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ISN = 471067
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SPECIAL TECHNICAL ASSISTANCE ACTIVITIES
FOR THE BOLIVIAN SAVINGS AND LOAN SYSTEM

UNDER SUBCONTRACT TO USL INTERNATIONAL, INC.
BETWEEN SEPTEMBER AND NOVEMBER 1986

AID CONTRACT 511-0582-C-00-4216-00

NOVEMBER 14, 1986

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ORIGINAL WORK PLAN

Duration - 25 days

Projected stay in Bolivia - 2 weeks, 10/25/86 - 11/7/86

1. Review existing marketing plans and marketing organization structure of CACEN with special emphasis on savings acquisition activities.
2. Interview the marketing departments of the two Mutuuls located in La Paz re: savings acquisition plans and policies concerning interest rates, terms, and additional services.
3. Relate savings acquisition activities practiced in the U.S.A. and Mexico to the situation currently found in Bolivia, making recommendations as to viable future courses of action for the local savings and loan system.
4. Identify the structural elements of a marketing plan prototype to be used as a model for each of the Mutuuls.
5. Assist in the preparations of the strategic planning meeting to be held in Guayaramerin.
6. Participate in the strategic planning meeting by presenting a talk on strategic planning.
7. Provide a written report analyzing the marketing posture of the savings and loan system with recommended courses of action.

EXECUTION OF PLAN

1. The review of existing plans and organization structure was accomplished with multiple interviews with Robert Boni, Eduardo Frias, Gaston Mujia, Antonia Reyes, Jorge Allon, Ernesto Wende and Rene Urquidi, as well as complete review of all of the written reports prepared by Roman Ortega-Cowan, Robert Boni, Rene Urquidi and others. A telephone conference was also held with Mr. Ortega-Cowan. Interviews conducted with personnel at local Mutuals in La Paz, and participation in the two day strategic planning retreat also provided findings.

In a memorandum from Ernesto Wende, President of the Caja Central, dated September 11, 1986, a new organization structure was announced. Original proposals made by others, including but not limited to Robert Boni and Rene Urquidi, called for a management level position for Marketing at the Caja Central. The announced organization structure shows that function as an Assistant Manager (sub-gerencia) level. While I also concur with the other recommendations that had been made historically with respect to the importance of the function, and the level within the organization chart, even more important is that the position is not filled, has been vacant for some time, and there is no active attempt to provide the in-house marketing expertise. Jorge Allon appears to have many of the functional skills that would allow him to perform the marketing function constructively for the Caja Central and its constituency, but absence of adequate compensation seems to be a primary deterrent from Jorge returning to the position, assuming it was offered. Rene Urquidi certainly has plenty of demonstrated expertise that could be brought to bear on the problem, at least on an interim basis, but it is imperative for the long-term health and development of the system that ongoing marketing, with a strong emphasis toward implementation, reside in the Caja Central.

There is no real comprehensive plan because there is no marketing person in place. It would be superfluous for me or any other outsider to create a plan in a vacuum without someone available to implement on an ongoing basis. The ideal candidate, in my opinion, will have the willingness and ability to travel frequently, at least among the primary five or six institutions in the system, and have strong, basic selling and training skills that will provide practical tools and implementation assistance, oriented toward attracting and retaining savings customers primarily. There is apparent excessive demand for loans, and yet the industry cannot satisfy even half of its need for funds through deposit acquisitions, but must rely on loans from AID and any other source available.

2. There are no marketing departments as such in Mutual La Paz or La Primera. Since the Presidents have the most significant role in the marketing function, they were the primary sources of information with additional input from the #2, Mary Carmen Garcia at La Paz, and Carla Machichao whose title is Head of The Commercial Department at La Primera.

The findings at Mutual La Paz are as follows:

- An extremely limited orden de pago is being offered. It has virtually none of the convenience of a checking account, is offered to only a very small number of well-known clients, and is not promoted at all.
- They are receptive to a more expanded checking type account and believe it would improve image, provide more service, would be safer and easier to use than cash, and could be used to increase account balances overall.
- Current lending rates are at 3-1/2% to 4% a month.
- Current savings rates are 2% to 2-1/2% a month.
- They have substantially more loan demand than they have funds available.
- They are the only institution in the system that offers continuous hours, and they think it helps, although not quantified.
- For the first time, they are trying volantes (handbills) to advertise products and services. Their initial test order is 5,000 for a total cost of approximately \$50.00. They plan to distribute them on the corner, but the concept could be expanded to statement stuffers, other direct mail, and distribution in neighborhoods logically served by the office.
- Their limited experience with branches has been too expensive, and apparently there has been a problem using agents.
- They express interest in hiring a full-time marketing person, but discussion revealed that they really believe they need is a savings director who is operations oriented.
- Borrowers must be savings customers as well.
- They have had a total of 31,000 accounts, 15,000 of which have been lost by attrition, and only 1,600 of which remain active.
- The largest and most favorable product differentiation they have is paying interest on a monthly basis.

