offered by the MFI. The surveyed borrowers are the least satisfied with the disbursement fee, interest rate and guarantee requirements. It is also found that there is a difference in priorities among 18 – 24 and 25 – 34 year olds. The younger adults are primarily concerned with the guarantee requirements whereas for the older participants the interest rate reflects a major concern instead.

Research implications

The first implication is the importance of appropriately segmenting the youth population and understanding their needs and priorities in order to shape an appropriate microcredit product. More specifically, for 18 – 24 year olds the guarantee requirements and repayment schedule should be tailored to fit their circumstances. Interest rate and lending process need to be the focus of adjustments for those aged 25 – 34 years. Further, the disbursement fee charged on the microloan should be decreased for both age groups.

Evaluation

This thesis contributes to existing studies on customer satisfaction. It provides results that can be useful for the surveyed MFI to increase the satisfaction levels among its young clientele and to develop further products for the youth.

Key words

Customer satisfaction, microfinance, microloan, Mongolia, youth financial inclusion.

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List of Abbreviations

Currency Equivalents

(As of 30 June 2015)

Currency Unit – Mongolian Tughrik (MNT)

1.00 MNT = 0.0005 USD

1.00 USD = 1'953.793 MNT

ATM	Automatic Teller Machine
CSR	Customer Service Representative
EAP	East Asia and Pacific
FSP	Financial Service Provider
GFDA	Golden Fund for Development Association
LOS	Loan Officer Staff
MFI	Microfinance Institution
MNT	Mongolian Tughrik (Currency)
NBFI	Non-Bank Financial Institution
NGO	Non-Governmental Organisation
UB	Ulaanbaatar (Capital of Mongolia)
UN	United Nations
YDI	Youth Development Index

Acknowledgement

1 Introduction

1.1 Problem Statement

Microfinance practices have become an integral part of the development policies of many countries and have helped build an inclusive and sustainable financial sector (Elmer & Hemrika Laura, 2012, p. 21). In recent years, public awareness and recognition of microfinance practices have increased. With the growing interest in microfinance profound research has been conducted resulting in numerous surveys and diverse publications.

These research studies measure the access to financial services, quality of service and the impact of microfinance in developing countries. Looking at the field of microfinance research in recent years, the issue of clients' satisfaction has become particularly important, a subject that is also crucial to microfinance institutions (MFI) and banks. So far the studies on customer satisfaction in microfinance have focused mainly on adult customers. There is little empirical data on the effectiveness of providing micro services, especially microloans, to young people and their satisfaction with it. This thesis makes a valuable contribution in the research field of customer satisfaction in microfinance. It aims to fill part of the described gap on the example of a Mongolian MFI – XAC Bank by (1) comparing the theoretical concepts of youth financial inclusion with the products offered by the XAC Bank and (2) identifying the level of customer satisfaction among the youth regarding the microloan offered by the XAC Bank.

1.2 Outline and Methodology

This thesis is structured in five chapters. After a short general introduction into this thesis, Chapter Two gives an introduction in what microfinance is about. Further, customer satisfaction is defined with a focus on the importance of clients and their satisfaction in the microfinance industry. This is followed by a description of the youth as microfinance clientele and their financial inclusion by various products as described in the literature. In this chapter the characteristics of Mongolia and its microfinance market are discussed. The XAC Bank is presented in terms of its orientation on clients and products and services designed for the youth. It also compares the XAC Bank's

youth adjusted supply with the products and services as recommended in the literature. Finally, the microloan group and particularly the surveyed microloan is presented more in depth, for which the customers' satisfaction is to be investigated. In order to get a better understanding of the microcredit practices of the XAC Bank, the description of the micro lending process is also included in this chapter. Once the foundation for a better understanding of this thesis has been laid, Chapter Three presents research questions and hypotheses, and reviews the measurement methods of customer satisfaction. This is followed by a detailed description of the survey design. Chapter Four analyses collected data on customer satisfaction using descriptive statistics and correlations, and raises limitations, challenges and solutions of the conducted survey. In Chapter Five, brief conclusions are drawn and recommendations for the XAC Bank provided, based on the survey results.

To achieve the set goals in each chapter the following methodology is used. To be familiar with the background of the empirical research and to build the thesis on a solid foundation a review of the existing academic and microfinance literature on clients' satisfaction and financial inclusion for youth is included. Further, marketing literature is used for identifying key methodological standards for client satisfaction surveys. Also the XAC Bank's products designed for the youth, microloan and lending process are reviewed. With the objective of identifying general as well as particular satisfaction levels for the product attributes among the XAC Bank's young clients, both primary and secondary data is used. Whereas the primary data is collected personally through a standardised questionnaire during a scheduled stay in Mongolia, the secondary data is provided by the XAC Bank.

The choice of Mongolia is justified by the fact that in the developing world, there is barely a comparable country that has experienced such economic progress and development of the banking sector in just the last 25 years (Batmunkh, Gereltuya, & Idshinrenjin, 2013). The microfinance sector is well established and the financial services penetration rate in Mongolia is comparably as high as in developed countries (The World Bank, 2015). Furthermore, Mongolia is a country where 36% of the population is between $15 - 34^{1}$ years old (National Statistical Office of Mongolia, 2012). Referring to the youth, Mongolia received a Commonwealth Youth

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[1] In Mongolia the National Programme on Adolescents and Youth Development sets the limits of the age of youth within the range of $15 - 34$ years (Government of Mongolia, 2006).

Development Index (YDI)[2] of 0.71 and is therefore ranked as 49th out of 170 countries, a relatively high ranking compared to other developing countries (CYP, 2015). The XAC Bank, of which young clients are surveyed, is a pioneer in introducing products designed for the youth in Mongolia and has been awarded for the globally unique implementation of financial education and services for children and youth (CYFI & MasterCard Incorporated International, 2014).

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[2] YDI measures the status of 15 – 29 year-olds according to five key domains: Education, Health and Well-being, Employment, Civic Participation and Political Participation. YDI scores range from 0 – 1, 0 being the lowest youth development and 1 the highest (CYP, 2015).

2 Background for Empirical Research

In this section the background needed for the empirical research is described. First, microfinance is introduced and the development of the microfinance industry briefly presented, particularly over the last two decades. For a better understanding of the surveyed topic, customer satisfaction is defined. The definition of customer satisfaction is followed by the literature overview and empirical results related to customer satisfaction research in the field of microfinance. After the importance of customer satisfaction within the microfinance industry was highlighted, a gap in the customer satisfaction research is detected and it is explained why it is particularly important to pay attention to young clients. The constraints they have to face are outlined. Then, youth financial inclusion by diverse microfinance products is presented. Before concentrating on the products designed for the youth by the XAC Bank, Mongolia, its microfinance market and the position of the XAC Bank in the Mongolian financial sector are presented. Having discussed the theoretical financial inclusion by the MFIs and the financial products and services of the XAC Bank, a short comparison of the two is presented. Finally, the microloans offered by the XAC Bank are described because this is the central product that analysed in this thesis. Particularly the microloan conditions and requirements, as well as the lending process of the microloan serving mainly the urban citizens, which is the one surveyed, are described.

2.1 Microfinance and its Development

This chapter explains briefly the main idea of microfinance and outlines the main changes within the microfinance industry. However, the focus is mainly on the most current shifts as this is a broad topic.

2.1.1 Definition of Microfinance

Microfinance – the practice of providing the population at the bottom of the pyramid with an array of financial services such as loans, savings, insurance, transfer services, skills trainings and various educational programs of financial character – is seen as a tool to improve the lives of the poor as well as for economic development (Armendariz & Labie, 2011, pp. 3-24). With the help of the microfinance services, the risks for the low-income population can be managed better, higher returns on investments can be

obtained and their income can be smoothed. Whereas the fundamental idea of microfinance has remained the same, microfinance as an industry has transformed dramatically (Ledgerwood, Earne, & Nelson, 2013, p. 6), some of the changes are described in the following paragraph.

2.1.2 Development of Microfinance

The foundation stone of the modern history of financial inclusion was laid with the formation of the Grameen Bank in Bangladesh in 1983 (IEG, 2014, p. 8). Microfinance as an industry has begun to develop in the 1990s and since then, it has experienced significant changes (Robinson, 2001, pp. 52-55). The primary focus has shifted from offering only small credits to micro entrepreneurs to a full scale of inclusive financial services for various segments of the low-income population who are excluded from the traditional banking system. The more regulated and coordinated microfinance industry and the technological progress has enabled the MFIs to expand their outreach and has made it possible for more people to use their services. Along with the exponential growth in the number of MFIs, clients, and products, customer protection as well as financial capability have gained in importance. Particularly clients have become the focal point of microfinance. The MFIs are concerned with making finance more inclusive or how to provide customers with better products and services (Ledgerwood et al., 2013, pp. 1-44).

Despite recent estimates suggesting that about two hundred million individuals have been reached through microfinance globally (Maes & Reed, 2012, p. 3), the numbers of unbanked people is still very large. Thus in order to bring more poor people into the formal financial system, one of the important steps is to understand their financial needs and preferences. Understanding the behaviour, fears and needs of the various segments representing the population is a critical point required to achieve better quality of products and services (Ledgerwood et al., 2013, pp. 1–29, 49-50; WWB & The Nike Foundation, 2014).

2.2 Definition of Customer Satisfaction

As it was shown above in the description of the development of the microfinance industry, customer satisfaction is one of the central points of the discussions in

microfinance. For a better understanding of this thesis a brief definition of customer satisfaction is provided.

Nowadays, organisations of all types recognise that satisfied customers may lead to an improvement in the competitiveness and the positioning in the market (Wilson, Zeithaml, Bitner, & Gremler, 2012, p. 73). In marketing as well as in finance literature, customer satisfaction, dissatisfaction and its measurement are often discussed issues (e.g. Fornell, Johnson, Anderson, Cha, & Bryant, 1996; Oborn, 1995; Oliver, 1997; Seiler, 2011; Vavra, 1997; Yi, 1989). From literature, it is also obvious that there are many different ways to formulate customer satisfaction. Yi (1989, pp. 69-70) observes certain similarities among the definitions and categorises them into either an outcome or a process group. For the purpose of measuring customer satisfaction in the financial sector, the process-oriented definition seems the most relevant (Nader, 1995). Oliver (1997, p. 13) defines customer satisfaction as "... consumer's fulfillment response. It is a judgement that a product or service feature, or the product of service itself, provided (or is providing) a pleasurable level of consumption-related fulfillment, including levels of under- or overfulfillment." This definition essentially emphasises that the client is required to compare the received product or services with his pre-consumption expectations (Oliver, 1997; Vavra, 1997) and is used for the remainder of this thesis.

2.3 Literature Review on Customer Satisfaction in Microfinance

Now, with a clearer understanding of customer satisfaction, an overview of the microfinance literature and current research is provided concentrating on the needs of micro clients and how they can be satisfied.

From the beginning of the nineties, the microfinance literature has touched on the importance of market research in order to determine the needs, terms preferences, such as loan size, collateral, or grace period, and alternatives at the customer's level to help the MFIs design new or refine existing services (e.g. Rhyne, 1994, pp. 105-116). This literature also emphasises that finance programs should be compared on the level of service quality that the MFIs offer. The costumer's willingness to pay the loan back serves as an indicator to find the level of the client-service relationship. Nevertheless, Rhyne (1994) proposes further research on service quality and client satisfaction within microfinance.

Especially in the last decade, numerous empirical studies on customer satisfaction have been conducted in microfinance industry using various methods and scales; for example Murray & Lynch (2003) have investigated what MFI clients in Bangladesh, Uganda and Colombia value using Likert's scale. The study highlights that higher loan amounts, shorter turnaround times, lower prices, as well as lower loan requirements make the clients more satisfied. Bihari, Roy, & Bhattacharya (2009) adapting a SERVPERF[3] framework assessed the determinants of customer satisfaction for clients in India. Their results proved that service fairness of the MFI has no significant impact on client's satisfaction judgements. In 2012, another study examined the significance of service quality and governmental support on the customer satisfaction in Kenya. The results show that service quality is positively related to the satisfaction whereas the governmental role does not have any significant effect (Bashir, Machali, & Mwinyi, 2012). Kanyurhi (2013) conducting research with respect to MFI customers in Togo using SERVQUAL[4] finds that the level of satisfaction varies depending on the specific services and employees. His results also indicate that customers are more satisfied with saving services than with loans and that responsiveness is the most important dimension for MFI clients. Typically, the studies concentrate on adult rural or urban customers as one segment. However, Urquizo (2006) has conducted a study on improving and monitoring customer retention in which he emphasises the importance of market segmentation, for example according to age and experience as a micro-entrepreneur for customer driven MFIs.

2.4 Microfinance Institutions: the Clients

In the previous paragraphs it is discussed that the issue of client satisfaction is a central topic in the field of microfinance. In the following part, it is therefore explained why customers are so important and pointed out why there is a need to do more research particularly among low-income youth.

2.4.1 Importance of Customer Satisfaction

To know whether customers are satisfied is a key factor for business organisations of all types. It has been shown that satisfied customers benefit an organisation, respectively,

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[3] A multi-item scale of measuring service quality suggested by Cronin & Taylor (1994).

[4] A multi-item scale of measuring service quality developed by Parasuraman, Zeithaml, & Berry (1988).

that not pleasing them can be very costly (Churchill, 2000, pp. 16–21). With the increasing competition in the microfinance industry, client related issues such as consumer protection and over-indebtedness have become a cause of concern (e.g. Krauss, Lontzek, Meyer, & Frommelt, 2012; Schicks, 2010). Especially, the issue of customer satisfaction has received increased attention in the microfinance industry. Clients themselves have gained more experience with using financial products, become more sophisticated in their financial needs and require fair pricing, transparency, and services and products of better quality (Daubert, 2002, pp. 1-2). This requires understanding clients' priorities and needs as well as other factors influencing consumer behaviour such as life-cycle events, livelihood, geography, income levels or gender (Ledgerwood et al., 2013, p. 16).

The primary purpose behind the measurement of customer satisfaction is improving client retention as well as fulfilling the social mission of the MFI. Through these measurements the MFI can gain competitiveness, attain operational efficiency and improve its financial performance. Another aspect is that both satisfied as well as dissatisfied customers share their experiences through word-of-mouth. In the case of a positive experience this reduces the marketing costs; whereas with a negative experience not only are other people informed about it, but also employees may be negatively affected when working with unsatisfied clients (Churchill, 2000, pp. 16–21). The ability of the MFI to reflect customers' needs in its products and services might improve client household stability which in turn has a positive effect on the MFI as whole (Chua, 2005, p. 3).

