



Keeping clients first  
in microfinance

# The Smart Campaign and Client Protection

Jaipur

October 23<sup>rd</sup>, 2013

[www.smartcampaign.org](http://www.smartcampaign.org)



# Introductions

1. Introduction to the Smart Campaign
2. Principles, Standards and Indicators
3. What we do
4. Get Involved!

## RESPONSIBLE FINANCE

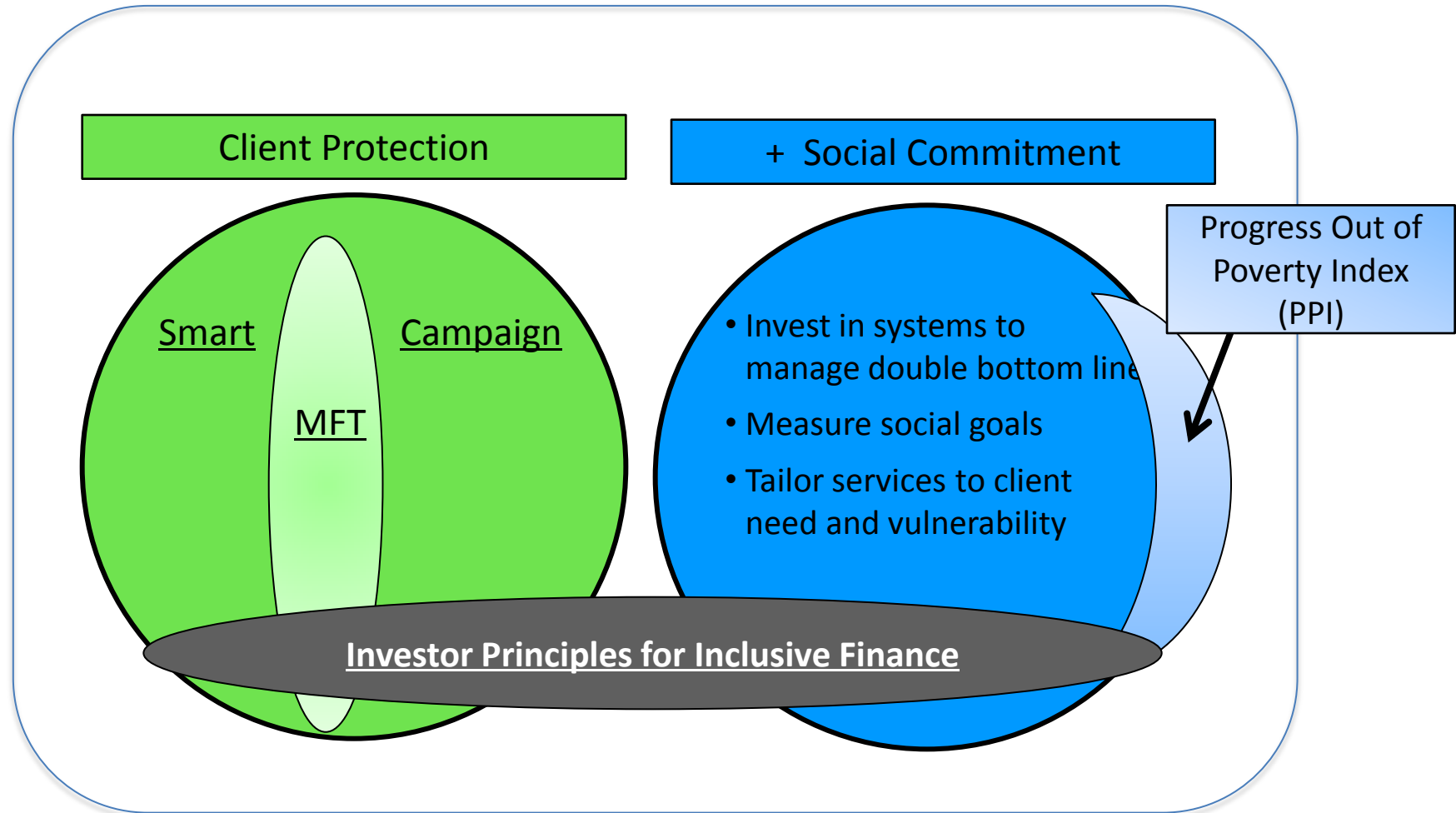


**Regulation for client protection and supervision**

**Financial education and capability**

**Standards and codes of conduct for the industry**

# Social Performance- Where CP fits



Do No Harm!

5

Improve Clients' Lives

# Vision of the Smart Campaign

The Smart Campaign envisions a fundamental transformation of the microfinance industry in four key ways:

## Focus on clients

- All industry stakeholders will put the interests of clients first

## Transparent and prudent services

- MFIs will provide transparent, respectful, prudent financial services

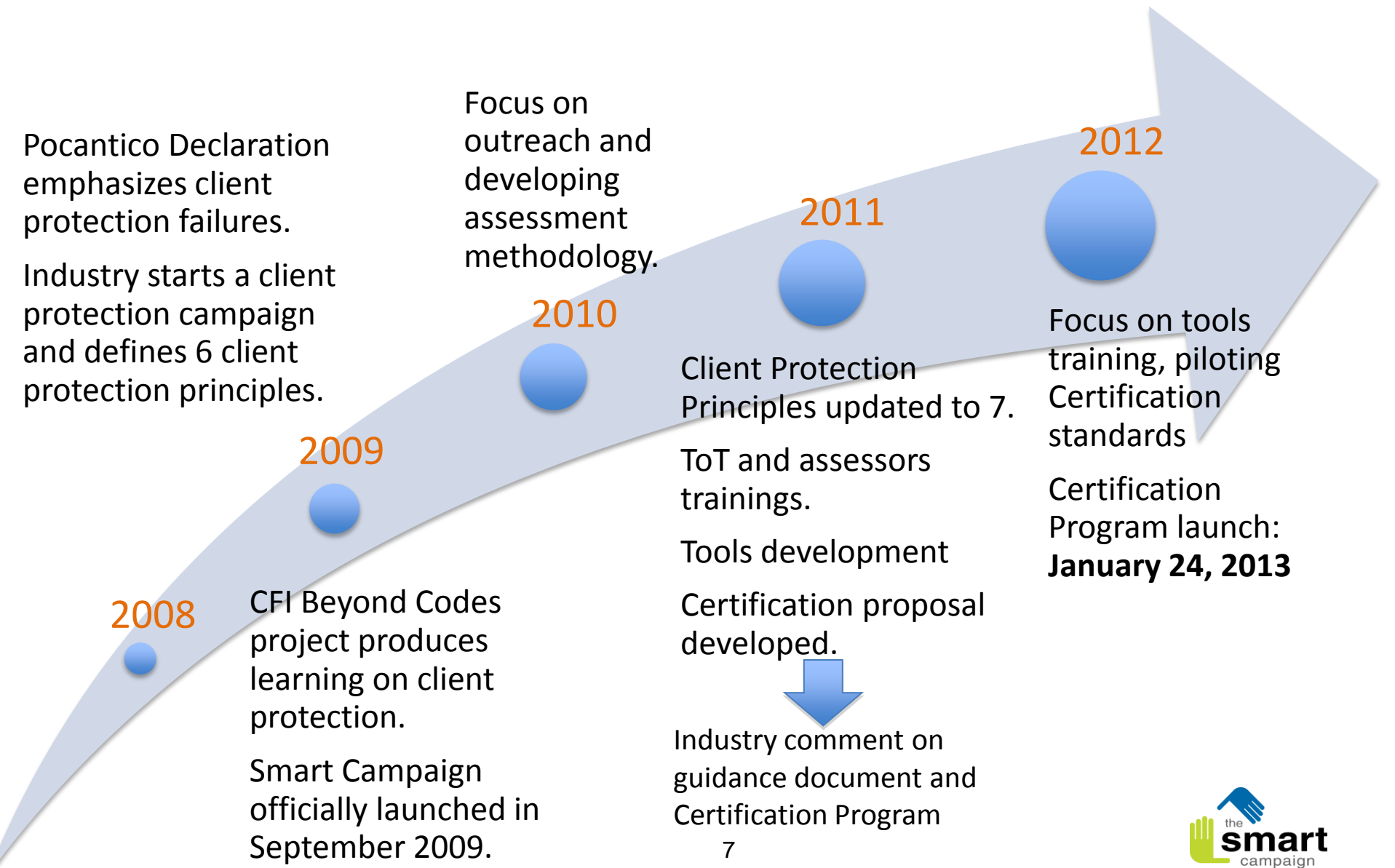
## Full integration of client protection

- Client protection principles will be fully integrated into all microfinance operations

## Gain pro-consumer reputation

- The microfinance industry will be distinguished as leader in responsible finance

# Timeline for better client protection practices



# The Smart Campaign...

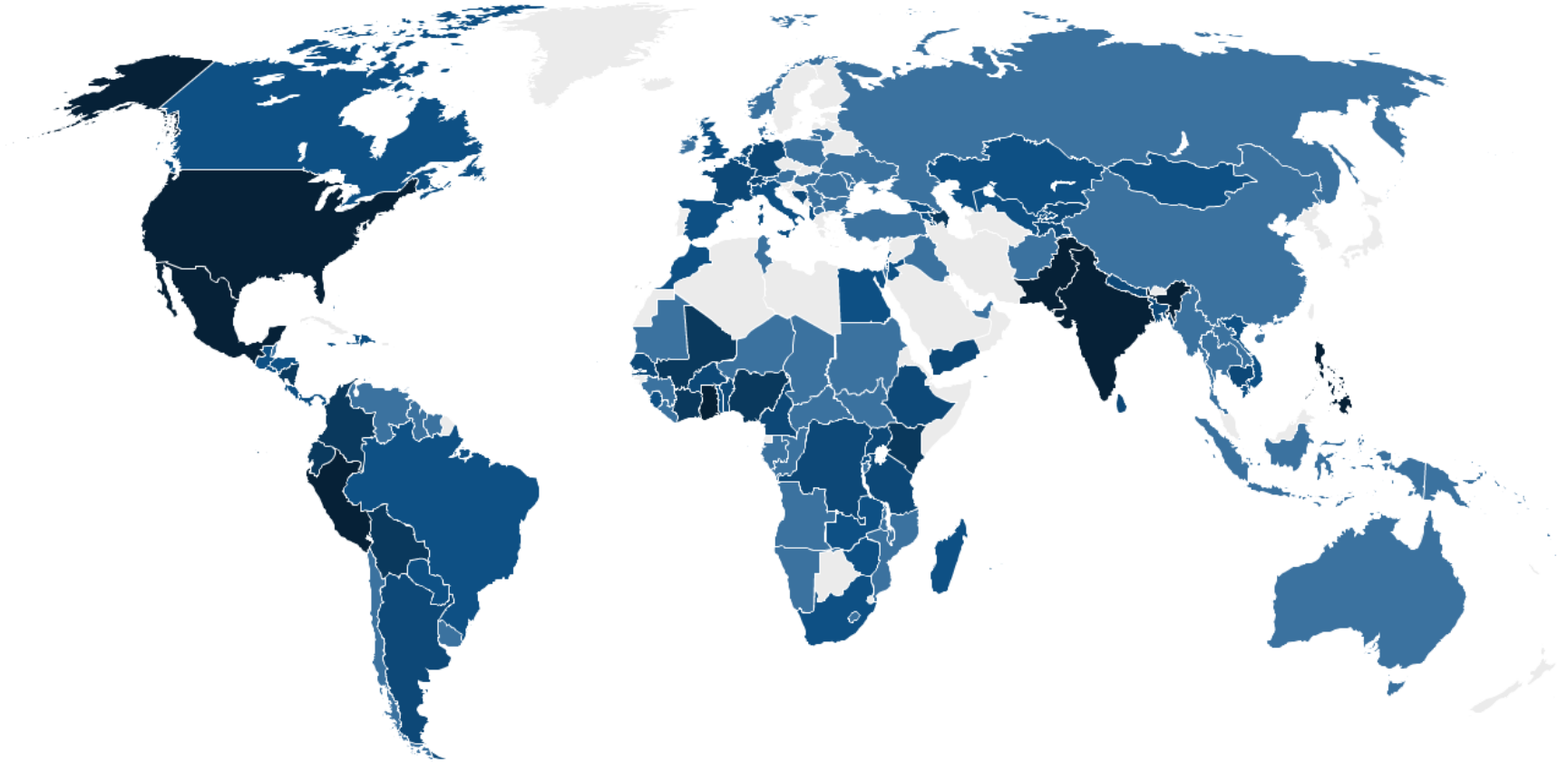
- ...represents a global, industry-wide effort:
- ...has an international steering committee
- ...collaborates with the Social Performance Task Force (SPTF), MIX Market Social Reporting, MF Rating Agencies, *MF Transparency etc*,
- ...is housed at the Center for Financial Inclusion at Accion International



# Campaign Endorsers Globally

**3348** total endorsements

1100 microfinance institutions 148 networks & associations 210 investors & donors 153 supporting organizations



<http://maps.smartcampaign.org/>

# Strategic Partners and Sponsors



**MICROCREDIT SUMMIT CAMPAIGN**



1. Introduction to the Smart Campaign

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# Principles of client protection