- They are trying to overcome the normal slow-down or loss of deposits in December by awarding raffle tickets associated with new or increasing deposits.
- They were paying more for savings than any bank, but good results allowed them to reduce rates (maybe the wrong strategy with the large loan demand they have; they could employ the funds with an adequate spread).
- They have conducted a survey of ten local banks which the Caja Central might find helpful in terms of data and methodology.
- Banks currently have the relationships for accepting utilities payments and tax payments as agents, for modest commissions. La Paz is interested as a client acquisition proposition, but is unable to win such an arrangement independently (at least their perception).
- Five hundred dollars is minimum deposit for dollar denominated accounts.
- Sees the water system loans in Alto at \$80 to \$400 each, two year terms as a business opportunity.
- They are doing the loans to the campesinos with an eye toward cross-selling opportunities (they did not seem to have any plan though, and it will be interesting to see what, if any, business was cross-sold at the time the loan applications were taken).

There are obviously a few pearls that can be disseminated to others in the system, if the Caja Central is serving as a clearing house for ideas and initiatives that work. Extended office hours, hand bills, paying interest monthly, and pursuing utilities accounts are examples that could provide specific benefits system-wide.

Findings From The Interviews With Mutual La Primera

- Their primary competitive tool for deposit acquisitions is rate.
- Maximum loan term with maintenance of value is three years at 24% (plus points, plus commissions).
- Commercial banks have loans of up to six month maximum term.
- They accept deposits with maintenance of value of up to only three months.
- They have a new passbook account, dollar denominated, paying only 12% per year, with semi-annual compounding and interest payment.

- They have a relatively large liquidity position in dollars in the United States, but plan to convert most of that to local loan investments in the near future.
- The largest market is for longer-term loans, but not short-term (lots of discussion about what long-term meant, but apparently more than five years, and preferably more than ten years).
- Loans to flood disaster victims are being encouraged by the Caja Central, but seem imprudent to La Primera without guarantees (collateral) and/or an insurance fund. Carlos Granmarchant's belief is that the Caja Central won't insist on an insurance fund.
- It is believed that an insurance fund for loans would be 2% to 5% incremental costs.
- Origination fees range from 5% to 7%.
- We discussed the inability of people to qualify for payments on a fully amortizing short-term loan, like two to three years. I suggested looking at a longer amortization schedule for computation of the monthly payments, but due in a short term. A widely used, unoriginal idea from Gringolandia.
- They think furniture, fixtures and equipment poor security, so not enthused about lending in that area (higher risk can be offset by higher rates, other guarantees, co-borrowers, loan loss reserve funds, etc.).
- Unwilling to enter into any commitment beyond three years because the President has three years left to serve in office.
- They see utility collections as a good deposit acquisition vehicle, but need computer capacity first. They have engaged a data processing consultant who should have a report and recommendations in about 45 days, with expected installation by June, 1987.
- They think the back office is not capable of handling checking accounts.
- They have a new program; in order to get a loan one has to bring in two new deposit accounts. They have a study that shows their client base as upper middle class to upper class (which is inconsistent with the system in general which enjoys a client base of lower middle class).
- Their apparently large deposit gains recently are distorted by a number of deposits they hold on condominiums, which show up as increases in savings.
- They believe that 75% to 85% of accounts are opened only to facilitate borrowing later, and that 15% of the accounts are for emergencies, with no other objective.

- They believe they suffer from a public perception as a housing lender only. Sixty percent of people interviewed in their market area do not know anything about a savings and loan.
- They want the Caja Central to sponsor a savings account program for children to build a base and habit pattern for the future.
- They use radio, television and newspaper advertising (which seems inefficient with only one office, but may be consistent with an upper middle class and upper class client base).
- They claim to have a monitoring system to check effectiveness of publicity programs for new accounts that are opened (I am sure it is just informal, and not consistently applied, but a good idea).
- They developed a plan three years ago to get pension dollars from teachers. Banks started offering the service one year ago. The thrift industry still does not get any of the business.
- In twelve years of working with the Caja Central, the conclusion is that absolutely nothing is provided, not even some standard contracts to use in the business.
- They think a marketing director at the Caja Central would be just another "adorno" (ornament). Administration is slow to act. There are plenty of ideas provided to the Caja Central for the benefit of the industry, but nothing comes back.
- A news release capability at the Caja Central would help the whole industry in terms of providing support for various lending and savings programs being offered at the mutuals.
- They are planning a program to attract public interest by having a competition for the best low cost housing plan, which will be determined in June, 1987.
- They are having a drawing for which depositors, in order to participate, need to deposit a minimum amount of dollars for a minimum amount of time.
- The board is described as very conservative based on bitter, recent experience. They are not risk-takers.
- Compensation is an impediment. There is no incentive compensation. Low level tellers make half as much as a manager, work only seven hours a day and have no responsibility.
- Mutual employees are barred from borrowing at their own companies, yet other mutuals won't lend to the employees either. A regulation change would make the most sense, and provide some motivation for employees to work for the thrift industry.