2.4.2 Young Clients in Focus

Youth, as a highly vulnerable stratum of the growing population, is becoming a subject of profound interest to MFIs. In 2015, there are about 1.19 billion people aged 15 –24 on the planet and this number is expected to grow to 1.28 billion by 2030 (Nahmias, 2015, p. 3). Also, it is projected that 90% of the global youth population will be living in the developing parts of the world by 2050 (Youthpolicy, [2015b]). The ILO (2015, p. 21) reports that in 2014 about 13% of the youth, equivalent to 74 million people aged between 15 and 24, were affected by unemployment which is three times the unemployment rate of older adults. Most of the young people in developing countries are unbanked, and financially illiterate (Ledgerwood et al., 2013, p. 18). Thus, to

include the youth in the financial processes by offering them economic education and access to financial products is a key strategy which can help the youth escape the intergenerational cycles of poverty, indebtedness, lacking access to education and unemployment (CYFI, 2012, p. 21; UNCDF, n.d., p. 1).

Segmenting the market and tailoring the products and services to the needs of a specific targeted group is a crucial step to be undertaken by MFIs (Nakamatte & Muñoz, 2012, p. 4). Young people are the potential future clientele of MFIs and by offering them the right services and products, the youth could become clients of the MFIs today and obtain the necessary information and skills on how to manage their finances as well as develop responsible financial habits (Dias & Süsel, 2011, p. 2). As the youth face a lack of educational opportunities in developing countries followed by a lack of opportunities to work, the unemployment rate is projected to increase and their future economic opportunities to decrease (Nagarajan, 2005, pp. 2-3). Therefore, to give the youth access to financial services is a key strategy to "... avoid that the future generation will get stuck in a poverty trap" (UNCDF & The Master Card Foundation, 2014, p. 5).

Serving the youth has positive effects on the MFI's financial sustainability and growth. The primary rational from the MFI's side should be based on a long-term relationship perspective because the youth can offer a longer relationship with the MFI under the condition that it retains them (Muñoz, Perdomo, & Hopkins, 2013, p. 26). Another reason for integrating the youth can be the fulfilment of the MFI's social commitment and mission when developing economic opportunities for the youth and improving their financial capabilities (Kilara, Magnoni, & Zimmerman, 2014, pp. 9-10; 19). Usually, the programs are also a good opportunity to approach parents or relatives and offer them other products through cross-selling activities (Nakamatte & Muñoz, 2012, p. 3).

From the national perspective, the youth can be perceived as a hope and promise to improve the country's development. However, providing the low-income youth with the right financial and non-financial opportunities requires well-coordinated efforts among government, institutions, donors and the youth themselves (UNCDF, 2015). There are also various constraints that the youth has to meet in order to be financially served. On the national level, inclusive and protective legislations are missing (UNCDF, n.d., p. 3). For example, in some countries legal policies do not allow the youth under 16 or 18 years of age to open a bank account (Hirschland, 2009, p. 22). Further barriers the youth

faces are inappropriate and not youth-friendly products by the financial service providers (FSP), which limit the access to finance (UNCDF, 2015). Other reasons that the youth is excluded from the financial system might be high transaction and administrative costs for the MFIs and insufficient financial capability of the youth. As they have little experience using financial products they might be considered as having an increased tendency for risky behaviour (Muñoz et al., 2013, p. 7). Serving the youth is also associated with reputational risks, since the product features and costs can be more easily misunderstood by young clients than by adults and it can finally also lead to distrust in MFIs and its products or services (Kilara et al., 2014, pp. 9-10; 19).

Surveys among young people on why they do not have any bank account provide the MFIs with hints as to what their reasons or problems are. Considering the youth as important potential clientele of the MFIs, the self-reported reasons have to be considered when developing a product and when approaching them as potential clients. The main reason for not having an account (see Table 1) for the youth between 15 and 24 years (65%) as well as for adults over 25 years (68%) in the developing world is not having enough money in order to use it. The second and third most often claimed reasons that the youth remains unbanked is that another family member already has an account, accessed usually via parents and that costs of having an individual account are too high, cited by 26% and 25%, respectively. Another relevant barrier is the lack of necessary documentation, stated by almost a quarter of the surveyed youth (Demirgüç-Kunt & Klapper, 2012, p. 56). Therefore not only the components of the product itself must be attractive but also the barriers the youth faces have to be considered by the MFIs.

Table 1: Non account holders reporting barriers as a reason for not having an account

	Not enough money	Family member has an account	Too expensive	Lack of necessary documentation	Too far away	Lack of trust	Others
15 – 24	65%	26%	25%	23%	19%	11%	14%
25 – 64	68%	21%	25%	16%	21%	13%	16%

Source: Own table, based on Demirgüç-Kunt & Klapper (2012, p. 56)

2.5 Products for Youth: Youth Financial Inclusion

As seen in the previous chapter, there are several reasons why the focus in microfinance should fall on the youth. The market research findings implicate how the programs for the youth should be designed and identify important components of the microfinance products for the youth (e.g. SEEP Network, 2013; Storm & Macaulay, 2011). In the following section the main implications are described.

Youth financial inclusion means facilitating access to formal financial services which are affordable, usable, secure and reliable for every young person (Billimoria, 2012b, pp. 3, 23). Products and services for the youth differ slightly from those which are designed for adults and are often offered in combination with various financial and life skills education programs (Storm & Macaulay, 2011, p. 6). Research in this field has indicated youth benefits the most when financial services are combined with non-financial services such as financial and health education, livelihood skills training and social asset building (Harley, Sadoq, Saoudi, Katerberg, & Denomy, 2010; Reinsch, 2012, p. 23). Typically, the MFIs serve youth with the same products as the adults, however, the slight adaptions described below enhance the attractiveness, accessibility and usability of youth-oriented financial products and services (Storm & Macaulay, 2011, pp. 6, 8).

In saving accounts, low opening and minimum balances, and no fee requirements from the FSPs make the products more youth inclusive (Storm & Macaulay, 2011, p. 6). Youth saving accounts should also feature flexible deposits and withdrawals with 24/7 access to the money. An interest rate on savings should be offered if appropriate. On the other hand, the youth is also open to restrictions such as limitations on the numbers of withdrawals, allowable amounts and fees on withdrawals, which might help them reach their saving goals earlier (SEEP Network, 2013, p. 29).

In regard to loans for the youth, the size and fees should be adjusted (Storm & Macaulay, 2011, p. 6). The market research suggests a low interest rate should characterise a youth-friendly loan when borrowing from a FSP. In order to provide young clients with more opportunities to get a loan they should have the possibility to get a loan after a certain saving period with the FSP (SEEP Network, 2013, pp. 29-30).

However, usually only saving accounts are offered to the youth by the MFIs because they are seen as the most efficient concerning the poverty alleviation among young people. When building a saving culture and relationship with the MFI, first, the youth obtain necessary asset accumulation skills and strengthen their financial capability (Billimoria, 2012b, p. 23). Further, offering only savings accounts does not include a default risk as is the case when providing credit or cross-selling loans. However, serving young entrepreneurs with lending products in conjunction with business or accounting trainings might enable them to launch income-generating activities and integrate in the job market (Reinsch, 2012, pp. 63-135).

When providing the young growing population with financial opportunities, it is necessary to do so responsibly. Most of the young people are inexperienced using formal financial services and lack information about the financial terms (SEEP Network, 2013). Aggressive marketing techniques might cause future mistrust of banks, dissatisfaction, over-indebtedness and eventually higher drop-out rates. Therefore, implementing the Child- and Youth- Friendly Banking Principles[5] and the Smart Campaign's Client Protection Principles[6] in the MFIs operations ensures that the youth is treated following global standards and their rights are protected (Perdomo, 2013, pp. 2-3).

Understanding the barriers and limitations the youth faces implicates that the likelihood of being included by the formal financial institutions[7] is generally lower for the youth compared to older adults (see Table 2). According to the Global Findex (2014) database, there are vast differences in financial services penetration between countries. Among younger adults in the East Asia and the Pacific (EAP) region and upper middle

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[5] The eight principles that the banking product needs to comply with in order to be certified are: availability and accessibility for children and youth, maximum control to children and youth, positive financial incentive for children and youth, reaching unbanked children and youth, employing of child- and youth-friendly communication strategies, a financial education component, monitoring of child and youth satisfaction, internal control (Billimoria, 2012a).

[6] The seven Client Protection Principles that the MFI needs to comply with in order to be certified are: appropriate product design and delivery channels, prevention of over-indebtedness, transparency, responsible pricing, fair and respectful treatment of clients, privacy of client data, mechanism for complaints resolution (The Smart Campaign, 2013).

[7] Bank, credit union, cooperative, post office or MFI (Demirgüç-Kunt & Klapper, 2012, p. 5).

income countries the account[8] penetration is about 60%. However, in Mongolia, in terms of having an account, only 7% of young people are unbanked. Also having a saving account is more common among 15 – 24 year old Mongolians (37%) than among young people in the upper middle income (22%) and EAP developing countries (26%), to both of which groups Mongolia belongs. Large differences can also be observed in terms of having a loan between Mongolia and other developing countries. Whereas 11% of the Mongolian youth and 44% of the older than 25 year olds have borrowed from a financial institution, the world averages are 5% and 12%, respectively.

Table 2: Account, saving and credit penetration rate among 15 – 24 and 25 – 64 year olds

	Age	World	Upper middle income countries	EAP (developing countries)	Mongolia
Account	15 – 24	45%	58%	60%	93%
	25 – 64	65%	73%	70%	91%
Saving	15 – 24	18%	22%	26%	37%
	25 – 64	30%	35%	39%	32%
Credit	15 – 24	5%	6%	6%	11%
	25 – 64	12%	11%	12%	44%

Source: Own table, based on Global Findex (2014)

2.6 Mongolia

In the previous paragraphs it was outlined that the financial products penetration rate among the people in Mongolia is visibly higher compared to other parts of the world. This fact is also one of the reasons, as already mentioned in the introduction, why this survey was conducted in Mongolia. In order to provide a comprehensive picture of Mongolia, the following section presents the country's profile in with a particular focus on the situation of the youth. Further, the Mongolian microfinance market is described, the main participants providing microfinance services introduced and finally, because this thesis surveys satisfaction with a microloan, the MFIs are compared according to the outstanding loan volume and outreach.

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[8] According to the Global Findex definition, an account is an individual or joint account used with the purpose to save money, to make or receive payments or to receive wages and remittances. Persons reporting having a debit or automatic teller machine (ATM) card are also included (Demirgüç-Kunt & Klapper, 2012, p. 57).

2.6.1 Country Profile

Situated in Central Asia, it is the world's 19th largest and the most sparsely populated country with a population of almost three million people, of which 72% reside in urban areas. The country is divided in 22 aimags (provinces) and a capital Ulaanbaatar (UB), which alone numbers 1,3 million inhabitants (Central Intelligence Agency, 2015).

Mongolia was under Chinese rule from the 13th century until 1921 and afterwards part of the Soviet Union until 1990. In the last two decades Mongolia has achieved remarkable successes. A democratic system as well as a functioning market oriented economy was established. Traditionally, the economy has been dependent on herding and agriculture but nowadays it is mainly driven by the mining industry. The high dependence on mining revenues makes the whole country sensitive to shocks from abroad, particularly from China as Mongolia's dominant export partner (UNDP, 2013).

After 2010 the economy grew at a fast pace of more than 10% per year and it was expected that Mongolia would achieve globally unprecedented development progress (UNDP, 2013). Since 2010, Gross National Income (GNI) per capita more than doubled to USD 4,320 by the end of 2014 (The World Bank, 2015). However, Mongolia faced an economic slowdown in 2014 with a GDP per capita of PPP USD 8,288 the economic growth decreased compared to the previous year down to 7.8% (UNDP, 2013). The average inflation remains relatively stable (Index Mundi, 2015).

Despite the fact that the economy has been experiencing growth in recent years, more than a quarter of Mongolians (27.4%) remain below the national poverty lines (UNDP, 2014, p. 180). Whereas in the poorest rural regions one out of two inhabitants are affected by poverty, in UB only 21.9% of the inhabitants belong to the poor (Planet Rating, 2010, p. 15). With the urbanisation trend, due to low income levels and a lack of housing connected to the central infrastructures, people usually end up in ger districts[9], where currently 60% of the capital citizens live (M.A.D. Investment Solutions, 2013). According to the United Nations (UN) development report Mongolia is categorised

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[9] An urban slum with traditional Mongolian tents on the outskirts of the city, without water, sanitation or basic infrastructure. Many residents of the ger districts build small wooden, concrete houses but still suffer from a lack of services (M.A.D. Investment Solutions, 2013).

among the countries with medium human development with a Human Development Index (HDI)[10] of 0.698 and a rank of 103 out of 187 countries (UNDP, 2014, p. 169).

Mongolia is a young country with a calculated median age of 27.1 years where the youth between 15 and 34 years represent 36% of the total population (National Statistical Office of Mongolia, 2012). With an average of 8.4 years of schooling and a literacy rate of 97.4% for all people and 95.7% for 15 – 24 year olds, Mongolia is a country with a relatively high literacy level compared to the medium human development countries averages that are 71.7% and 85.9%, respectively (UNDP, 2014, p. 195). In Mongolia, the overall unemployment rate is 9.9%, and among the youth between 15 and 24 years it is two percentages higher (UNDP, 2014, p. 201), declining steadily (Batmunkh et al., 2013, p. 51).

2.6.2 Financial Sector and Microfinance Market

After the end of the communist regime in Mongolia in early 1990, the financial sector has experienced vast growth and its role has gained greater importance (MIFA, 2009, p. 15). Currently Mongolia is ranked by credit rating agencies as a country with a stable outlook (Trading Economics, 2015). The financial sector consists of about 96% banks and the rest is comprised of non-bank financial institutions (NBFIs), credit and savings cooperatives, insurance, and the capital market. Compared to the banking sector, the non-bank financial sector is significantly less developed (Batkhishig, 2015, pp. 24-26). MFIs play an important role in both banking as well as non-banking sectors in Mongolia.

Since the turn of the millennium the microfinance industry has been growing at a fast pace in the Mongolian market which lead to an increased competition. There are neither specific microfinance regulations on the national level nor specific microfinance related licence requirements different to the bank requirements. As a consequence nearly every FSP offers its services to the poor. There are also many non-governmental organisations (NGOs), individuals, and government and donor projects operating in the microfinance industry (MIFA, 2009, pp. 18-19, 40-41). The main participants of the Mongolian microfinance industry are presented and compared in the next section.

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[10] HDI is "a composite index measuring average achievement in three basic dimensions of human development – a long and healthy life, knowledge and a decent standard of living" (UNDP, 2014, p. 163).

2.6.3 Mongolian MFIs: Lending Services

As this thesis surveys satisfaction with a microloan, the comparison of the Mongolian MFIs is based on the size of their loan portfolios as well as the number of active borrowers (see Table 3). The loan portfolios presented by the MixMarket (2015) also contain loans provided to small and medium enterprises which are increasingly targeted by the MFIs operating in Mongolia. This might explain the relative high average loans per borrower (Planet Rating, 2010, p. 14). Whereas the leading microloan providers in terms of the number of outstanding loans and amount are Khan Bank and XacBank, in terms of the deepest outreach the Vision Fund and TransCapital, both NBFIs, dominate the microfinance industry. Vision Fund is also the only regulated institution specialised in non-collateralised group lending. In the Mongolian microfinance market, individual collateralised loans with a loan period less than one year represent the vast majority of the microcredit loans, however, the proportion of loans exceeding a one-year term is increasing (MIFA, 2009, pp. 19-20).