1. Appropriate product design and delivery
2. Prevention of over-indebtedness
3. Transparency
4. Responsible pricing
5. Fair and respectful treatment of clients
6. Privacy of clients data
7. Mechanisms for complaint resolution

# Assessment & Certification Standards

7 Principles

30 Standards

95 Indicators

| Client Protection Principle  | Standard  | Indicator   |
|--|---|---|
| Client Protection Principle 1:<br>Appropriate Product Design<br>and Delivery Channels  | The FI designs products that are appropriate to client needs and do no harm             | <p>The FI designs products that are appropriate to client needs and do no harm. It does not offer products that produce negative value for the clients.</p> <p>The FI has a policy describing acceptable pledges of collateral; Has clear guidelines for how collateral is registered and valued.</p>   |
|  | The FI seeks client feedback for product design and delivery                            | <p>The FI investigates reasons for clients drop out.</p> <p>The FI uses client feedback to inform product development and improve existing products (client feedback can be informal).</p>  |
|  | The FI does not use aggressive sales techniques   | The FI does not use high pressure/ aggressive sales techniques. Does not force clients to sign contracts (for credit, no forced signing of any individual borrower or group member, or any guarantor).  |
| Client Protection Principle 2:<br>Prevention of Over-<br>indebtedness  | The FI conducts appropriate client repayment capacity analysis before disbursing a loan | The FI policies support good repayment capacity analysis. The loan approval does not rely solely on guarantees (whether peer guarantees, co-signers or collateral) as a substitute for good capacity analysis. [individual lending] Repayment capacity analysis is done for every loan. [group lending] The group formation and loan approval process ensure the prudent self-selection of members, with emphasis on the concept of solidarity payment. |
|  |   | The FI's repayment capacity policy is adequately disseminated among staff, considering the staff growth and turn-over.  |
|  |   | The FI's repayment capacity policy is uniformly used in the practice.   |
|  |   | The FI performs a repayment capacity analysis at each loan cycle, even if simplified for secondary aspects at loan renewal.   |
|  | The FI incentivizes quality loans   | For clients with informal revenues and/or non consumption loans (most cases), the repayment capacity analysis is based on a client visit (performed by the loan officer or delegated to the group/village members). The FI verifies the information consistency through cross-checks. For clients with a salary asking for a consumption loan, a client visit is not required.  |
| Regular reports on PAR and write-offs are produced and reviewed by the FI's management.  |   |   |
| <p>Reasonable portfolio quality is maintained over time. If there is poor long term quality of loan portfolio, and linked to over-indebtedness, corrective measures have been put in place.</p> <p>The FI's productivity targets and incentive systems value portfolio quality at least as highly as other factors, such as disbursement or client growth.</p> |   |   |

# Matching Client Protection Principles - Standards Test



You have 10 Minutes !!

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## The Principle in Practice:

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

## Consider this:

Appropriate products and services not only provide access to clients, but they also create value for clients.



# The Principle in Practice

## Suitable Products

Multiple and/or flexible loan products address different business and family needs.

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## Suitable Design

Repayment schedules are flexible and match cash flows. Loan size matches financial need.

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## Suitable Delivery

Services are reliable, convenient, and function as advertised.

# The Principle in Practice (Continued)

## Simple Products

Product terms and conditions are easy for clients to understand and compare.

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## Affordable Products

The product cost, size (or coverage), and frequency of payment fit within the client's capacity to pay.

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## Minimum Changes

Changes to the product (cost, terms, conditions) are minimal/ infrequent.

## Savings

Service provider covers costs but does not deplete small savings through excessive fees.

Clients are not excluded from savings, nor are gradual savers penalized.

## Payments

Service provider makes payments in a reasonable amount of time.

Clients know when to expect the payment and have access to their money quickly.

# CPP#1: Adequate standards of care

The FI designs products that are appropriate to client needs and do no harm

The FI seeks client feedback for product design and delivery

The FI does not use aggressive sales techniques

- ✓ Doesn't produce negative value
- ✓ Acceptable collateral policy

- ✓ Investigation of drop outs
- ✓ Use of client feedback

- ✓ No aggressive sales

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# Identifying the Causes of Over-indebtedness

## Multiple loans

- Multiple loans are issued to client, by one or more institutions, due to:
  - Lack of information on the client's liabilities
  - Incentives for loan staff to oversell credit products

## Poorly designed repayment schedules

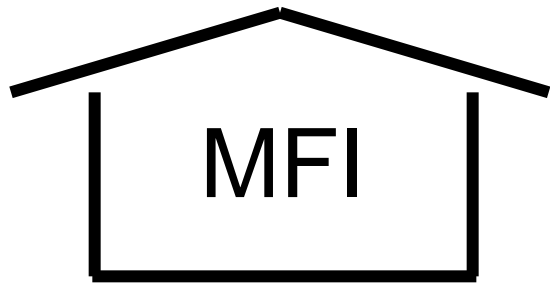
- Repayment schedule does not match the client's business cycles (e.g., agriculture)

## Inadequate capacity analysis

- The institution relies on guarantees as a substitute for adequate capacity analysis

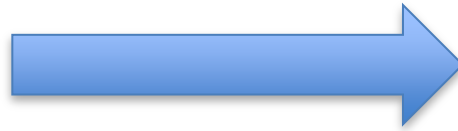
## Unpredictable events

- Accidents, disease, or natural disasters



Borrowers

- Carefully establishes the borrower's ability to afford the loan and repay it.



- Are able to handle debt service requirements without sacrificing their basic quality of life.

## Consider this:

Research and practical experiences shows that borrowers consistently overestimate their own capacity to repay debt.

# CPP#2: Adequate standards of care

The FI conducts appropriate client repayment capacity analysis before disbursing a loan

✓ Repayment capacity analysis

The FI incentivizes quality loans

- ✓ PAR reporting
- ✓ Portfolio quality
- ✓ Productivity targets/incentives

FI uses credit bureau and competitor data, as feasible in local context

- ✓ Credit bureau consultation
- ✓ Policies on sharing/reporting data to competitors
- ✓ Use of data



# CPP#2: Adequate standards of care

The FI Management and Board are aware of and concerned about the risk of over-indebtedness

- ✓ Management awareness
- ✓ Definition of high risk markets

The FI's internal audit department monitors that policies to prevent over-indebtedness are applied

- ✓ Internal audit monitoring
- ✓ Client visits
- ✓ Information on rescheduled loans

The FI avoids dangerous commercial practices

- ✓ Avoids parallel loans
- ✓ Prudent renewal limits
- ✓ Willingness to accommodate clients

# Example of Good Practices from Bosnia-Herzegovina

## Good Practice: Interview delinquent clients.

### Practice

Internal audit department conducts regular interviews of a sample of clients who have fallen behind on their payments.