- Providing educational opportunities could be a non-financial incentive to attract and retain employees also.
- Having some modest payment for good ideas at the institutional or system level would be a help; a combination of financial reward and recognition for everyone's benefit.
- No ability to pay overtime or days off in lieu of overtime pay.
- Tellers are handling up to sixty people a day (which would not leave much time to cross-sell products) so maybe functions need to be separated or customer workloads reduced. Staff has been cut from sixty to thirty people during the last two years.
- Pay is low, but similar to banks and higher than public agencies.

There are a number of good marketing ideas, both for the benefit of La Primera and that could be shared with the system in general. Recognized impediments generally are not being attacked, and compensation is a serious constraint with respect to accomplishing the goals of the institution.

3. Relating savings acquisition activities practiced in other, more developed markets, was accomplished in meetings with personnel of the Caja Central, personnel from Mutuials La Paz and La Primera, and during the course of the two day management planning retreat. Major general recommendations were with respect to the need for selling skills and implementation assistance. On a more specific basis, substantial discussion and written documentation was provided for a pseudo-checking account product as a keystone in the customer relationship from which to develop other savings and lending relationships.
4. It was agreed locally that a broad, comprehensive marketing plan prototype would not lend itself to practical implementation, therefore would be of little lasting value to the system at this stage of development. Instead, a narrower focus was taken for the evaluation and development of specific products and services. The pseudo-checking account was used as a practical example. During the course of developing that example, a regulation was drafted by the Caja Central's counsel, Licenciado Gaston Mujia and me, discussed with and approved by the Caja Central's Board of Directors (attached). The example was developed (Ejemplo Practico Del Proceso De Planificacion attached) including goals, strategies, actions and a decision-making matrix, treating with the product or service, gestation period, investment to break even, life cycle, anticipated volume over the life cycle, average number of additional people needed per year and other considerations.
5. Assistance was provided for the strategic planning meeting with extensive preparation before going to Bolivia, as well as on-site participation in the development of the program, preliminary goals,

advantages, disadvantages and external factors with respect to clients to be included in the five year plan, definitions used in the planning process, and the preparation of a strategic planning presentation in Spanish.

6. In addition to delivering the presentation on strategic planning and written copies for all attendees, I participated in one of three practical work groups to develop objectives for 1987 for the Mutual La Promotora, which could be used as a specific example of the process for other institutions in the system (copy included). Objectives and strategies were developed for profit, client, savings, personnel, and other recommendations.
7. In summary, there is little marketing posture in the system, not unlike the general lack of marketing that prevailed in the U. S. thrift industry ten years ago. There have already been voluminous written recommendations by Roman Ortega-Cowan, Rene Urquidi, and Robert Boni, which all have substantial merit. The key, obviously, is implementation. My strongest recommendations are as follows.
 - a. Fill the marketing (emphasis on sales) position at the Caja Central with an implementation oriented do-er.
 - b. Make the Caja Central an effective, supportive clearinghouse for ideas and programs that work. There were a few examples exhibited during the planning retreat, brochures for example which could be simply modified to include name and address of the individual mutual, news release program for at least one per week, new product and service plan and appropriate authorizations at least once a month, and intensive assistance on short-term goals and action items (probably no more than one quarter at a time).
 - c. We were able to get the board to authorize mutuals to install the incentive compensation plan developed by Lydia Artze, which was lying dormant in a drawer. The original plan was to have the Caja Central install the plan first as an example for the system, but the anticipated delays could easily be up to two years. To the credit of Ernesto Wende, he was supportive of the needed incentive compensation at the mutual level, as quickly as it can be installed. Again, some assistance in installing even the most rudimentary plan will be imperative.
 - d. The single most beneficial thing that could be done for the entire industry in terms of deposit acquisition and retention would be the development of an insurance fund. That could be done on a self-insurance basis, but would probably be most effective and credible in the market place if the insurance was provided by an independent entity and/or one guaranteed and collateralized by the

federal government. The anxiety about loss of capital is so great that there is substantial investment in the United States at dismal rates, like 6%, when accounts in Bolivia are paying 18% for dollar denominated or maintenance of value accounts. With that huge differential, there is abundant opportunity to pay insurance premiums, in whatever form that occurs, with a good portion of that spread differential. For example, paying 12% would allow 6% to be used for insurance premium payment. Modest caps on insured savings could be established, insurance of the first X amount of loss, a modest deductible before insurance goes into effect, etc., to provide reasonable flexibility and pricing in the market place.

There really isn't any paucity of good ideas on how to get business. There certainly is a lack of practical experience and tools to implement many of the ideas. The Caja Central is positioned to be a more effective clearinghouse and provider of technical assistance, with proper staff and push from the Board of Directors. Insurance will make the largest single difference, but implementation of simple products and services, and adoption of incentive schemes to reward producers will also make material contributions to the industry's ability to attract and retain deposits.

It has been an interesting experience. I hope that the activities I engaged in provide some lasting benefit.