Table 3: The main providers of microfinance services in Mongolia, compared according to their loan portfolio, numbers of active borrowers and size of average loan per borrower

MFI Name	Report date	Loan portfolio (in Mio MNT)	Active borrowers	Average loan (MNT)
Khan Bank	06/2015	3'041'595	370'170	8'216'750
XacBank	06/2015	1'289'763	103'076	12'512'743
BID NBFI	12/2014	15'845	1'888	8'392'664
Netcapital	12/2014	12'969	3'243	3'998'946
Credit Mongol	12/2014	11'302	1'372	8'237'779
Transcapital	12/2013	10'769	2'461	4'375'852
Vision Fund Mongolia	12/2014	7'629	6'908	1'104'383

Source: Own table, based on MixMarket (2015)

According to the Civil Code of Mongolia, individuals reaching 14 years are eligible to open and operate accounts by themselves, however, to apply for a loan the minimum age is 18 years (Government of Mongolia, 2002). Thus, this is also the minimum age of the surveyed youth in this thesis.

2.7   The XAC Bank

From the previous section it can be seen that there are several MFIs forming the Mongolian microfinance landscape. The selected MFI for this survey represents a successful model of transformation and expansion in the world of microfinance; recognising its clients as the driving force (XAC Bank, 2015a) and working on continuous innovation of products, introducing new services every year (UNDP, 2011, p. 163). The XAC Bank operates in every of the 21 aimags and cities through its 93 branches and has become one of the largest banks in Mongolia. With the social mission to contribute to sustainable growth of socio-economic development in the banking and financial sector of Mongolia, the guiding vision of the XAC Bank is to become a leading institution in the financial services industry by demonstrating that a commercial bank can be profitable while serving the needs of all members of society including the low-income customer segments (XAC Bank, 2002).

Originally focusing only on the micro entrepreneurs, currently the XAC Bank attracts clients from all segments with its diversified product mix and full range of financial services and products (XAC Bank, 2015a), while maintaining its microfinance outreach. The core product range includes current and saving accounts (various deposit accounts for adults, children saving accounts, housing savings), loans (consumer loans, deposit backed loans, vehicle purchase loans, apartment-backed loans, overdraft loans, mortgage products, business loan products and student loans), electronic and mobile banking as well as domestic and international money transfers (XAC Bank, 2015h; Planet Rating, 2010, pp. 4, 12-13).

The XAC Bank is also well known for its non-financial services and partnerships when working on different projects, mainly linked to environment protection as well as children and youth education (Planet Rating, 2010, p. 13).

2.7.1   The XAC Bank: the Clients

From the very beginning XAC Bank has emphasised the importance of customer satisfaction and performed client satisfaction surveys (XAC Bank, 2002). The XAC Bank's client satisfaction system has been active since 2010 and is mainly focused on service satisfaction of tellers and since 2011 also on lending services. However, surveys are not conducted regularly (Planet Rating, 2010, p. 5). The XAC Bank also operates a

customer service centre which is reachable by phone, e-mail or web chat (XAC Bank, 2015g). Furthermore, suggestion boxes were installed in every branch (Planet Rating, 2010, p. 7).

In August 2015, the XAC Bank was officially recognised as a Smart Campaign certified organisation assuring that the company is compliant with the Client Protection Principles when providing micro financial services and treats its customers responsibly (The Smart Campaign, 2015).

2.7.2 XAC Bank's Products Designed for the Youth

Since the establishment of democracy in Mongolia, some basic financial education programs have become part of the pedagogical curriculum but there are still significant gaps in the education system. Thus, since 1999, in order to expand market for its products, the XAC Bank has integrated training of financial planning and budgeting first for adults and later for the youth. The XAC Bank is the first MFI in Mongolia that started providing youth-designed products in combination with educational programs in finance (Dias & Süsel, 2011, pp. 4-6). For its unique implementation practices the XAC Bank has been awarded several times (CYFI & MasterCard Incorporated International, 2014). Despite the high costs of the educational programs, with the help of substantial donor funding and technical support from diverse organisations, the XAC Bank has been able to reach large shares of young population (Kilara et al., 2014, pp. 13-15).

Youth financial inclusion is covered by several overlapping products by the XAC Bank. The most wide spread product is a long term fixed deposit saving account that was launched in 2002 for children from birth to 18 year olds. This product needs a parent's permission to be opened and managed (Kilara et al., 2014, pp. 13-15). It enjoys high popularity; every fourth child in Mongolia has such an account (XAC Bank, 2014b). Directly linked to this product is the educational program that educates children aged 8 – 13 years socially and financially (Dias & Süsel, 2011, pp. 5–6). This long term saving account is featured through a minimum balance requirement of 50'000 MNT and an effective annual interest rate of 14.4% to 15.3% varying in dependence on the saved amount of money (XAC Bank, 2015d). When reaching 18 years of age, other saving products and debit cards are offered for free to holders of that saving account by the XAC Bank (Kilara et al., 2014, pp. 13-15).

In 2009 the XAC Bank established a close relationship with the Golden Fund for Development Association (GFDA) with the goal to influence the youth's financial behaviour and began implementing a social and financial educational system among young people at schools (Dias & Süsel, 2011, p. 4). The same year the XAC Bank launched a saving product originally designed for low-income girls that nowadays concentrates on teenagers of both genders aged 14 – 18. This product is accompanied by several financial lectures and it gives the youth the chance to manage its account independently from their parents while learning how to become a financially disciplined citizen (Kilara et al., 2014, pp. 13-15). The minimum balance requirement is 3'000 MNT and the effective annual interest rate varies between 7.7% and 13.5% depending on the time period of having saved (XAC Bank, 2015b). Collaborating with the GFDA, this program was successfully introduced in 45 schools in the academic year 2013 – 2014 (XAC Bank, 2015a, p. 33). Within this program the role of instructors is taken over by university students (Dias & Süsel, 2011, p. 5). In that academic year, 3540 finance and social work students were involved (XAC Bank, 2015a, p. 33).

In addition to those youth saving products, student loans to young people when studying are also offered. The student loan is characterised by a maximum size of 3 million MNT, annual interest rate of 26.4 – 30%, loan application fee of 500 MNT and a loan disbursement fee of 0.5% of the loan size (XAC Bank, 2015i).

The XAC Bank has also introduced a debit card and mobile banking application geared towards young people. In order to enhance interest on saving accounts among the youth, the XAC Bank offers different gifts and organises competitions for young people as a part of its marketing strategy. To appeal more to the youth, the XAC Bank intents to expand its field of work through developing a youth insurance product. Other products supplying the Mongolian population are being offered to the young people over 18 years old as well as adults and under the same term conditions (Kilara et al., 2014, pp. 13-15).

2.8 Comparison of Youth-inclusive Products from the XAC Bank and Literature

With more than one third of the bank's customers aged between 18 and 35, the XAC Bank gives a high priority to the youth understanding the financial concepts in order to

have a finance-knowledgeable bank clientele in the future as well as to scale up its outreach of financial products and good business (XAC Bank, 2010). Despite the strong social mission, the XAC Bank's motivation for serving the youth market is profit resulting from short-term cross-selling opportunities as well as a long-term strategy point of view to have a financially educated clientele for future collaboration (Kilara et al., 2014, pp. 13-15). The education itself is viewed as a critical component and as a tool to improve corporate social responsibility and fulfil the XAC Bank's overall mission (CYFI & MasterCard Incorporated International, 2014, p. 22; Dias & Süsel, 2011).

By studying the products of the XAC Bank and comparing them with the market research implications listed in Chapter 2.5, numerous opportunities to be financially active for young people were found. The XAC Bank provides these through a variety of products designed for the youth which differ from those offered to adults.

The Mongolian youth can save its money with the XAC Bank by using two products. Both savings products are offered in conjunction with financial education, as well as adjustments of some of the terms as enhanced in the literature. On both products designed by the XAC Bank for the youth no fees are charged and they are featured through adjusted conditions in terms of lower minimum balance compared with a regular term deposit account developed for adult clients. Additionally, on one of the saving accounts, the interest rate is set higher than the one on the regular saving account. The XAC Bank provides easier access and an account overview with a mobile banking application which enables the youth managing the account anytime (XAC Bank, 2015b, 2015d, 2015j).

Concerning loans designed for the youth, the XAC Bank has developed a loan for students. The student loan is not an exception among the other XAC Bank's loans, an application fee and a disbursement fee have to be paid, however, for the student loan those are slightly lower. Also the size of the maximum required student loan is lower than for the other types of loan offered by the XAC Bank. However, the annual interest rate on the microloan might not necessarily be lower than the annual interest rate on the other loans as the interest rate might be adjusted for example if the client already has a saving account with the XAC Bank (Credit Accessor, 2015; XAC Bank, 2015i). Those adjustments on the student loan offered by the XAC Bank are consistent with the market research implications how a loan for youth should be featured.

The XAC Bank does not offer a microloan with different term conditions designed for the youth than for adults (Credit Accessor, 2015). To see whether young people are satisfied with the microcredit and if there might be need for some adjustments, the microloan and the lending process are addressed in the following chapter.

2.9   The Microloan Products of the XAC Bank

As in this study the customer satisfaction with a microloan of the XAC Bank is surveyed, it is important to describe the microloan products group in more detail. The main characteristics of the offered microcredit product group by the XAC Bank, as of July 2015, are presented.

Depending on the purpose, the XAC Bank offers a diversified palette of individual collateralised microloan products. With the intention of trading, production or services, an individual can apply for a *microloan – citizen.* In 2013, 83% of the microcredits were used for this purposes (see Figure 1). The XAC Bank offers a range of rural loan products: *wholesale, crop* or *herder loans* (XAC Bank, 2015c)*.* For the term conditions and differences among this microloans, refer to Appendix A.

During 2014, the XAC Bank has financed 21'287 micro and small entrepreneurs and the micro and small business loan portfolio reached 220 billion MNT representing 16.2 % of the bank's total loan portfolio. As end of May 2015, the XAC Bank has counted 24'140 microloan users which represents approximately 20% of the XAC Bank's active borrowers. Additionally, 1'450 persons profited from micro project's loans (XAC Bank, 2015a).

Figure 1: XAC Bank's microloan portfolio by purpose, as of June 2013
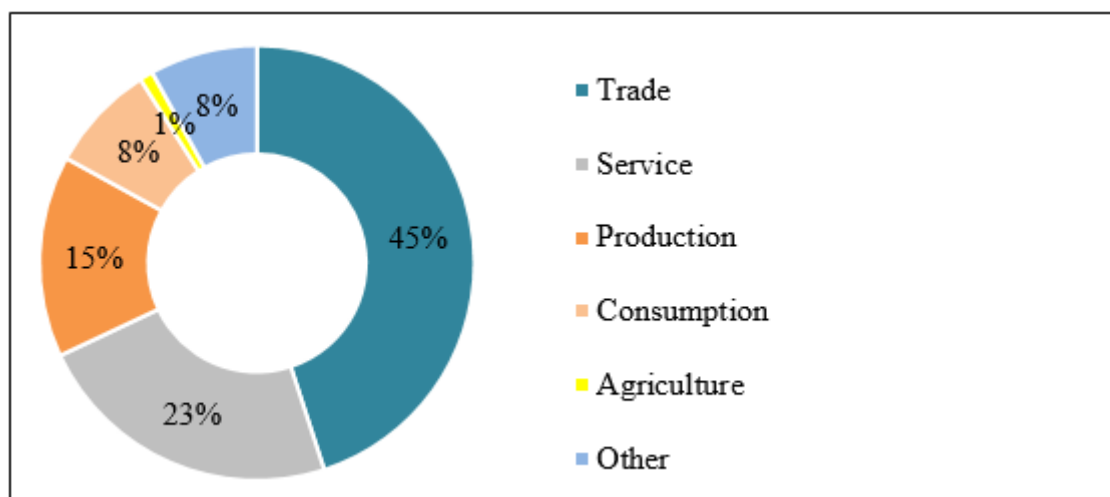
Source: XAC Bank (2013, p. 9)

To reach potential micro entrepreneurs without adequate collateral and without the ability to meet the regular borrower's requirements, the XAC Bank has created a *slash fund loan*. This allows such a client to get credit, however, with a higher interest rate compared to the microloan interest rate. In 2014, the XAC Bank disbursed microcredits worth 10.9 billion MNT with flexible loan requirements to 3'020 borrowers who were served from the slash fund (XAC Bank, 2014a).

The XAC Bank collaborates with several local and international governmental and NGOs, supporting micro start-up and developing businesses with basic training sessions in accounting, financial literacy, and business strategy. With the help of supporting funds also discounted-rate loans or reduced-collateral loans are disbursed (XAC Bank, 2015a; Planet Rating, 2010, p. 20).

2.9.1 The Microloan – Citizen

Since the survey concentrates only on urban inhabitants in Ulaanbaatar, the following text solely describes the conditions for the microloan – citizen. It presents a product, ranging from 100'000 MNT to 30 million MNT for informal micro-business entrepreneurs with the purpose of carrying out sustainable and normal operations of the customers' business, to expand it and also to finance household consumption needs. The term ranges from one month up to three years and the effective annual interest rate including fees varies between 22% and 32% (XAC Bank, 2015f). The interest rate is adjusted on a monthly basis on a declining balance principle, which is common in

Mongolia (Planet Rating, 2010, p. 6). The transaction costs include loan application and disbursement fees which vary depending on the loan amount and range from 1'000 MNT to 5'000 MNT and 0.5% −1%, respectively (XAC Bank, 2015e, 2015f).

To be eligible to apply for a microloan the applicant has to fulfil some general requirements:

- Minimum age of 18,
- Experience in operating the business for at least 3 months,
- Prove of financial capacity to repay the loan by having a business income.

A person who intends to get a microloan for a new business must be able to invest at least 30% of the total investment into the new business, ensure existing business stability and be able to pay the loan amount with the profit from the existing business. Additionally, if the loan request exceeds 10 million MNT, the person has to possess more than 3 million MNT of current assets. Along with the income and expenditure record for at least six months, there has to be proof of a permanent address for the business or a stable sales channel. Also the last three months sales accounts have to show at least 100'000 MNT balance for a service business and 200'000 MNT for a trade business (XAC Bank, 2015e, 2015f).

2.9.2 The Lending Process

From the researcher's point of view it is important to discuss the points of the microloan process concerning the handling of the client. This is because several of the questions in the questionnaire designed for this study target the lending process, loan related term conditions as well as default handling. The information gathered for the following part is based mainly on internal processes charts that were collected during the stay at the XAC Bank and represent the theoretical process (XAC Bank, 2015k, 2015l, 2015m, 2015n, 2015o, 2015p). Additional sources are interviews with the microfinance specialist from the Product Development Department (see Appendix B.1) and the credit assessor of the XAC Bank (see Appendix B.2) representing the practical side of the process provides an overview of the microcredit lending process that is described in the next paragraphs. In practice the process can slightly differ from the one described in the process charts.