#### **Two main areas of investigation:**

- Did loan officers follow proper procedures to avoid over-indebtedness when issuing credit?
- What are the causes of the client's repayment challenges?

### Outcome

The MFI uses the information to improve its credit procedures and to monitor risk.

# Tools available from the Smart Campaign



## Business Balance Sheet

Name: ..... Project type: .....

| Assets  |            | Liabilities   |             |
|---|------------|---|-------------|
| <b>A. Current Assets</b>  |            | <b>A. Current liabilities</b>                         |             |
| 1. Liquid assets  |            | 1. Liquid liabilities                                 |             |
| Cash on hand (counted by project's owner in front of the loan officer) .....          |            | Bank loans .....                                      |             |
| Cash in Bank (bank account statement) .....   |            | Due unpaid .....                                      |             |
| Savings .....   |            | Other liabilities .....                               |             |
| Deposits .....  |            | Total current liabilities .....                       |             |
| Total liquid assets .....   |            |   |             |
| 2. Receivables  |            | 2. Payables   |             |
| One month term receivables.....   |            | One month term payables .....                         |             |
| More than one month receivables.....  |            | More than one month payables .....                    |             |
| (-) written off receivables .....   |            | Total payables .....                                  |             |
| Total receivables .....   |            | Total current liabilities (1+2) .....                 |             |
| 3. Inventory  |            | <b>B. Long term liabilities (over one year)</b> ..... |             |
| Total inventory (as real stocktaking by the client and audited by loan officer) ..... |            | Total liabilities (A+B) .....                         |             |
| Total Current Assets (1+2+3).....   |            | Total equity .....                                    |             |
| <b>B. Fixed Assets</b>  |            | Total liabilities and equity .....                    |             |
| Item  | Qty        | Estimated value                                       | Total value |
|   |            |   |             |
|   |            |   |             |
|   |            |   |             |
|   |            |   |             |
|   |            |   |             |
|   |            |   |             |
| Total fixed assets .....  |            |   |             |
| Total Assets (A+B) .....  |            |   |             |
| Loan officer signature:.....  | Date:..... |   |             |
| Branch Manager signature.....   | Date:..... |   |             |

## Examples from MFIs

### Loan Officer Manual Banco Solidario

*Excerpts related to avoiding client over-indebtedness, translated from Spanish*

The philosophy "Living Solidarity" can be applied to everything in life. In our personal lives, it can be a value system and a distinct attitude reflected to our community; and here at Banco Solidario, it can be the genuine fulfillment of our Mission, Vision, Principles, Values, and other aspects of the culture and practices that we adopt year after year.

—Michel Burbano, General Manager

This Loan Officer Manual seeks to serve as a permanent reminder to you that you have a responsibility and role to serve as a collaborator in the creation of a better country. It is an informational tool that should guide your actions and help you in your daily tasks.

Keep the manual with you, review it frequently, and above all, commit to yourself that every day you will work with a positive attitude and will improve yourself personally and professionally.

—Fidel Durán, VP of Microfinance

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## The Principle in Practice:

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

## Consider this:

Transparency is a pre-condition to many of the other principles—foremost, responsible pricing.

# Can MFI clients agree with the following?



I can easily understand the interest rate and compare it to other institutions.



I know my installment amounts and when payments are due.



I've never had unexpected: late fees, early payment fees, or account activity fees, changes to my interest rate or loan terms.



The institution has explained my responsibilities for delinquent group members.



I can easily find out the amount of my outstanding debt and the balance in my savings account.



I am always given the opportunity to ask questions during my interactions with the institution.

# CPP #3: Adequate standards of care

The FI fully discloses cost and non-cost information

✓ Complete cost disclosure

The FI communicates proactively with clients in a way that clients can easily understand

✓ Trained staff  
✓ Simple language  
✓ No fine print

The FI uses a variety of disclosure mechanisms

✓ At least 2 different communication channels  
✓ Disclosure of pricing in public domain

# CPP #3: Adequate standards of care

The FI leaves adequate time for client review and discloses at multiple times

- ✓ Communicates prices, terms & conditions
- ✓ Staff available to answer client's questions

The FI provides accurate and timely account information

- ✓ Clear, timely and accurate information

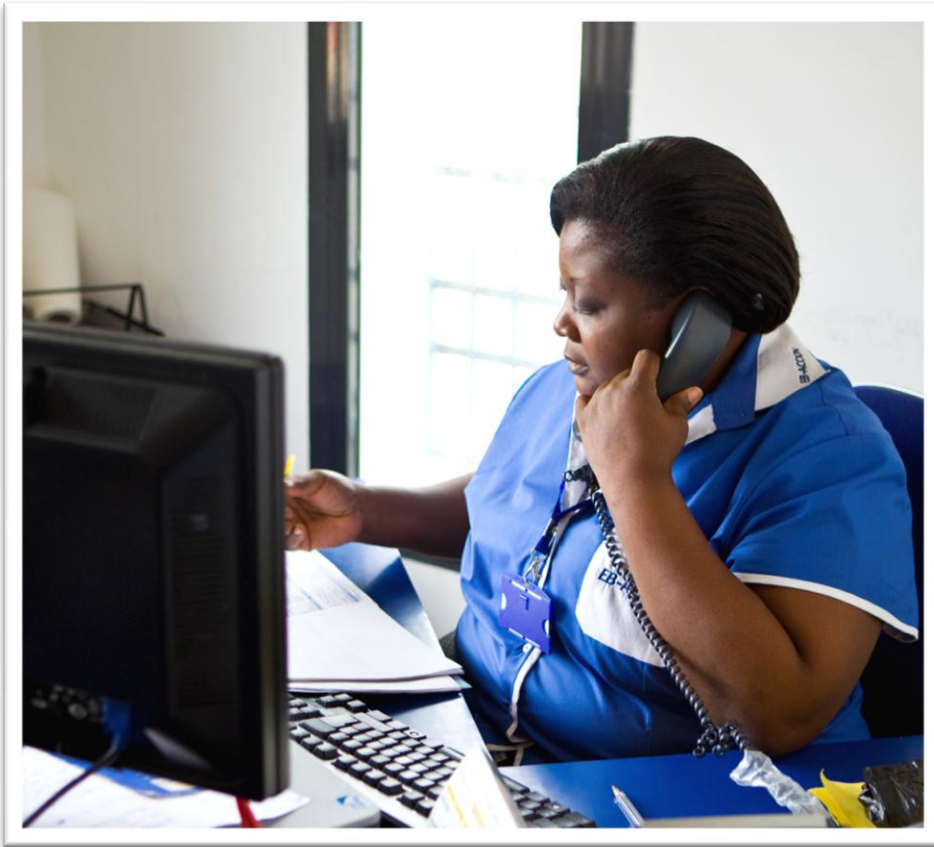


## Good Practice: Increase client understanding

Good practice: Make communication meaningful to the client.

- Don't use fine print. Can you read the bottom of this slide?
- Use plain language. Which statement is more meaningful?
  - A. Non-repayment will result in action on the part of the institution at the immediate outset of the delinquency.
  - B. The institution will begin the loan collection procedures on the first day the client is late.
- Fit the communication method to the client. Are your documents written in the local language? How would a blind person access your important contractual information?

Good practice: Confirm client understanding.



## Use:

- Call backs
- Check lists
- “Key facts” or FAQ document
- Glossaries for key terms
- Analysis of common complaints/questions to improve communication

# Good Practice: Financial Literacy for Improved Transparency



**Financial Literacy:**  
Client gains basic financial knowledge.

**Product Information:**  
Client makes decisions based on information from the MFI and his/her own knowledge.

**Transparency:**  
The client is always aware of his/her rights and responsibilities associated with use of the financial product or service.





# Tools available from the Smart Campaign

## Transparent and Responsible Pricing at Mi-Bospo

INTERVIEW WITH NEJIRA NALIC, EXECUTIVE DIRECTOR, MI-BOSPO

The principle of **transparent and responsible pricing** rests on the assumption that clients are capable of making smart financial decisions when they have access to and understand all the necessary information. Transparent pricing goes beyond just stating an interest rate. Financial institutions are responsible for making sure that they communicate a product's true total cost, along with its applicable terms and conditions, in a way that clients can understand, given educational and language considerations.

Responsible pricing means that the financial institution sets prices so that they are affordable for the consumer at the same time that they enable the financial institution to operate sustainably.

**"For the success of working women."**

The Bosnian MFI Mi-Bospo focuses on client protection to safeguard both the institution and clients. For Mi-Bospo, transparency and responsible prices are key elements of ensuring client satisfaction. The MFI ensures transparency by screening potential hires, adhering to strict marketing guidelines, and taking time during the loan process to be sure that clients understand their rights and responsibilities.

**Smart Campaign (SC): Thank you for the opportunity to learn from Mi-Bospo's experience. First, can you tell us Mi-Bospo's definition of "transparent pricing?"**

**Nejira Nalic (NN):** Mi-Bospo develops long-term relationships with clients. Early on, we identified the need to communicate clearly with clients, to ensure client satisfaction and loyalty. Mi-Bospo understands transparent pricing as loan agreements and other



Place: \_\_\_\_\_ Date: \_\_\_\_\_

### Loan Agreement

#### 1. Parties of the Agreement

- 1.1. "The lender": JSC Microfinance Organization Crystal; registration number: 212896570; legal address: 72 Tamar Mepe Str., Kutaisi, 4600 Georgia
- 1.2. "The Borrower": \_\_\_\_\_

"The lender" and "The Borrower" acting under the Country legislation and the rights under the charter of the lender, have agreed on the following:

#### 2. Subject of the Agreement

- 2.1. On the basis of the terms specified in this Agreement, the Lender is providing the Borrower with the loan
- 2.2. Lender and Borrower take responsibility to fulfill commitments towards each other fully and in a due time

#### 3. General Terms and Conditions of the Loan

|  |  |
|--|--|
| 3.1. Volume and currency of the Loan   |  |
| 3.2. Maturity of the Loan (# of month) |  |
| 3.3. Grace period                      |  |
| 3.4. Interest rate                     |  |
| 3.5. Commission (Origination) fee      |  |
| 3.6. Penalty for the late payment      |  |
| 3.7. Penalty for pre-payment           |  |
| 3.8. Purpose of the loan               |  |
| 3.9. Loan Provision/Collateral         |  |

Additional conditions  
 Borrower should use the loan only according to the information/purpose given in the loan application. Such activity will be deemed as misuse of the loan and may result in termination of the Agreement. Repayment is carried out in accordance with the attached repayment schedule which is an integral part of the loan.  
 If financial position of the Borrower deteriorates or there is such potential hazard, the borrower should provision/guarantees that will be deemed by the lender as satisfactory.  
 The loan repayment is as follows: first penalty is covered (in case if such liability exists); then an disbursement in several tranches, interest is accumulated based on the actual loan balance. As parties, proper use of the first tranche represents an obligation for disbursing remaining part of relating this point, the Lender has right to suspend the remaining part of the tranche and require of the disbursed amount.  
 Late payment will be charged for maximum 90 days.  
 The lender will retain commission fee from the original loan amount.  
 If, more than 40% of the loan principal is covered, the Lender keeps its right to free the fees for early pre-payment.

#### 4. Reporting

Borrower should present financial and legal documentation, reflecting current invoices, customs declarations, agreements with suppliers and clients, licenses and etc.

#### Rights and Responsibilities of the Parties

Each party shall execute all the responsibilities undertaken under this agreement. Therefore, each party shall be responsible for the execution of undertaken responsibilities. Each party shall maintain and keep business information confidential. Each party shall be responsible for all liabilities undertaken under this agreement, repay the taken loan and



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## The Principle in Practice:

Pricing, terms, and conditions are set in a way that is both affordable to clients and sustainable for the financial institution.

## Consider this:

Financial sustainability is required to continue serving clients, but is not an end in itself.

# CPP #4: Adequate standards of care

The FI offers market-based, non-discriminatory pricing

✓ Market-based pricing

The FI's efficiency is in line with its peers

✓ Efficiency ratios aligned with peers

The FI does not charge excessive fees

✓ Pre-payment penalties, account closure, transaction fees, are not excessive



# Exercise

|                          | MFI 1 | MFI 2  | MFI 3 | MFI 4 | MFI 5 |
|--------------------------|-------|--------|-------|-------|-------|
| POS (Rs Cr)              | 93    | 18     | 30    | 80    | 72    |
| Clients (1000s)          | 81    | 10     | 23    | 68    | 63    |
| Region                   | South | N.East | North | South | South |
| Product (int rate)       |       |        |       |       |       |
| -JLG                     | 25%   | -N/A-  | 26%   | 26%   | 24%   |
| -Education               | 22%   | -N/A-  | 22%   | -N/A- | 25%   |
| -Housing                 | 24%   | 26%    | -N/A- | -N/A- | -N/A- |
| RoA                      | 2.5%  | 0.8%   | 2.8%  | 4.7%  | 1.2%  |
| RoE                      | 10.4% | 2.3%   | 8.2%  | 18.9% | 2.1%  |
| Yield on Portfolio       | 23.2% | 27.1%  | 23.5% | 28.2% | 22.1% |
| OER                      | 11.2% | 16.3%  | 11.8% | 8.4%  | 18.1% |
| Offer 'credit plus' svcs | •     | ✓      | ✓     | •     | •     |

## ***Common assumptions:***

- *All MFIs are 3 – 5 years old*
- *Repayment rates are healthy; in the range of 98 – 99.5%*

# Questions

- Are all the institutions directly comparable? Which of them would you consider 'peers'?
- Identify which MFI is most efficient? Does any institution appear inefficient?
- Do you think any institution is generating more than desirable levels of profits? Explain ways to prevent / avoid this?