Figure 2: Microloan: Lending process

| Microloan application process: Client's credit standing | → | Loan decision process: Collateral analysis and site visit | → | Loan disbursement process | → | Monitoring process and repayment |
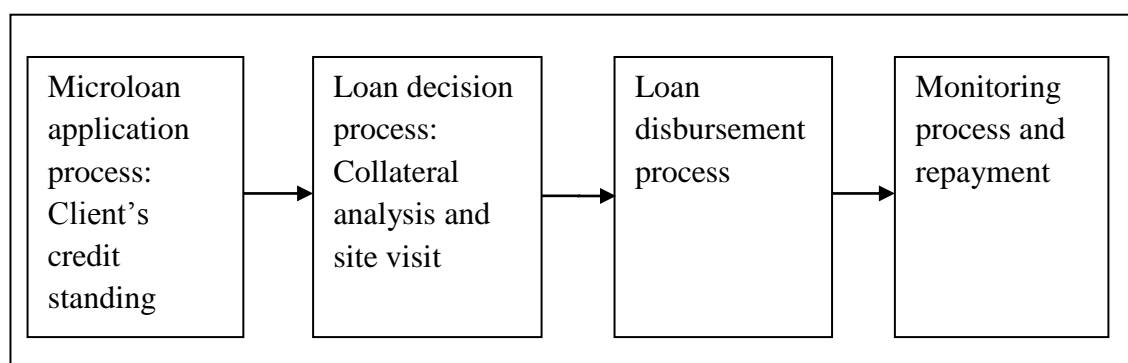
Source: Own figure, based on XAC Bank (2015k, 2015l, 2015m, 2015n, 2015o, 2015p)

Microloan application process: Client's credit standing check

The applicant can visit any of the XAC Bank's branches and express interest in financial support. At each of those branches there is a customer service representative (CSR) with whom the client has the first interview. The CSR also determines the client's needs and introduces an appropriate product and its conditions[11]. Afterwards, a screening of the client and relatives is processed and the client's loan history is verified. After that, the client has to prepare and deliver the needed documentation and the microloan application specifying the requested amount.

Loan decision process: Collateral analysis and site visits

In the next step, all provided documents are delivered to a credit analyst. As the microloan requires an individual approach, there is a credit risk analyst assigned to each specific application who controls the completion of the application documentation. Afterwards a site visit is scheduled for an appointed date and time.

The applicant can demand a microloan up to 30 million MNT but the size of the loan can be decreased by the credit assessors according to the business scope and the applicant's financial capacities. The interest rate can be adjusted for those with a good loan history or those who already hold a current account and savings deposit accounts at the XAC Bank. Clients themselves can propose the monthly repayment schedule, size of monthly instalments and loan period matching their own business features and

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[11] Planet Rating investigated client awareness of their rights and banking the processes. When applying for a microloan, the client is instructed on the basics of the risks of over-indebtedness and informed of all costs of the loan. Thanks to regular trainings, the CSR has sufficient skills to evaluate the client's needs, repayment capacity and to find an appropriate product (Planet Rating, 2010, pp. 5–10).

seasonal characteristics. Also, the grace period can be extended up to 12 months in the contract term.

Based on the collateral valuation report and cash flow calculation, the credit analyst decides whether the client is eligible to be granted the loan or not. If it is positive, the credit manager starts the preparation of the loan disbursements.

Loan disbursement process

Once the loan is approved, the CSR makes an appointment with the borrower to go through the agreement. At this point, the borrower receives an introduction and explanation of the loan agreement. He still has the choice to not accept it and withdraw from the process. If he agrees with all the conditions he signs the contract[12]. Disbursement is not permitted until all documentation has been properly executed and all conditions for approval have been met. After the loan is disbursed, the loan administration staff prepares the loan repayment schedule by an approach of monthly equivalent principal payment. In order to finalise this process, the CSR organises an appointment with the borrower who signs the loan agreement. The client receives a clear receipt for all transactions, original of the loan contract and a repayment schedule with obvious principal interest and annual declining interest rate (Planet Rating, 2010, p. 6).

Monitoring process and repayment

A borrower should pay back the loan instalments through the payment systems such as internet, mobile banking or personally at the branch that the bank is operating. Payments should be done in the order of penalty, interest and principle payment.

The monitoring process[13] is organised in two levels. The first level is a monthly off-site monitoring and the second level comprises on-site monitoring which is conducted once every six months.

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[12] According to Planet Rating report, pricing and discounts are clearly defined and the contract is written in a simple language. However, the effective interest rate is not presented to the client (Planet Rating, 2010, p. 6).

[13] Planet Rating report (2010, p. 7) claims that the client is considered to be informed sufficiently about the debt collection procedure by MFI A's staff. All staff members receive training on ethical staff behaviour, which is stated in a Code of Conduct.

At the first level, the off-site monitoring officer checks the number of the overdue days. If five days are not exceeded, the borrower solely receives a reminder message with the information to repay the instalment on the scheduled day. If the loan is already 6 to 40 days overdue, the borrower receives a call. In case the connection over phone was successful, the customer's bank account reflected in the loan is charged the exact amount from that account. If the client was not reached per phone or his outstanding balance is not high enough to cover the monthly payment, the following steps have to be taken.

To find phone numbers which are not registered in the banking system, the borrowers profile is checked against the National Identity registration and the Central Bank. With the new contact in hand, the monitoring officer calls the borrower to inform him about his insufficient balance for the repayment. The client has to explain his situation and confirm the next available date for the loan repayment. If the customer is not able to confirm when he can repay the loan, the loan classification is changed to suspicious loan. This is also true if there was no valid phone number or contact found to connect with the borrower. That information and classification change information are transferred to the on-site monitoring officer of the credit risk management department.

In terms of the second level, every half year the on-site monitoring is carried out by collection officers of the credit risk management department who also check if the customer's loan repayment exceeds 40 days. If no information on how to contact the borrower is found, the case is passed on to the court for investigation. After the client has been reported to the court of justice and is unable to pay back the loan, the case is closed with the loan loss reserve payment and passed on to a professional debt collector.

If the borrower is reached per phone or at the home address, he has to provide the reason for the late payments and confirm the loan repayment schedule. The client is eligible for rescheduling of the loan after the overdue amount with penalty and interest payment is paid back.

3 Research Methodology

With a better understanding of the importance of measuring customer satisfaction in the microfinance industry, the significance of the youth for the MFIs and the products and services offered by the XAC Bank described in Chapter 2, the next chapter follows up on that information. First, research questions and hypothesis that help us meet the objectives of this thesis are defined. Second, the various ways of measuring customer satisfaction are introduced, followed by the design of the questionnaire used for this study. Moreover, the categories characterising a microloan and how they are reflected in the questionnaire are explained. Finally, the practical part of the study in terms of the planning and preparation phase, sample selection and data collection is described.

3.1 Research Questions

The main objective of this study is to identify the degree of customer satisfaction among the young XAC Bank microloan borrowers. In particular, the study seeks answers to the following questions:

- *Research question 1*: What are the priorities of microloan attributes among young clients?
- *Research question 2*: Which are the major microloan attributes and dimensions, the youth is satisfied or dissatisfied with?
- *Research question 3*: How satisfied are young clients with the microloan in general?

Whereas the first research question detects the priorities of attributes when applying for a microloan, the second and third research questions answer the satisfaction with the microloan after having received it.

3.2 Hypotheses

In order to answer the research questions, four hypotheses are defined.

The first research question is surveyed with help of the following hypothesis:

Research has indicated that the financial behaviour of the youth is influenced by several life cycle factors such as family structure, education, employment status or work

experience. These play an important role in determining the financial and business training needs of the youth. Furthermore, there is a growing recognition that the youth's aspirations and preferences differ from those of adults (Reinsch, 2012). As the Mongolian youth aged between 18 and 34 years is targeted, it is highly probable that their priorities concerning the microloan attributes might vary. This leads us to the first hypothesis:

H1:   There are some attributes characterising the microloan that are more preferred than the others by the youth.

To answer the second research question, the following two hypotheses are defined:

Service quality is a critical factor when evaluating customer satisfaction (Wilson et al., 2012). After the XAC Bank has launched its savings accounts for young people, it has become well known in the country for its child- and youth-friendly approaches (Shell & WWB, 2009, p. 4). Thus the second hypothesis states that:

H2:   The young customers are highly satisfied with the support related attributes of the microloan.

In terms of responsible pricing of the microloan, the client is informed about all costs. The XAC Bank charges a monthly interest rate on a declining balance which is comparable to other MFIs. However, the effective interest rate is not presented to the client. The transaction costs consisting of loan disbursement and application fees are excluded from the repayment schedule overview that the client receives (Planet Rating, 2010, p. 6). The third study hypothesis is:

H3:   The youth satisfaction with the price dimension is lower compared to other dimensions.

To answer the third research question, the following hypothesis is defined:

For the XAC Bank it is important to know how their clients are satisfied or dissatisfied in general. Looking at the high numbers of clients the XAC Bank serves with its products and services, enhanced by the fact that it is known for its child and youth friendliness in Mongolia, the following hypothesis is formulated:

H4:   In general, the youth is satisfied with the services related to the microloan and also with the microloan itself.

3.3   Customer Satisfaction: Measurement

Having described the research questions and hypotheses, the following chapter addresses the measurement methods that can be used to measure customer satisfaction.

In the same way as there are different definitions of customer satisfaction, the literature also proposes various methods on its measurement. Usually multiple methods are selected. The common view on customer satisfaction measurements is to combine different measurement approaches, review their relevance, and compare them with the purpose and conditions of the study as they might be complementary (Nader, 1995, p. 120; Yi, 1989, pp. 69-72). Figure 3 describes how customer satisfaction methods might be classified. According to Andreasen (1982, pp. 182-195) customer satisfaction measurement methods are grouped as objective or subjective. While the objective measurement methods are characterised through indicators unbiased by a person, such as market share or turnover, the subjective indicators cannot be directly observed. The subjective methods can be further subdivided into implicit and explicit measurements (Standop & Hesse, 1985). Systematic complaint and problem reports collection are examples of the implicit method. The explicit measurement approach is conditioned on direct questioning of customers and can be measured as degree of expectations fulfilment or with satisfaction scales. The former method measures the expectations before purchase and/or the experience after utilisation. Measuring customer satisfaction with the help of scales can be done in one or more dimensions. Despite the fact that the one-dimensional measurement determines only the general customer satisfaction level, it is important for validation of the multidimensional method, which questions the individual aspects separately and provides information about the degree of satisfaction with each of the items (Schütze, 1992, pp. 183-188).

Since this survey aims to determine the overall and detailed customer satisfaction level, a combination of those methods is used; a subjective, explicit method using interval scales in one- and more dimensions is adopted.

Figure 3: Customer satisfaction measurement methods
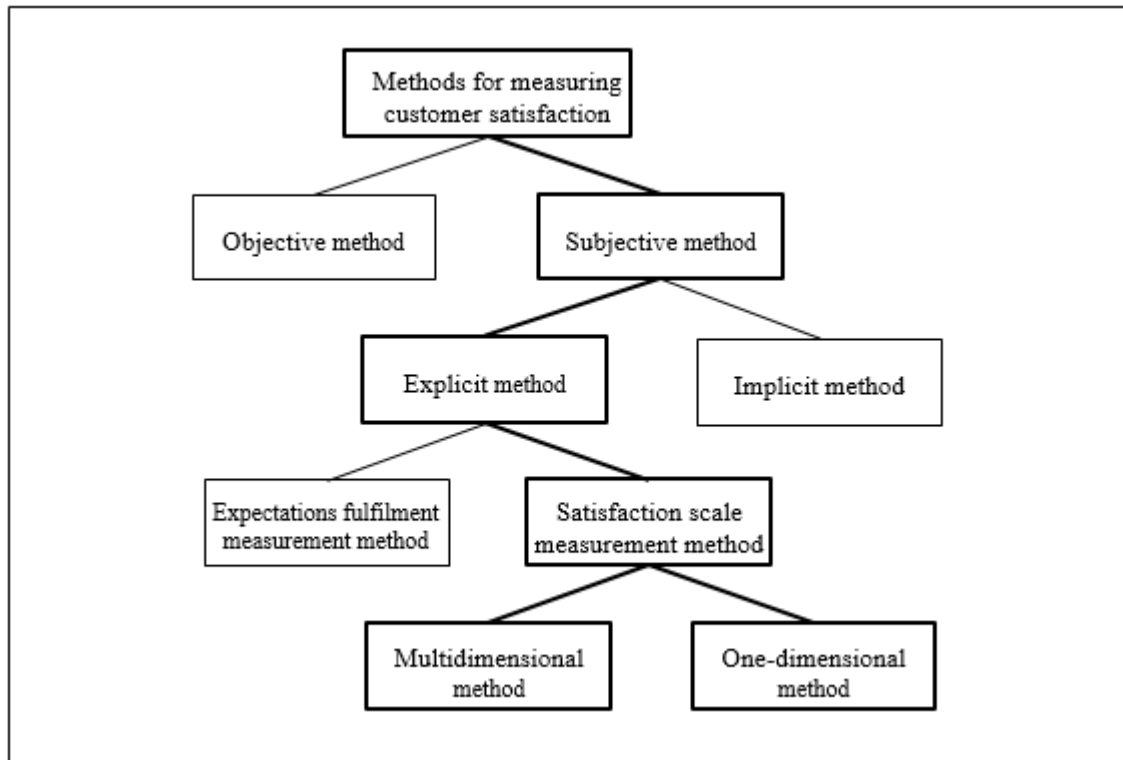
Source: Own figure, based on Homburg (2012, p. 376) and Schütze (1992, p. 184)

3.4 Questionnaire Specifications

The data used in this thesis was collected through a questionnaire on customer satisfaction. Hayes (1998, pp. 61-67) and Vavra (1997) describe the general rules and principles for constructing a questionnaire and conducting a customer survey, which were adhered to. This was accomplished by using the Guiding Principles in Measuring Microfinance Client Satisfaction and Loyalty written by Pawlak & Szubert (2004).

The questionnaire, which is attached in Appendix C, contains 38 questions and a comment field. It is structured in several sections. After an introduction, which describes briefly the purpose of the survey and the duration, and ensures the participant of the anonymity of the collected data, a demographic information part follows. Extracted variables are sex and occupation. In order not to overstrain the respondent, other personal data like marital status, accommodation, household size, education and

average income per month is asked at the end of the questionnaire. The next section contains questions related specifically to the microloan, followed by a further section containing questions referring to the XAC Bank.

The survey in this research used sets of statements using Likert technique and scales (Hayes, 1998, pp. 68-72; Likert, 1932). To make the results comparable, close-ended questions are constructed and most of them can be answered by a five point performance Likert scale, ranging from "very satisfied = 1" to "very dissatisfied = 5" or "strongly agree = 1" to "strongly disagree = 5". A five point scale is used in order to give the respondents the option of a neutral response[14].