# Feedback from Participants



Do MFIs train staff on what constitutes responsible pricing?

What pricing procedures do MFIs commonly use?

What effect does the competitiveness of the local microfinance market have on pricing?

Have you seen examples of irresponsible pricing?

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# Effects on the client and the institution

Clients  
mistrust the  
institution,  
and tell  
others.

Inappropriate  
Collections  
Practices

To avoid  
humiliation,  
clients go to  
extremes to  
repay their  
loans.

Staff rely on  
coercion for  
repayment,  
rather than  
good portfolio  
management.

## The Principle in Practice:

Providers and their agents treat clients fairly and respectfully. They do not discriminate and will ensure safeguards are in place to detect and correct corruption.

## Consider this:

Most abuses happen during the loan sales and debt collection processes—these need special attention by providers.

# CPP #5: Adequate standards of care

The FI culture raises awareness and concern about fair and responsible treatment of clients

- ✓ Code of Conduct
- ✓ Code reviewed and approved by Board
- ✓ Code signed by staff

The FI has defined in specific detail what it considers to be appropriate debt collection practices

- ✓ Collection practices defined
- ✓ No zero PAR policy
- ✓ Collateral policy respects clients' rights

The FI's HR policies (recruitment, training) are aligned around fair and responsible treatment of clients

- ✓ Recruitment and training in line with Code of Ethics
- ✓ Collections staff trained

# CPP #5: Adequate standards of care

The FI implements policies to promote ethics and prevent fraud

In selection and treatment of clients, the FI does not discriminate inappropriately against certain categories of clients

- ✓ Performance evaluations
- ✓ Sanctions exist and are enforced
- ✓ Monitoring
- ✓ Living wage

- ✓ Non-discrimination policy
- ✓ Consistent rescheduling



# CPP #5: Adequate standards of care

In-house and 3<sup>rd</sup> party collections staff are expected to follow the same practices as the FI staff

✓ Same training provided to subcontractors

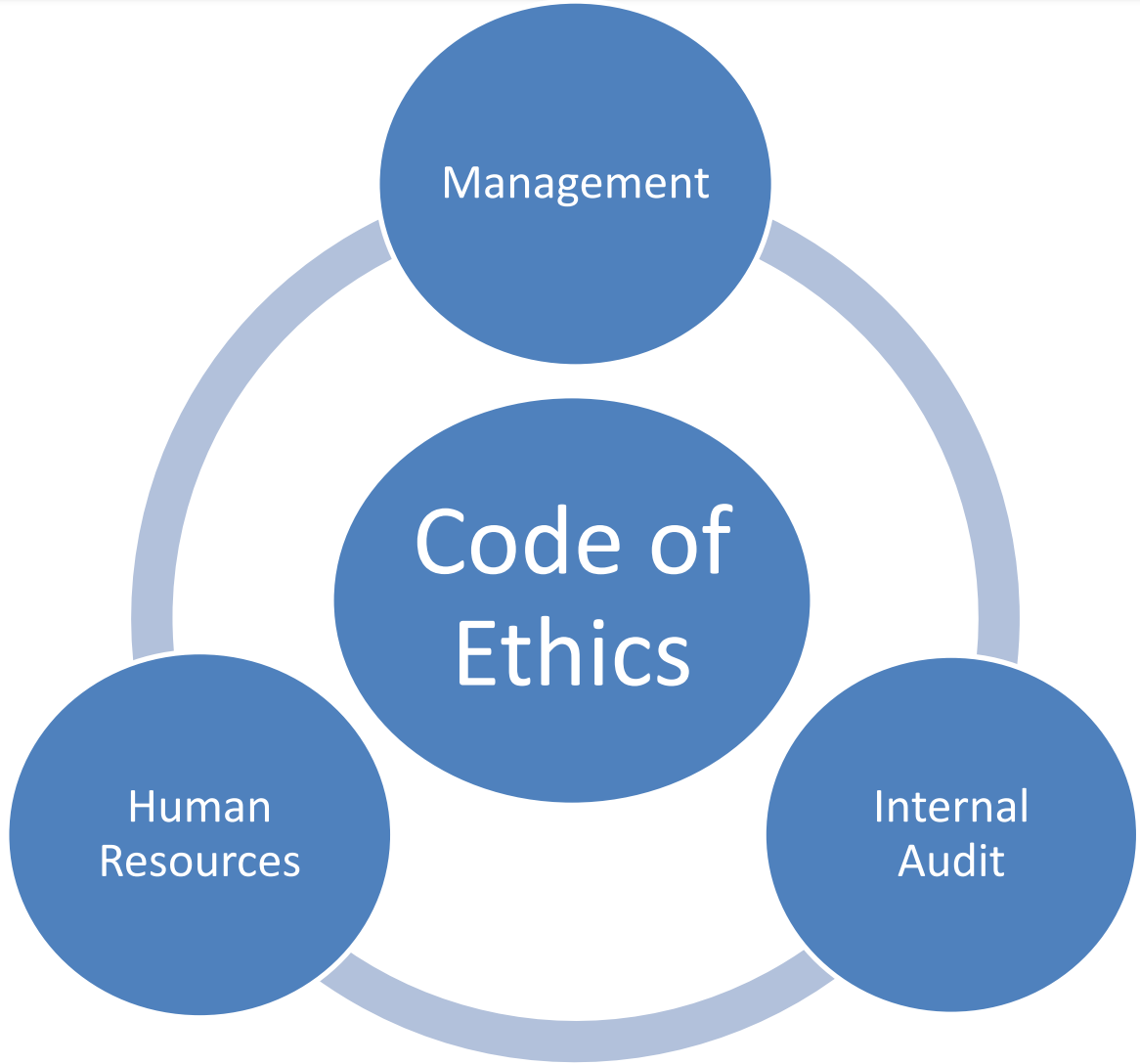
The FI informs clients of their rights

✓ Main aspect of the Code of Conduct  
✓ Collateral procedures  
✓ Rescheduling procedures

# The role of management

- ✓ Creating a Code of Ethics for the institution.
- ✓ Communicating the importance of ethics to staff on a regular basis.
- ✓ Training staff to respond to ethical dilemmas tailored for their position.
- ✓ Empowering managers to follow up on ethical complaints.
- ✓ Establishing an Ethics Committee that rewards ethics and sanctions violations.