The final version of the questionnaire was discussed with the microfinance specialist of the XAC Bank. Afterwards the questionnaire was translated into Mongolian. In order to ensure that the meaning of the questions was translated as accurately as possible, the Mongolian version was translated back in English by another person. Further, the questionnaire was pre-tested and, based on the debriefing of the pre-test respondents (n = 6), some questions were partly modified.

3.5 Research Concept

Customer satisfaction as a broader concept, based on different product or service attributes influencing customer's perception, can fluctuate over time or with changing client's expectations. Wilson et al. (2012, p. 73) define that customer's perception of satisfaction is influenced by the service quality, product quality and price. Other components influencing customer satisfaction are situational and personal factors. Several sets of satisfaction dimensions and their operational criteria have been defined (e.g. Garvin, 1987; NBRI, 2015; Parasuraman, Zeithaml, & Berry, 1985). However, despite the various lists of performance attributes that have been determined, it is evident that the dimensions cannot be generalised as they are business-specific (Oliver, 1997).

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[14] Possible bias, as when respondents constantly answer questions unilaterally, is reduced through antonyms, alternative wording or by asking a similar issues repeatedly (Hayes, 1998, p. 73; Mayntz, Hübner, & Holm, 1974).

To answer the above research questions a questionnaire was designed based on the rules described in the previous section. In the beginning, the dimensions and attributes (see Figure 4) are identified through the study of the microloan features and through a consultation of the product and product related service aspects with a microfinance specialist of the XAC Bank. Also the microcredit lending process, which is described in Chapter 2.9.2, has been analysed. To facilitate the understanding of the questionnaire construction, separate categories are defined as illustrated in Figure 4.

The microloan of the XAC Bank is characterised by four product specific dimensions, namely price, support, awareness and other attributes. These categories are then represented by items which are included in the questionnaire.

Price stands for the satisfaction with the whole price of the microloan, which includes the interest rate, application and disbursement fee. In the questionnaire this dimension is measured through the following questions:

- How satisfied are you with the interest rate?
- How satisfied are you with the application fee?
- How satisfied are you with the disbursement fee?

Support includes items related to the micro lending process. Indicators for this dimension are the behaviour of employees, and the length and frequency of meetings with the XAC Bank's employees. The following questions included in the questionnaire measure this dimension:

- How satisfied are you with the lending process?
- How satisfied are you with the length of the meeting with the loan officer stuff (LOS)?
- How satisfied are you with the frequency of the meetings with the LOS?
- How satisfied are you with the behaviour of the employees during the lending process?

Awareness delivers information on whether the client is aware of the default consequences, how well the contract is understood and whether the microloan responds to the client's request. In the questionnaire the following three questions measure this dimension:

- The microloan contract of the XAC Bank is understandable and clear;
- If I am late with the loan repayment of the microloan, I know very well which measures will be taken by the XAC Bank;
- The microloan I got from the XAC Bank is what I wanted.

Other attributes represent aspects that characterise the microloan conditions and might influence borrower's satisfaction. The questions are:

- How satisfied are you with the size of the initial loan?
- How satisfied are you with the repayment schedule?
- How satisfied are you with the guarantee requirements?
- How satisfied are you with the loan period?
- How satisfied are you with the monthly instalments?

Situational factors such as family members opinions and **personal factors** such as customer's mood or emotional state might influence respondent's perception of the satisfaction with the microloan (Wilson et al., 2012, pp. 75–76). In order to keep our concept simple, these effects on customer's rating are ignored.

Figure 4: Dimensions of customer satisfaction with a microloan of the XAC Bank
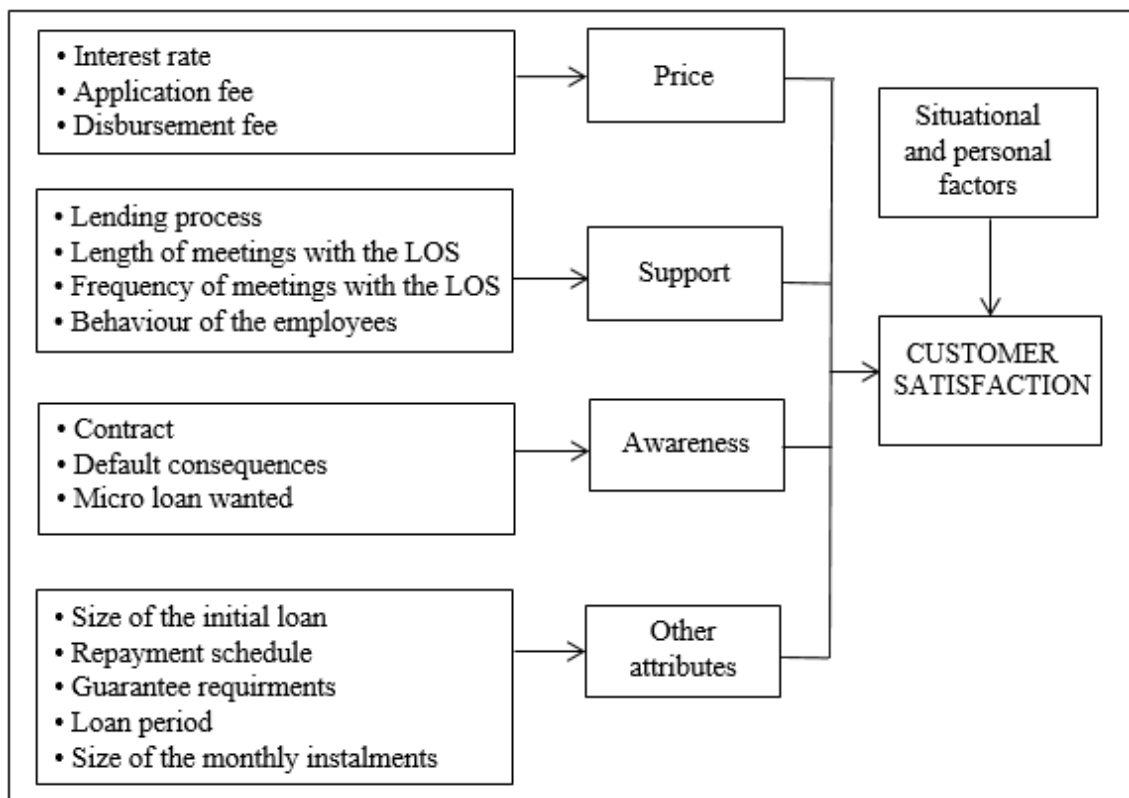
Source: Own figure, based on model of Wilson et al. (2012, p. 74)

The general satisfaction is asked through following questions:

- How satisfied are you with the XAC Bank's services connected to the microloan overall?
- How satisfied are you with the microloan itself provided by the XAC Bank overall?

In order to determine which of the attributes characterising the microloan are the most important, the young borrowers were asked:

- From your point of view, what is the most important aspect of a microloan?

3.6 Planning and Preparation of the Survey

Conducting a field survey in Mongolia required taking in consideration several factors. Because of the country specific climatic conditions the 30 day stay was scheduled for summer time. However, the preparations of the survey were initiated already in February when the selected XAC Bank was contacted. Thanks to the existing connection between the Center for Microfinance at the University of Zurich and the XAC Bank, the contact was established quickly. After the survey had been authorised by the Human Resources team of the XAC Bank, a direct contact was mediated with the microfinance specialist at the Product Development Department.

As a part of the preliminary analysis, the available information about the demographic constitution of the Mongolian population, about XAC Bank and its products was studied. In terms of planning, also the questionnaire proposal was prepared in advance.

3.7 Sample Selection and Data Collection

The data for the survey was obtained over a time span of exactly 12 days, on workdays between June 11, 2015 and June 26, 2015. It was performed by the author and an interpreter, a non-XAC Bank employee. During the field research the youth entrepreneurs answered the questions in a standardised questionnaire. Additional information about the client's age, interest rate, disbursed amount and balance that remains to be repaid was provided by the XAC Bank itself.

The target group is represented by urban individual clients of the XAC Bank between 18 and 34 years who needed to have at least one cycle of a microloan and had not paid it back completely until the June 9, 2015[15]. The targeted youth is believed to be more vulnerable and to have considerably less access to formal credit compared to adult Mongolians. The study takes only a representative sample of UB citizens into account as there is a vast difference of living conditions between UB and rural areas. Also the large distances and poor infrastructure in the countryside would impede a conducting of the survey. After a consultation with locals it was determined that an appointment can be arranged with five to seven individuals per day. Thus because of the time limitation of 12 days, the study enabled approach of between 60 to 84 clients of the XAC Bank. Optionally, in case the targeted person was not available to meet personally, the questionnaire is designed so that the interview can be conducted by phone.

As end of May 2015 (see Table 4), the XAC Bank had 24'140 active microloan borrowers, of which 25% were young adults between 18 and 34 years old. Whereas two thirds of the young people (4'029 individuals) lived in rural areas, the remaining one third (2'001) came from UB. As only the youth residing in UB are of interest for the study, 2'001 is the total population size relevant for the survey.

Table 4: Constitution of XAC Bank's customers having a microloan – citizen, as of May 31, 2015

Age group	Number of individuals	UB	Rural	% of total borrowers
18 – 24	347	30.0%	70.0%	1.4%
25 – 29	2'193	31.3%	68.7%	9.1%
30 – 34	3'490	34.7%	65.3%	14.5%
Total 18 – 34 years old borrowers	6'030	33.2%	66.8%	25.0%
Total borrowers	24'140	31.4%	68.6%	100.0%

Source: own table, based on information provided by the XAC Bank

Individuals of different ages are unequally distributed in the total population. To include various age groups equally, the disproportional stratified random sample method is chosen to extract a representative sample from the XAC Bank's population. Planning to

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[15]The day the customer sample was extracted from MFI A's data bank.

collect data for 12 days with on average six appointments per day and a response rate of 40%, a sample size of 180 individuals is selected for the survey purposes. Implementing stratified sample method, 60 person of each category (18 – 24 years, 25 – 29 years and 30 – 34 years) are randomly[16] selected. The XAC Bank provided the contact information in terms of phone number and address for the selected individuals.

The procedure resulted in a sample of 82 filled out questionnaires of which 80[17] were complete and used for the survey analysis. 42 questionnaires were filled out in person and 38 questionnaires by phone.

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[16] Using Excel 'random' function for each strata.

[17] The minimum recommended sample size counting with total population of 2'001 individuals, margin error of 5% and confidence level of 95% (t-value 1.96) is 323.

4 Analysis and Important Findings of the Survey

Descriptive statistics were employed to carry out the data analysis. For the detailed descriptive analysis results see Appendix D. In this section the profile of the survey sample is analysed, the reliability of the measurement instrument examined and the survey findings presented, resulting from the data analysis. Finally, the limitations of this study are described.

4.1 Respondent's Profile

The questionnaire includes a section on the customer's personal profile. The summary findings to the respondent's profile are presented in Appendix D.1. In total, 80 XAC Bank's clients participated in the survey, of which 44% were between 18 – 24 years old. Half of the respondents held a bachelor degree with another half having finished at least secondary school. 88% of the respondents earned more than 750'000 MNT per month, whereas only 2.5% earned a monthly wage less than 500'000 MNT. At the time of the data collection, 83% had only one microloan from the XAC Bank and 66% had gotten it less than one year before. The average disbursed amount by the XAC Bank was 8.7 million MNT with an average interest rate of 30% (see Appendix D.2). The vast majority has had a relationship with the XAC Bank for at least five years but solely 24% of the respondents have been customers of the XAC Bank only. The other clients also had relations with other banks, which is common in Mongolia.

4.2 Quality Criteria of Measurement

In the literature, objectivity and reliability are especially emphasised as the minimum requirements when speaking about the quality of a measuring instrument. The maximum evaluation objectivity is attained through the quantitative data collection method. For reliability testing the most common method is computing the Cronbach's α (Diekmann, 2010, pp. 247–256; Grigoroudis & Siskos, 2010, p. 195; Hayes, 1998, pp. 33–60). The internal consistency of the 17 items in the questionnaire included in the four dimensions and additional questions on overall satisfaction is determined. The coefficient of the reliability is calculated to be $\alpha = 0.717$ which is above the acceptable reliability threshold of 0.7. Thus the questionnaire is highly consistent and therefore reliable.

4.3 The Youth's Priorities

When analysing the data, considerable differences in priorities regarding the microloan attributes can be observed among the younger and older youth. Looking at the fact that many different age categories are used for the definition of the youth[18] which vary greatly depending on the type of organisation or national government policy, the differences among 18 – 24 year olds, as defined by the World Bank and UN, and 25 – 34 year olds representing the older youth of the surveyed sample are examined.

Summary key attributes are given in the Figure 5 below. For the question on the most important aspect of the microloan, 29% and 17% of the younger respondents selected the guarantee requirements and repayment schedule respectively, whereas 36% and 22% of the older youth value the interest rate and lending process the most. The importance of collateral requirements among the 18 – 24 aged is possibly linked to the fact that they might not own enough assets that could serve as guarantee. The importance of the repayment schedule might stem from the fact that the younger clients need a more flexible repayment schedule when starting their businesses (SEEP Network, 2013, p. 51). These survey results support hypothesis *H1*. Some attributes are clearly preferred by the youth and it can be seen that there are differences between the age groups.

Figure 5: Priorities of microloan attributes among 18 – 24 year olds (n = 35) and 25 – 34 year olds (n = 45)
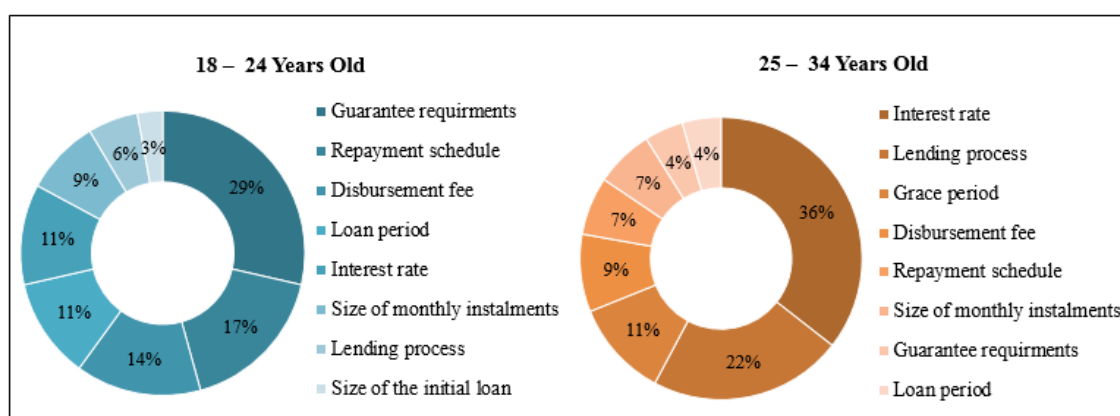
Source: Own figure, based on primary data

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[18] Usually, the youth is defined as individuals aged between 15 and 24 years for statistical purposes, however, in some countries individuals are considered as part of the youth until they reach the age of 35 years (Youthpolicy, [2015a]; Nagarajan, 2005, p. 1).

4.4 Satisfaction with the Individual Dimensions

In order to see whether the results support hypotheses *H2* and *H3*, the four defined dimensions price, support, awareness and other attributes characterising the microloan are analysed. The Figure 6 illustrates that over 90% of respondents selected the answers satisfied or very satisfied for the questions included in the support dimension. Also a vast majority answered the questions within the dimension awareness and within the dimension other attributes positively. On the other hand, nearly one quarter is dissatisfied or very dissatisfied with the price of the microloan.

Figure 6: Frequency of answers according to the defined dimensions among 18 – 34 year olds, (n = 80)
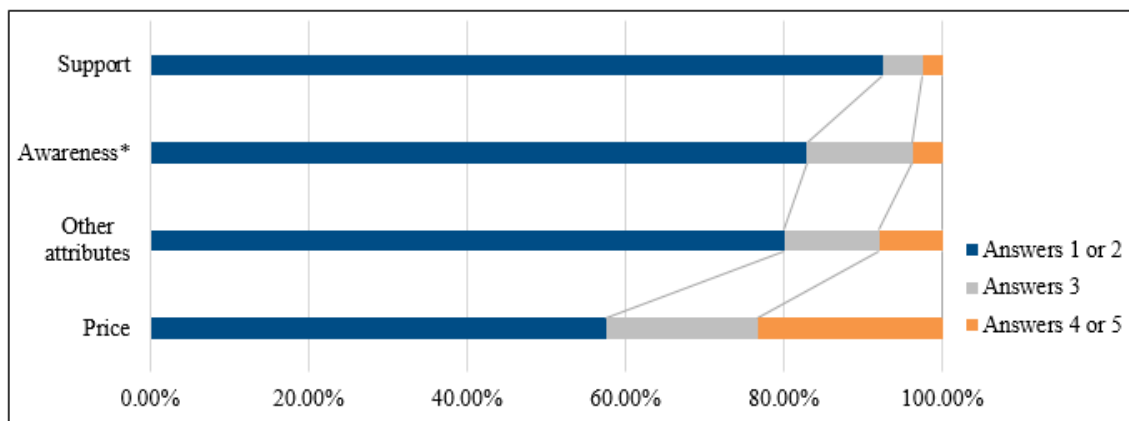
Note: 1 – Very satisfied, 2 – Satisfied, 3 – Neither satisfied nor dissatisfied, 4 – Dissatisfied, 5 – Very dissatisfied
*1 – Strongly Agree, 2 – Agree, 3 – Neither agree nor disagree, 4 – Disagree, 5 – Strongly disagree

Source: Own figure, based on primary data

It is obvious from the Figure 6 that there are relevant differences for the answer frequencies between the four dimensions. Therefore a closer look is taken at the details of the dimensions and split them into the individual attributes. In Figure 7 below it can be seen that within the price dimension, 50% of the respondents are either dissatisfied or very dissatisfied with the disbursement fee. The next two items with relatively high levels of dissatisfied or very dissatisfied responses (~15%) are the interest rate and guarantee requirements.

Figure 7: Frequency of answers according to attributes among 18 – 34 year olds, (n = 80)

Note: 1 – Very satisfied, 2 – Satisfied, 3 – Neither satisfied nor dissatisfied, 4 – Dissatisfied, 5 – Very dissatisfied
*1 – Strongly Agree, 2 – Agree, 3 – Neither agree nor disagree, 4 – Disagree, 5 – Strongly disagree

Source: Own figure, based on primary data

As already mentioned in the previous chapter, there are differences in priorities for the microloan attributes among the younger and older youth. While the frequency of positive ratings prevails, differences in average ratings among the younger and older youth are again observed. These differences are presented by a semantic differential rating scale calculated with average marks among 18 – 24 year olds and 25 – 34 year olds, in Figure 8. While on the one hand the average satisfaction concerning the interest rate, length and frequency of meeting with the LOS, and the behaviour of employees is higher among younger borrowers compared to the older ones, on the other hand the guarantee requirements, size of the initial loan and monthly instalments are items the older youth is more satisfied with than the younger. Also the older respondents agreed more with the statement that the microloan they had received from the XAC Bank was what they wanted. The remaining items of the microloan characteristics received similar average scores for both groups. To summarise these findings in a dimensional way, the younger adults express more satisfaction on the dimension support, whereas the older adults seem to be more satisfied with the dimension other attributes.

Figure 8: Computed average satisfaction scores of attributes among 18 – 24 (n = 35) and 25 – 34 year olds (n = 45)
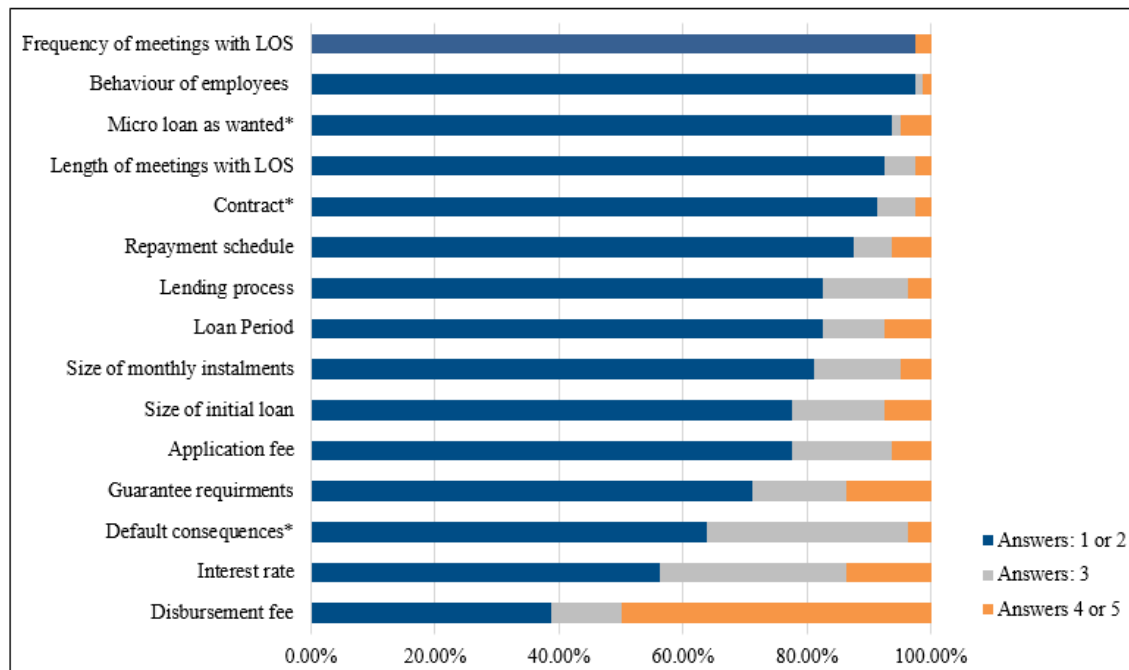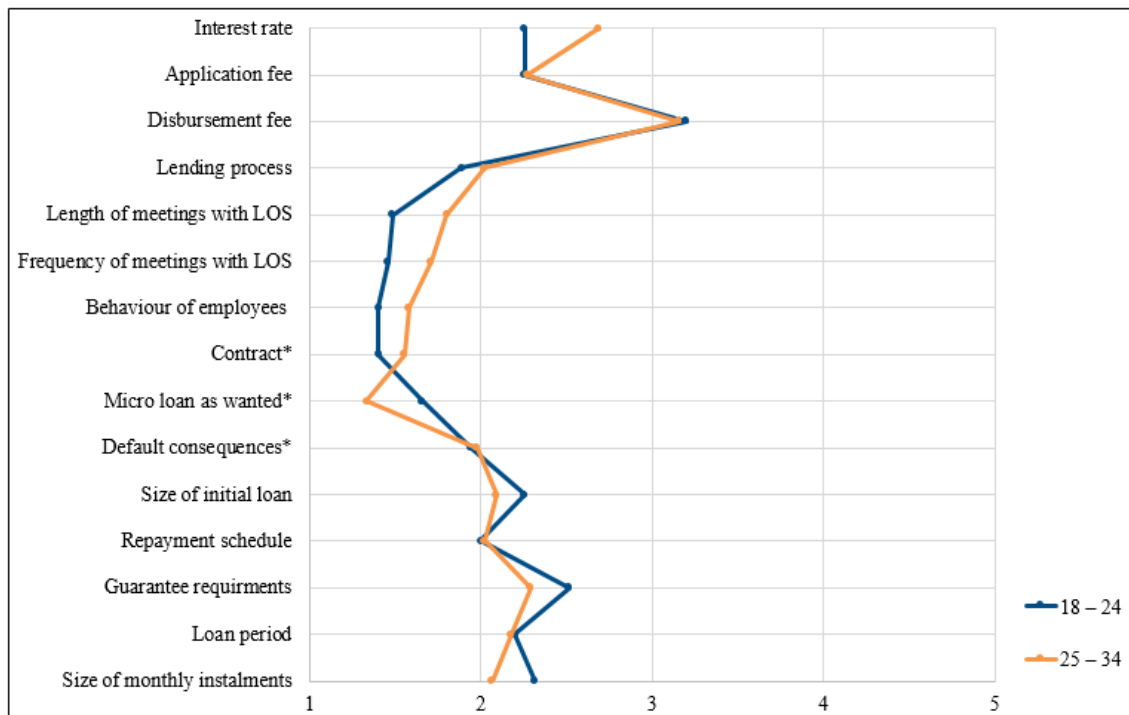

Note: 1 – Very satisfied, 2 – Satisfied, 3 – Neither satisfied nor dissatisfied, 4 – Dissatisfied, 5 – Very dissatisfied
*1 – Strongly Agree, 2 – Agree, 3 – Neither agree nor disagree, 4 – Disagree, 5 – Strongly disagree

Source: Own figure, based on primary data

4.5 General Satisfaction

Two questions on the general satisfaction are also included in the questionnaire; one on the services connected to the microloan and another on the microloan itself. The analysis shows that on average[19] the respondents are more satisfied with the microloan in general, attaining a mean score of 1.79 and a standard error of 0.07, than with the services, showing a calculated mean of 2.18 and standard error of 0.09. For more detailed descriptive statistics refer to Appendix D.3. The following figure compares the calculated averages of general satisfaction with the average ratings of each of the dimensions. The price is the dimension the youth is the least satisfied with, attaining an average mark of 2.65. The second worst marked dimension on average is the dimension other attributes, of which guarantee requirements is the most disliked attribute with an

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[19] The lower calculated average equals higher satisfaction.

average rating of 2.4. Finally, these results support the hypotheses statements *H2* and *H3*.

Figure 9: Computed average satisfaction scores of dimensions and general satisfaction among 18 – 34 year olds, (n = 80)

Note: The lower calculated average stands for higher satisfaction because ranked:
1 – Very satisfied, 2 – Satisfied, 3 – Neither satisfied nor dissatisfied, 4 – Dissatisfied, 5 – Very dissatisfied
*1 – Strongly Agree, 2 – Agree, 3 – Neither agree nor disagree, 4 – Disagree, 5 – Strongly disagree
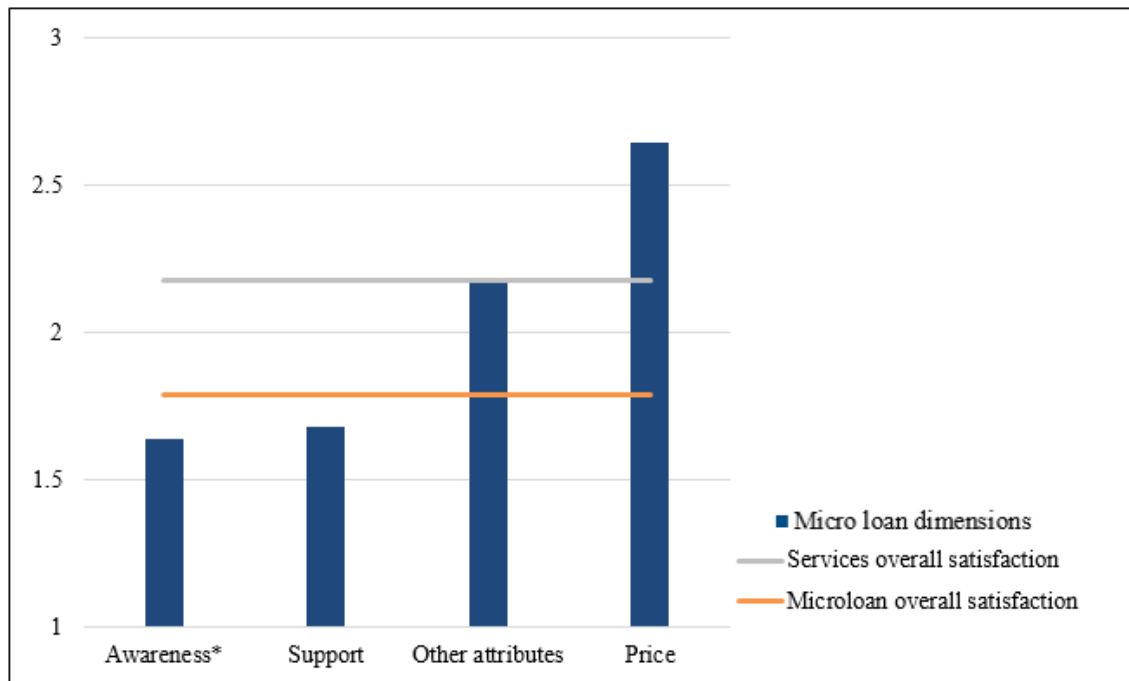Source: Own figure, based on primary data

The question whether there is any association between the answers on general satisfaction and on the individual attributes characterising the microloan is also examined. The analysis revealed a moderate positive correlation between the satisfaction with the interest rate and the service, and a weak positive correlation between the loan period and the satisfaction with the microloan in general. For more details, see Appendix F, in which the relevant results are marked in bold. These results suggest that the higher satisfaction with the interest rate the higher the satisfaction with the services overall, which can be interpreted as follows: the lower the interest rate the likelier is the client satisfied in general. The positive association between the satisfaction with the loan period and general satisfaction leads to the conclusion that a higher satisfaction with the loan period results in a higher the satisfaction with the microloan overall. This might be interpreted to the effect that the following can be

assumed: The better the loan period fits the borrower's business needs, the more satisfied he is in general.

4.6 Other Survey Findings

The analysis of the other questions included in the questionnaire revealed additional important results. Among the attributes characterising the microloan, there are also items asking about the satisfaction regarding the grace period and additional services such as savings or insurance. However, 40% of the respondents do not know the term "grace period" and the other 60% are either satisfied or very satisfied with it. Furthermore, the item additional services is kept out of the dimension as only 60% of the young people have experience with it and all of them rate it positively.

The high general satisfaction with the microloan, as analysed above, might be supported additionally by the fact that about 70% of the respondents aged 18 – 34 years either agreed or strongly agreed that they had gotten the full amount they needed through just one microloan or that they think the XAC Bank understands their specific needs.