# Examples of inappropriate practices

## Offensive language and threats

- Credit staff uses offensive or abusive language.
- Collections agents threaten clients or harass them at work, home, or their places of worship.

## Unethical seizure of property

- Collections agents enter a client's home and/or seize property without a judicial order.
- The institution accepts collateral that may deprive borrowers of their basic survival capacity.

## Subcontracting to unethical businesses

- The institution subcontracts collections to businesses that are not subject to the same ethical standards as the institution.

## Careless debt extension

- The institution issues automatic debt extensions.

# Tools available from the Smart Campaign

## smart notes

Putting the Principles into Practice

NUMBER 2 | MARCH 2010

Ethical staff behavior begins at the top of an institution, with a commitment from senior management. When this commitment is successfully integrated in the institution's strategy and systems, it permeates the institution. How the institution treats its staff and builds its culture directly affects how the staff live the institution's values and treat their clients.



The six core values of Compartamos.

Compartamos Banco derives its Code of Ethics from a set of six core values. The Person is the central value, and the Institution's commitment to improving the lives of people is supported by Responsibility, Passion, Profitability, Teamwork, and Service. Shortly after establishing a code of ethics, Compartamos created a department to review, monitor, and institutionalize the code throughout the institution. As a result, the bank's emphasis on ethical behavior is evident throughout the institution.

## Compartamos: Building Institutional Culture around a Code of Ethics

Staff ethics have been at the heart of Compartamos Banco's institutional culture since its inception. Compartamos began as an NGO in 1990, lending to women microentrepreneurs in Mexico. By 2006, the institution had transformed from an NGO into a commercial bank. Although it now has 1.2 million clients and staff has nearly quadrupled to almost 6,000, the bank always maintained a spirited institutional culture.

Compartamos established a formal Code of Ethics in 2004. The Code is a comprehensive document that addresses many of The Smart Campaign's Protection Principles, including ethical and appropriate collections practices, and contains information about client information. The Code is built around six institutional values, including Respect, Honesty, Profitability, Teamwork, and Service. The central value is the Person and the other five values are integrated into the Code as an integrated whole.

A Code of Ethics, however, has no effect if an institution does not take steps to make it institutionalized. This is why, in 2005, the Code, Compartamos created a living document within the institution that connected good practices that were already in place to a living document within the institution.

### STAFF RECRUITMENT AND VALUES AND ETHICS

Compartamos starts its recruitment process to focus more on client outcomes and loan recovery. Human resources use a variety of psychological tests during the recruitment process to ensure the compatibility of candidates with the institution's values.

## smart notes

Putting the Principles into Practice

NUMBER 1 | FEBRUARY 2010

Appropriate Collections Practices demonstrate respect for borrowers while emphasizing the need for clients to honor their commitments to lenders.



An institution shows appropriate practices when staff treat clients with dignity even when they fail to meet their repayment commitments.

Mexico's FinComún began as a credit union in 1994, promoting savings among its members.

Since 2005 FinComún has operated as a regulated financial institution offering savings, insurance, credit, and other financial products. Through alliances with strategic partners it reaches more than 150,000 clients between savings and credit.

In 2008, facing rising default rates, FinComún developed an approach called Collections with Dignity and carried out a detailed revision of the collections process to focus more on client outcomes and loan recovery. It put policies and procedures in place to implement this new philosophy. FinComún staff have been very pleased with the effects on portfolio quality and client relations.

## Collections with Dignity at FinComún

In 2008, while facing rising default rates, FinComún implemented a new collections philosophy in order to support clients facing the global financial crisis and combat rising default rates. The new philosophy, Collections with Dignity, is based on the belief that collections agents should treat clients how they themselves would like to be treated.

By focusing on client outcomes as well as loan recovery, FinComún was able to strengthen relationships with clients, increase on-time payments, and mitigate some of the effects of the global financial crisis on the institution's portfolio.

### RESETTING THE COLLECTIONS PHILOSOPHY

Collections with Dignity deemphasizes collections alone and instead promotes listening to clients and providing them with repayment solutions. The field staff in collections is encouraged to refer to clients as "clients with late loans" instead of "delinquent clients" in order to avoid the negative connotations and disdain associated with this word.

The revamped collections process proceeds according to the following schedule:

1. 0-56 days late: Loan officers handle collections.
2. 56-90 days late: Recovery specialists take over the process, conducting up to three home visits during which they offer financial advice and repayment solutions. During the first visit, the specialist listens to the client's problems to determine why payment is late. In the second visit, the specialist describes different repayment options to the client and asks her to think about which she would prefer. These options include lengthened payment periods, combining cash and collateral for payment, and restructuring the loan. During the final visit, the specialist and the client work together to choose the best solution.

# Principles of client protection

1. Appropriate product design and delivery
2. Prevention of over-indebtedness
3. Transparency
4. Responsible pricing
5. Fair and respectful treatment of clients
6. Privacy of client data
7. Mechanisms for complaint resolution



***I know for what purposes can the Institution use my data and I have authorized the institution the use of my data for specific purposes.***

***I am aware of the risks of sharing my loan card, filled application form with others and hence keep my data confidential.***

**But.....**

***Can the institution use / share my photographs apart from data?***

# Feedback from Participants



Do clients care about data security? If something went wrong and their personal or financial information was compromised, would it affect your business?

Have you witnessed privacy or security lapses? How do institutions respond?



## The Principle in Practice:

The provider complies with all local data privacy laws. Client information is only used in the ways agreed upon at the time of data collection.

## Consider this:

Clients trust financial service providers with very sensitive personal and financial information.

# CPP #6: Adequate standards of care

The FI has a privacy policy and appropriate technology systems

- ✓ Written privacy policy
- ✓ Sanctions in event of violation
- ✓ Systems to protect client data

The FI informs clients about when and how their data is shared and gets their consent

- ✓ Policy to discuss confidentiality with clients
- ✓ Staff training
- ✓ Policy read aloud
- ✓ Data privacy clause in contracts
- ✓ Written consent for sharing

# Good practices for privacy and security

Ask employees to sign a confidentiality agreement at the same time as their employment contract.

Establish a clearly defined “user access hierarchy” for staff accessing sensitive data.

Hold periodic campaigns for clients to update their data and incentivize them to participate.

Don't allow information available on the 'intranet' to be printed or downloaded for use outside the office.