Also approximately 80% of respondents would recommend applying for the microloan from the XAC Bank to a relative or a friend, and 70% would again apply for one. This might also indicate a certain level of satisfaction (Grigoroudis & Siskos, 2010, pp. 85-90).

Other survey questions among the youth revealed that one third of them disagreed or strongly disagreed that the ATM locations are convenient and/or that the waiting time at the XAC Bank counter is short.

When asking the interviewed people about whether they would be interested in financial trainings, over 80% gave a positive answer. This indicates that among the Mongolian youth there is a quite high interest in improving their skills on money management.

4.7 Methodological Challenges, Solutions and Limitations

While conducting the survey, several challenges have arisen that complicated the proceedings. In Mongolia it is common for houses not to have housing numbers, especially in the ger districts which seem to resemble a labyrinth to outsiders. It is thanks to the friendly attitude of many XAC Bank's clients who have patiently helped

the research team navigating through these districts that the research could be conducted successfully.

However, the procedure of filling out the questionnaire was not always optimal. Usually the appointments were scheduled during working hours and took place in a very busy environment; on the street, in a taxi, in a hair salon or in a factory, to name a few. Therefore, the data collection was interrupted several times because of various work related issues.

This study has several limitations which should be considered when looking at the results of the survey. First, the surveyed sample size represents only one fourth of the minimum recommended sample size. Second, regardless of whether the results are interpreted equally between the two groups of the youth, one has to remember that the respondents were selected through the disproportional stratified random sample method, which reduces the generalisability of the results. Furthermore, the results are analysed using only descriptive statistics and the statistical significance of individual dimensions and attributes is not tested.

5 Conclusion and Recommendations

This study pursued two main objectives: (1) comparison of the concepts for youth financial inclusion with the products designed for the youth by the XAC Bank and (2) identification of client satisfaction with the microloan among the young XAC Bank clients.

To achieve the first objective, theoretical concepts of youth financial inclusion practices recommended by literature and resulting from research studies were described. Those were then compared with the offering of the products designed by the XAC Bank for the Mongolian youth.

Through a profound study of the XAC Bank's products and services, it was found that the XAC Bank serves the Mongolian young people with several products designed specifically for the youth for which the term conditions differ slightly from those of saving accounts for adults. The XAC Bank has developed two saving accounts that are combined with educational sessions. Both savings also feature no fees charges, low minimum balance as well as interest rates. All of these adjustments are reflected in market research findings on how the youth-appropriate products should be designed. Further, the XAC Bank offers student loans. The student loan is characterised through a low loan size that a student can apply for and lower fees compared to other loan products offered by the XAC Bank. According to market research results, the interest rate on youth borrowings should be low. However, this rule might not apply to the student loan. In addition to the products described above, the XAC Bank provides young people with a debit card and a mobile banking application, designed specifically for the youth. Overall, we can see that the XAC Bank's products for young Mongolians are designed in accordance with the literature.

To accomplish the second objective of determining client satisfaction with the microloan through a primary data collection, a questionnaire has been constructed based on instructions found in the marketing as well as microfinance literature. Four dimensions characterising the microloan within the questionnaire were defined: price, support, awareness and other attributes. To analyse the data, descriptive statistics and correlation have been applied.

In general, the youth is satisfied with the microloan as well as with the microloan related services they have received from the XAC Bank. Additionally, a moderate positive correlation between the satisfaction with the interest rate and the service, and a weak positive correlation between the loan period and the satisfaction with the microloan in general were found.

The analysis has also revealed that there are considerable differences in the priority regarding the microloan terms among the surveyed borrowers. The summary findings are illustrated in Table 9. Whereas the younger participants, aged 18 – 24 years, prioritise flexible collateral requirements as well as flexible repayment schedules, among the older participants, aged 25 – 34 years, a reasonable interest rate and fast lending process are the most valued items. It was also found that on average all dimensions are ranked positively. However, the support dimension received the greatest average satisfaction among all surveyed borrowers, including the behaviour of employees, frequency and length of meetings with the LOS, as well as the lending process. On the other end of the spectrum, the price dimension was rated with the lowest satisfaction on average, of which the disbursement fee received the worst average mark from both the younger and the older youth. Further, guarantee requirements, interest rate and size of initial loan belong to the worst graded attributes by the younger surveyed group. To the older participants, the interest rate and lending process are the attributes with which they are the least satisfied. Analysing the answers of all borrowers (18 – 34 years old), more than 90% of respondents rated the support dimension as satisfied or very satisfied. In contrast, the most dissatisfied or very dissatisfied answers were received in the price dimension (from 23% of respondents). Considering the frequencies of dissatisfied or very dissatisfied answers within the individual attributes characterising the microloan, the answers revolve around disbursement fee, interest rate and guarantee requirements.

Table 9: Summary findings analysis, among 18 – 24 year olds (n = 35), 25 – 34 year olds (n = 45) and all borrowers (n = 80)

	18 – 24 Year Olds		25 – 34 Year Olds	
Attributes with the highest importance	29%	Guarantee requirements	36%	Interest rate
	17%	Repayment schedule	22%	Lending process
	14%	Disbursement fee	11%	Grace period
Attributes with the highest dissatisfaction	3.2	Disbursement fee	3.15	Disbursement fee
	2.51	Guarantee requirements	2.69	Interest rate
	2.26	Interest rate and Size of initial loan	2.02	Lending process
The most often ranked attributes with the options dissatisfied or very dissatisfied		50% Disbursement fee		
		14% Interest rate		
		14% Guarantee requirements		

Source: Own table, based on primary data

By analysing the results, considerable differences among the younger and older youth regarding their priorities as well as the satisfaction for individual attributes were noticed. However, it can be said that young XAC Bank's clients are mainly satisfied; the attributes with the highest priority to them are on average marked with lower satisfaction than the attributes that are of lower priority to them. Therefore, the following recommendations to the XAC Bank can be made:

The preferences revolve mainly around affordability and accessibility. The micro lending from the XAC Bank might become more affordable and accessible for the broader young strata of the population if the microcredit conditions were designed in a more flexible manner. Therefore, it might be beneficial if the XAC Bank would design a microloan with some adjustments in the conditions for various segments of young people. More concretely, the adjustments might be done in terms of guarantee requirements and repayment schedule for the youth aged 18 – 24, and in terms of interest rate and lending process for those between 25 – 34 years old. For both surveyed groups the disbursement fee should be decreased. In order to enhance the general satisfaction among the XAC Bank's clients, a lower interest rate and an appropriate loan period satisfying the clients' needs should be considered by the XAC Bank.

Despite the fairly high degree of overall satisfaction among the young clients participating in this survey, the low number of younger adults aged 18 – 24 years old (1.4%) of the total microcredit clientele might indicate that young Mongolians distrust the formal lending from the XAC Bank that could finance their businesses. Possibly, they do not consider the XAC Bank and its microloan as an appropriate product for their

own professional inclusion. The high willingness of young existing borrowers to recommend the microloan to others should be considered by the XAC Bank. Typically, the perceptions on formal financial services are formed by word of mouth. Supporting refer-to-friend promotions might be helpful to spread the positive lending experience among the young population which might help increase their share of the total microfinance client portfolio (SEEP Network, 2013, p. 25).

It has become clear during this survey that about 40% of the XAC Bank's clients did not understand the term "grace period" and/or did not use any other products or services from the XAC Bank. The high level of interest in financial education among the youth can be seen as an opportunity for the XAC Bank since it already offers various business trainings in partnership with other organisations. It would make sense to emphasise the educational opportunities that can be attended during the lending process or when applying for the microloan. This might help on one side to raise awareness of these programmes. On the other side, the financial literacy might increase along with interest in other services offered by the XAC Bank.

As previously mentioned in this thesis, products and services can be designed more appropriately if the MFIs know the priorities of their clients and how to meet them. In order to better serve the young, their priorities have to be surveyed. While this thesis was implemented on the youth living in Mongolia, it confirms the statements in literature with regard to the importance of segmenting the market and investigating various strata of the population regarding their preferences and needs. The results have not only revealed where there is room for improvement for the XAC Bank in terms of the youth but also that youth microfinance has a great potential in Mongolia. This could be further encouraging for other countries from the underdeveloped parts of the world.

6   References

As the XAC Bank provided its internal materials, the references are divided into two parts. First part contains the general literature linked to the thesis and the second part includes the XAC Bank's related references.

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Interview Partners

Microfinance specialist from the Product Development Department of the XAC Bank (2015, June 8). Interview by Researcher.

Credit Accessor of the XAC Bank (2015, June 10). Interview by Researcher.

Appendix

A. Microloan Products Description

Table 5: Microloan products description, as of June 2015

	Microloan – citizen	Wholesale loan	Crop loan	Herder loan
Type of business	Trading, production, service	Savings and Credit unions	Wheat production, horticultural business	Livestock
Loan size	Up to 30 million MNT	Up to 80% of equity	Up to 5 million MNT	Up to 15 million MNT
Loan term	3 – 36 months	Up to 24 months	Up to12 months	Up to 12 months
Repayment conditions	Monthly	Flexible	Flexible	Flexible
Grace period	4 – 12 months	–	3 – 12 months	3 – 12 months
Monthly interest rate	1.8% – 2.5%	1.5% – 1.8%	2.4% – 2.5%	2.0% – 2.3%
Application fee	1'000 – 5'000MNT	5'000 – 15'000MNT	500 – 1'000MNT	1'000MNT
Disbursement fee	Up to 5 million MNT – 1%, 5 – 30 million MNT – 0.5%	0.5% for loan, 1.0% for credit line, 0.2% commitment fee	0.5%	0.5%
Collateral	Movable and immovable assets	Secured by member share capital	Movable and immovable assets, livestock	Movable and immovable assets

Source: Own table, based on XAC Bank (2015f)

B. Interviews on Micro Lending Process

B.1 Interview between Researcher and Microfinance Specialist of the XAC Bank on Micro Lending Process

Date: June 08, 2015

Participants: **R:** Researcher, **MS:** Microfinance specialist

R: Can you explain what the Red mine program is?

MS: Red mine is an internal information exchange program used between branch officers and credit assessors and credit managers. First interview and application collection is done at the branch level, branch officers upload the information collected during first interview and the application to Red mine and then send the actual the hard copies to the credit assessors. So credit assessors deliver the hard copies of the documents and get the information from Red mine and then they do the credit assessment. So they also do the on-site visit to confirm the truth and authenticity of the documents.

A: How many days in average does it takes to get the loan?

MS: Usually it takes around five business days from clients have submitted all the required documents. If client is neglecting on providing all the documents together, process might take little longer.

A: How many persons are involved in the Microloan process?

MS: I think three: First branch loan officer who collects the documents and does the first interview. Then the credit assessor will do the credit assessment and on site visits and credit manager will make the final decision of the loan disbursement.

A: What is the FC XAC Bank Banker?

MS: This is our core banking system.

A: n the loan process is written: Scheduled payment information will be sent to officers from senior officer or RLDM. What does it mean, please?

MS: RLMD Retail banking management department. I have to get back to you on that, I am not sure.

MS: Schedule is, whole origination is done in the Credit assessment department. Credit assessors do the credit assessment and the credit managers the decision and they send it to the branches using Red Mine. They send the loan contract to branches, so the branches will inform the client about the loan decision and then have client to come to

the branch and then do the loan sign on agreement and then do the disbursement. Those are done at the branches.

A: In the process flow, there is also written that they check profile of borrower to find out phone numbers not in the FC.

MS: FC is the core system. It has all the information: client's name, address, and phone numbers of not just his (that client's) like spouse or close relatives like parent for example.

A: And then send the request to CRU, means?

MS: CRU means Customer relationship unit, I think. If the information is not enough they send a request to those people to get the information.

A: Do you have organizational structure and task description of the people involved in the Microloan process?

MS: Branch loan officers called also customer service representatives and Private Banker and Relationship manager, those three are the front office sails people, so what they do is, they focus on incoming clients and provide them information of potential products or services that might be interested or they might be in need. Then, they collect all the information and send it over to the Credit assessment department which is a Retail banking supporting division and Credit assessment department. They do all the credit assessment and the loan origination has been centralised from December 2013 and all of the branches in Ulaanbaatar city are centralised. Every branch in Ulaanbaatar city collects all the first information from the clients in the branches but the loan origination is made in the centralised loan origination Credit assessment centre department. So, that is what they do.

B.2 Interview between Researcher and Credit Assessor of the XAC Bank on Micro Lending Process

Date: June 10, 2015

Participants: **R:** Researcher, **CA:** Credit assessor, Translation by Microfinance specialist of the XAC Bank

R: How much time does the credit analysis take, if speaking about the microloan?

CA: For the microloan, two days up to 15 million MNT, 3 − 4 days for 15 − 30 million MNT.

R: On which requirements is the decision based?

CA: There is no focusing on one single thing. Collateral is important, financial ratios, financial condition of the client, personality and characteristic of the client and also the environmental and social impact of the client's business. Everything takes account to get the final decision.

R: Is there something you observe more within the young customers (18 − 34 aged) in comparison to the older ones? Do you focus on something if the customers taking microloan are young?

CA: There is no difference.

R: OK, I would say, young people need more introductions how not to get in to debt, more time or different attitude?

CA: There is difference for people born before or after 1990s. Because back then, Mongolia was socialist and now we are in the democratic time. So, there will be difference how people react towards financial needs and banking products. They always tell consequences of this loan and what happens if they are delinquent and they provide tips and suggestions to manage their finance. People born after 1990 they still have passion to run their business. So we do not have specific rules to treat them differently than the other ones. But still, they provide one-to one suggestions on the financial management. There is no difficulty to get a loan for the youngsters getting a loan. Actually they are more informed and might have more awareness what the consequences of a bad loan history are. It is kind of easier to work with the younger ones that with the older ones.

R: If you speak about requirements about getting a loan, is it advantage for a person if he is already your client and has for example a saving account?

CA: Trustworthiness increases and the client's interest rate is decreased for the loans. It is then easier to have longer relationship with the client and also the documentation is shorter. They still have little bit of fear in term of the age of the clients. If the loan size is bigger and a client is really young about 20ies they also do concern those things. Providing microloan is based on the trust to each other. If the client pays it back, he can get a bigger loan next time. The XAC Bank also makes a little bit of adjustments of the size of the loan depending on the client's age. Young clients tend to exaggerate their needs. They have to focus on what they actually need and if they exceed the amount they need, it will be tailored.

R: Are there exactly the same fees for young clients as well as for the older ones?

CA: There is no difference. The interest rate is adjusted according to the whole package of the person: how trustful, educational the person is. Cross selling, loan history and delinquency is important. There is no specific discount in terms of age. Based on client's proposal, client's need and desire the instalment planning, interest rate and loan duration is adjusted.

R: Can the client determine the frequency and high of the monthly instalments?

CA: The instalment planning is based on client's decision and it is suggested to the client to make the smarter choice. They have to discuss it together and based on the client's opinion the instalment planning is made.

R: How many times meets the client the credit assessor and for how long?

CA: There are three visits, 20 – 30 minutes each: collateral check, business check and home check to confirm the truth of the documents.

R: Are there specific sessions how to approach the young clients?

CA: Not exactly specific sessions, but on the job training the whole information is provided. There is no specific training how to approach young clients from the point of the young credit assessors. But still the XAC Bank's loan procedure indicates that for a new business loan there is a requirement that a client has to have at least 6 months of experience or running the same field of business.

C. Questionnaire

> **Welcome to the student research project about XAC Bank's s customer satisfaction.**
>
> Thank you for agreeing to take part in this important survey measuring customer satisfaction. This survey takes maximum 20 minutes to complete. Please be assured that all data will be kept anonymous and not published in any way that surveyed person can be identified.

1. Gender: ☐ Male   ☐ Female

2. Occupation: _____

Microloan from XAC Bank

3. How many outstanding Microloans from XAC Bank do you have right now? _____

4. Month, year you received the last Microloan: _____

5. How satisfied or dissatisfied are you with:	Very satisfied	Satisfied	Neither satisfied nor dissatisfied	Dissatisfied	Very dissatisfied	**6.** From your point of view, the most important aspect of Microloan is:
A Interest rate	1☐	2☐	3☐	4☐	5☐	☐
B Application fee	1☐	2☐	3☐	4☐	5☐	☐
C Disbursement fee	1☐	2☐	3☐	4☐	5☐	☐
D Lending process	1☐	2☐	3☐	4☐	5☐	☐
E Size of the initial loan	1☐	2☐	3☐	4☐	5☐	☐
F Length of the meetings with the loan officer staff	1☐	2☐	3☐	4☐	5☐	☐
G Frequency of the meetings with the loan officer staff	1☐	2☐	3☐	4☐	5☐	☐
H Behaviour of the employees during the lending process	1☐	2☐	3☐	4☐	5☐	☐
I Repayment schedule	1☐	2☐	3☐	4☐	5☐	☐
J Guarantee requirements	1☐	2☐	3☐	4☐	5☐	☐
K Loan period	1☐	2☐	3☐	4☐	5☐	☐
L Grace period	1☐	2☐	3☐	4☐	5☐	☐
M Additional financial services such as savings or insurance	1☐	2☐	3☐	4☐	5☐	☐
N Size of monthly instalments	1☐	2☐	3☐	4☐	5☐	☐

7. In case of <u>Microloan</u> repayment problems, how satisfied or dissatisfied are you with the XAC Bank's conduct/behaviour regarding how they handle the default?

☐ Very Satisfied   ☐ Satisfied   ☐ Neither satisfied nor dissatisfied ☐ Dissatisfied ☐ Very Dissatisfied

☐ I never had loan repayment problems

8. How satisfied or dissatisfied are you with XAC Bank's <u>services connected to the Microloan</u> overall?

☐ Very Satisfied ☐ Satisfied ☐ Neither satisfied nor dissatisfied ☐ Dissatisfied ☐ Very Dissatisfied

9. How satisfied or dissatisfied are you with the <u>Microloan itself</u> provided by XAC Bank overall?

☐ Very Satisfied ☐ Satisfied ☐ Neither satisfied nor dissatisfied ☐ Dissatisfied ☐ Very Dissatisfied

10. The fees charged by XAC Bank <u>on the Microloan</u> are reasonable for the services I receive.

☐ Very Satisfied ☐ Satisfied ☐ Neither satisfied nor dissatisfied ☐ Dissatisfied ☐ Very Dissatisfied

11. The interest rate charged by XAC Bank <u>on the Microloan</u> is convenient.

☐ Strongly agree ☐ Agree ☐ Neither agree nor disagree ☐ Disagree ☐ Strongly disagree

12. The <u>Microloan</u> contract of XAC Bank is understandable and clear.

☐ Strongly agree ☐ Agree ☐ Neither agree nor disagree ☐ Disagree ☐ Strongly disagree

13. Before signing the <u>Microloan</u> contract, XAC Bank had informed me about my rights as a client.

☐ Strongly agree ☐ Agree ☐ Neither agree nor disagree ☐ Disagree ☐ Strongly disagree

14. To get the <u>Microloan</u> approved I was asked to pay more than was agreed on in the contract.

☐ Very Satisfied ☐ Satisfied ☐ Neither satisfied nor dissatisfied ☐ Dissatisfied ☐ Very Dissatisfied

15. The <u>Microloan</u> I got from XAC Bank is what I wanted.

☐ Strongly agree ☐ Agree ☐ Neither agree nor disagree ☐ Disagree ☐ Strongly disagree

16. I got the full amount I needed through <u>only one Microloan</u> from XAC Bank.

☐ Strongly agree ☐ Agree ☐ Neither agree nor disagree ☐ Disagree ☐ Strongly disagree

17. XAC Bank gave me the Microloan even though I was not satisfied with the conditions.

☐ Strongly agree ☐ Agree ☐ Neither agree nor disagree ☐ Disagree ☐ Strongly disagree

18. Since I received the Microloan, XAC Bank asked if I am satisfied with the <u>conditions of Microloan</u>.

☐ Strongly agree ☐ Agree ☐ Neither agree nor disagree ☐ Disagree ☐ Strongly disagree

19. If I am late with the loan repayment of the <u>Microloan,</u> I know very well which measures will be taken by XAC Bank.

☐ Strongly agree ☐ Agree ☐ Neither agree nor disagree ☐ Disagree ☐ Strongly disagree

20. Would you recommend applying for a <u>Microloan</u> provided by XAC Bank to a relative or friend?

☐ Yes ☐ Only if specific changes are made ☐ No ☐ Do not know

21. Would you apply again for a XAC Bank <u>Microloan</u> in the future?

☐ Yes ☐ Only if specific changes are made ☐ No ☐ Do not know

General questions about XAC Bank

22. Number of years you have had relations with XAC Bank: _____

23. How many Microfinance Institutions or banks other than XAC Bank are you customer of? ___ ☐ Only XAC Bank

24. XAC Bank's branch locations are convenient.

☐ Strongly agree ☐ Agree   ☐ Neither agree nor disagree   ☐ Disagree ☐ Strongly disagree

25. XAC Bank provides its services at exact time as specified for customers.

☐ Strongly agree ☐ Agree   ☐ Neither agree nor disagree   ☐ Disagree ☐ Strongly disagree

26. If I need help, my Bank advisor is easily reachable.

☐ Strongly agree ☐ Agree   ☐ Neither agree nor disagree   ☐ Disagree ☐ Strongly disagree

27. XAC Bank understands my specific needs.

☐ Strongly agree ☐ Agree   ☐ Neither agree nor disagree   ☐ Disagree ☐ Strongly disagree

28. I was treated with courtesy and respect by XAC Bank.

☐ Strongly agree ☐ Agree   ☐ Neither agree nor disagree   ☐ Disagree ☐ Strongly disagree

29. XAC Bank's ATM locations are convenient.

☐ Strongly agree ☐ Agree   ☐ Neither agree nor disagree   ☐ Disagree ☐ Strongly disagree

30. The waiting time at XAC Bank's counter is long.

☐ Strongly agree ☐ Agree   ☐ Neither agree nor disagree   ☐ Disagree ☐ Strongly disagree

31. I know where to complain and where to give my opinion about XAC Bank services.

☐ Strongly agree ☐ Agree   ☐ Neither agree nor disagree   ☐ Disagree ☐ Strongly disagree

32. XAC Bank's s operating hours are convenient.

☐ Strongly agree ☐ Agree   ☐ Neither agree nor disagree   ☐ Disagree ☐ Strongly disagree
_____

33. **Marital Status:**   ☐ Never married   ☐ Married   ☐ Divorced   ☐ Widowed

34. Accommodation: ☐ Apartment-owned ☐ Apartment-rented ☐ Ger district-owned ☐ Ger district- rented

35. Household size: (Family members living in your household and sharing the same kitchen):

☐ Alone   ☐ 2 – 3   ☐ 4 – 5   ☐ 6 and more

36. Education: ☐ Primary school   ☐ Secondary school ☐ Specialized College ☐ Bachelor's degree

37. Average income per month:

☐ Up to MNT 500,000 ☐ MNT 500,001 – MNT 750,000 ☐ MNT 750,001 – MNT 1,000,000 ☐ above MNT 1 Mio

38. Would you be interested in education trainings to improve your knowledge of money management?

☐ Yes   ☐ No   ☐ I do not know

39. Comments, Wishes, Critics: _____

THANK YOU

D. Summary Statistics

D.1 Personal Background

Table 6: Personal background of respondents, n = 80

	Frequency	Valid Percent	Cumulative Percent
Age			
18 – 24	35	43.8%	43.8%
25 – 34	45	56.3%	100.0%
Education			
Primary school	0	0.0%	0.0%
Secondary school	35	43.8%	43.8%
Specialized College	5	6.3%	50.0%
Bachelor	40	50.0%	100.0%
Average income per month			
Less than 500,000 MNT	2	2.5%	2.5%
500,001 – 750,000 MNT	8	10.0%	12.5%
750,001 – 1,000,000 MNT	17	21.3%	33.8%
More than 1,000,000 MNT	53	66.3%	100.0%
Number of outstanding loans			
one	66	82.5%	82.5%
two	13	16.3%	98.8%
Three	1	1.3%	100.0%
Months since having taken the last microloan			
less than 6 months	21	26.3%	26.3%
6 – 12 months	32	40.0%	66.3%
more than 12 months	27	33.8%	100.0%
Relationship with XAC Bank			
less than 3 years	40	50.0%	50.0%
3 – 5 years	32	40.0%	90.0%
more than 5 years	8	10.0%	100.0%
Customer of MFIs or other banks			
only XAC Bank	19	23.8%	23.8%
XAC Bank and 1 other	37	46.3%	70.0%
XAC Bank and 2 others	17	21.3%	91.3%
XAC Bank and 3 others or more	7	8.8%	100.0%

Source: Own table, based on primary data

D.2 Descriptive Statistics: Interest Rate, Disbursed Amount and Balance

Table 7: Descriptive statistics of information provided by the XAC Bank, n = 80

	Mean	SEM	Median	Mode	SD	Min	Max
Interest rate in %	30.02	0.54	30.00	30.00	4.84	10.20	36.00
Disbursed amount in MNT	8'713'333	699'269	6'250'000	10'000'000	6'254'453	1'300'000	27'000'000
Balance in MNT	5'822'393	569'793	4'176'549	7'000'000	5'096'380	69'283	26'666'667

Source: Own table, based on information provided by the XAC Bank

D.3 Descriptive Statistics of Answers

Table 8: Descriptive statistics of answers related to the microloan among 18 – 34 year olds, (n = 80)

Item	Mean	SEM	Median	Mode	SD	Frequency Answers: "1" or "2"	Frequency Answers: "3"	Frequency Answers: "4" or "5"
Interest rate	2.500	0.097	2	2	0.871	45	24	11
Application fee	2.263	0.081	2	2	0.725	62	13	5
Disbursement fee	3.175	0.127	3.5	4	1.134	31	9	40
Lending process	1.963	0.082	2	2	0.737	66	11	3
Length of meetings with LOS	1.663	0.077	2	2	0.693	74	4	2
Frequency of meetings with LOS	1.600	0.070	2	2	0.628	78	0	2
Behaviour of employees	1.500	0.067	1	1	0.595	78	1	1
Contract*	1.488	0.082	1	1	0.729	73	5	2
Default consequences*	1.963	0.116	2	1	1.037	75	1	4
Micro loan as wanted*	1.475	0.091	1	1	0.811	51	26	3
Size of initial loan	2.163	0.090	2	2	0.803	62	12	6
Repayment schedule	2.013	0.079	2	2	0.703	70	5	5
Guarantee requirements	2.388	0.086	2	2	0.771	57	12	11
Loan period	2.188	0.074	2	2	0.658	66	8	6
Size of monthly instalments	2.175	0.068	2	2	0.612	65	11	4
Services overall	2.175	0.073	2	2	0.652	61	16	3
Micro loan overall	1.788	0.068	2	2	0.610	74	5	1

Note: 1 – Very satisfied, 2 – Satisfied, 3 – Neither satisfied nor dissatisfied, 4 – Dissatisfied, 5 – Very dissatisfied
*1 – Strongly Agree, 2 – Agree, 3 – Neither agree nor disagree, 4 – Disagree, 5 – Strongly disagree

Source: Own table, based on primary data

E. Correlation Table

Table 9: Correlation among microloan attributes, overall satisfaction and dimensions

Dimensions	Attributes	Price			Support				Awareness			Other attributes					Overall	
		Interest rate	Application fee	Disbursement fee	Lending process	Length of meetings with LOS	Frequency of meetings with LOS	Behaviour of employees	Contract	Micro loan as wanted	Default consequences	Size of initial loan	Repayment schedule	Guarantee requirments	Loan period	Size of monthly instalments	Services overall	Micro loan overall
Price	Interest rate	1.000																
	Application fee	0.351	1.000															
	Disbursement fee	0.141	0.313	1.000														
Support	Lending process	0.069	0.090	-0.068	1.000													
	Length of meetings with LOS	0.157	0.128	-0.101	0.149	1.000												
	Frequency of meetings with	0.139	0.067	-0.185	0.104	0.937	1.000											
	Behaviour of employees	0.049	0.044	-0.131	0.216	0.783	0.744	1.000										
Awareness	Contract	0.090	0.114	0.141	0.082	0.029	-0.011	0.160	1.000									
	Micro loan as wanted	0.269	0.237	0.129	0.051	0.041	0.079	0.157	0.310	1.000								
	Default consequences	0.147	-0.004	0.113	-0.018	0.176	0.152	0.256	0.276	0.172	1.000							
Other attributes	Size of initial loan	0.081	0.100	0.052	0.139	0.100	0.080	0.199	0.360	0.444	0.129	1.000						
	Repayment schedule	0.176	0.018	0.061	0.197	0.347	0.298	0.378	0.112	-0.011	0.122	0.086	1.000					
	Guarantee requirments	0.085	-0.048	0.052	0.004	0.011	0.037	0.014	-0.093	0.026	-0.013	0.122	0.201	1.000				
	Loan period	0.077	0.055	0.006	0.197	0.196	0.184	0.275	0.282	0.163	0.103	0.205	0.433	0.154	1.000			
	Size of monthly instalments	0.119	0.323	0.302	0.043	0.081	-0.013	0.139	0.005	0.188	0.210	0.044	0.348	0.176	0.358	1.000		
Overall	Services overall	**0.379**	0.143	0.112	-0.013	0.189	0.142	0.098	0.085	0.056	-0.009	-0.031	0.133	0.140	0.070	0.081	1.000	
	Micro loan overall	0.202	0.071	0.128	0.095	0.038	0.040	0.157	0.122	0.386	0.007	0.123	0.065	0.070	**0.290**	0.169	0.318	1.000

Note: For better understanding, the dimensions are noted on the left side as well as above the attributes. Marked in bold are the relevant correlations, discussed in Chapter 4.5.

Source: Own table, based on primary data