# Good practices for privacy and security

Spot check the security of physical files in branches (e.g. using internal auditors).

Train clients on how to keep group information private.

Describe the sanctions for the misuse of client data in the staff book of rules.



# Tools available from the Smart Campaign



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the smart campaign Keeping clients first in microfinance

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Tools & Resources | Security is the Key: Pocket Guide to Financial Security for Clients

## tools & resources

View Tools & Resources Highlights

Comprehensive List of Tools

View Client Education Tools & Resources

### Security is the Key: Pocket Guide to Financial Security for Clients

E-mail Print

User Rating (0): ★★★★★ Poor ○○○○○ Best Rate

Finamerica provides a pocket-size brochure with tips about how to protect one's security and prevent identity theft, robberies, and other possible threats to the privacy of their personal information.

[Download Brochure \(Español\) »](#)  
[Download English Translation »](#)

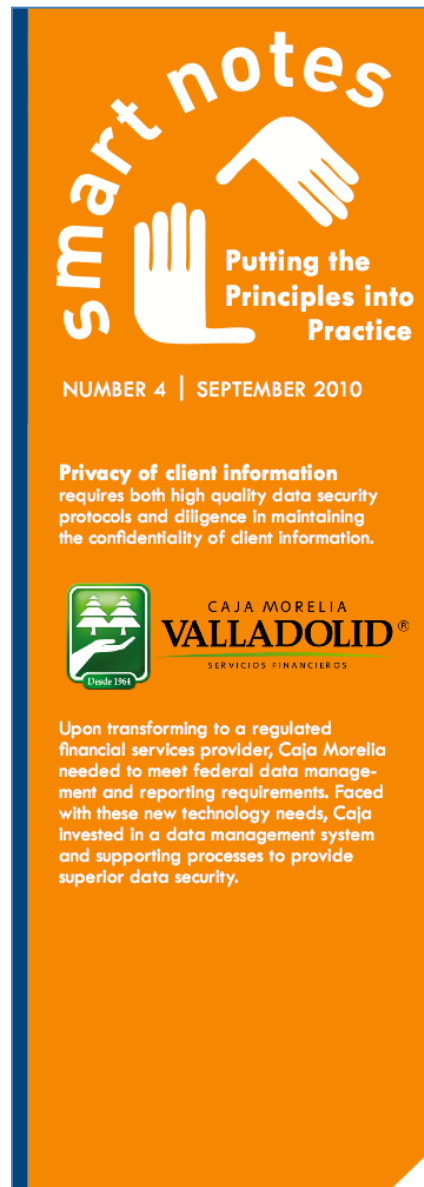


## SAMPLE CLIENT WELCOME KIT

Essential documents for new clients

[www.smartcampaign.org](http://www.smartcampaign.org)

the smart campaign Keeping clients first in microfinance




## smart notes

Putting the Principles into Practice

NUMBER 4 | SEPTEMBER 2010

### Privacy of client information

requires both high quality data security protocols and diligence in maintaining the confidentiality of client information.



CAJA MORELIA VALLADOLID®  
SERVICIOS FINANCIEROS

Desde 1964

Upon transforming to a regulated financial services provider, Caja Morelia needed to meet federal data management and reporting requirements. Faced with these new technology needs, Caja invested in a data management system and supporting processes to provide superior data security.

## Customized IT at Caja Morelia safeguards client data

At Caja Morelia Valladolid, investing in high quality technology is the foundation for accurate and secure client information as well as the basis for strong customer service for its clients.

Caja Morelia began as a cooperative society initiated by the Catholic Church in 1964. In 2005, it became a regulated cooperative overseen by federal authorities in Mexico and by 2008, Caja Morelia had transformed into a regulated financial intermediary subject to national and international accounting standards. The cooperative owned by its 250,000 members, and all employees must be members, which keeps employee incentives aligned with member interests and enhances their commitment to customer service.

Upon transformation into a regulated financial service provider, Caja had to meet federal data management and reporting requirements. Instead of simply viewing this new technology as an additional cost of the transformation process, the management team at Caja saw an opportunity to invest in a customized solution that would provide superior data security and allow the cooperative to meet federal anti-money laundering requirements. The institution's history of developing its own systems and software enabled it to see the value of a customized solution for its new technology needs.

Caja spent three years developing its own data management system, one year creating the infrastructure necessary to support this system, and six months testing and refining it prior to launching the system as part of its transformation process in 2008.

The institution decided to hire in-house software engineers to create and maintain a custom client database due to several business advantages:

- Lower long-term cost by keeping maintenance in-house;



How have data management practices and systems evolved? Your experience?

# Principles of client protection

1. Appropriate product design and delivery
2. Prevention of over-indebtedness
3. Transparency
4. Responsible pricing
5. Fair and respectful treatment of clients
6. Privacy of clients data
7. Mechanisms for Complaint Resolution

## The Principle in Practice:

Providers have a mechanism for collecting, responding in a timely manner, and resolving problems for customers.

The mechanism is used to resolve individual complaints and improve products/services.

## Consider this:

Suggestions boxes are not effective for responding to specific problems in a timely way.



# CPP 7: Standards of care

The FI's clients are aware of how to submit complaints

✓ Clients informed

The FI's staff is trained to handle complaints

✓ Staff is trained

The FI's complaints resolution system is active and effective

- ✓ Complaints policy
- ✓ Appropriate system in place
- ✓ Actively used by clients
- ✓ Audit verification

The FI uses client feedback to improve practices and products

✓ Incorporation of feedback

# Examples of complaint mechanisms



Email the MacroDreams Customer Response Department: [customers@md.info](mailto:customers@md.info)

Call the MacroDreams Customer Response Line: 555-555-555

Send an SMS to the MacroDreams Customer Response Line: 555-555-555

Leave a comment card in the Suggestion Box at your local branch

Visit a Customer Service Desk.  
Call for locations: 555-555-555

# Good Practice: Using Multiple Complaints Channels

Good practice: Assess the complexity and urgency of the complaint then use an appropriate mechanism.



# How Dissatisfied Clients Affect the Institution

## Findings from the Field

A very satisfied client will talk about his/her experiences with 3-4 people, but a dissatisfied client will tell 8-9 people.

When a client's complaints are received, answered, and solved, there is a 90% chance that s/he will return to the institution.

90% of dissatisfied clients whose problems are not resolved will never return to do business with the institution again.

# No Complaints $\neq$ Completely Satisfied Customers

If your institution **does not** receive concerns or complaints, be careful:

- Clients could be happy with your products and customer service, **or**



- Clients might not feel empowered to share their concerns and complaints or
- They might not know how to do so, **or**



- Clients might not feel like they can complain without this affecting their business relationship with the institution.

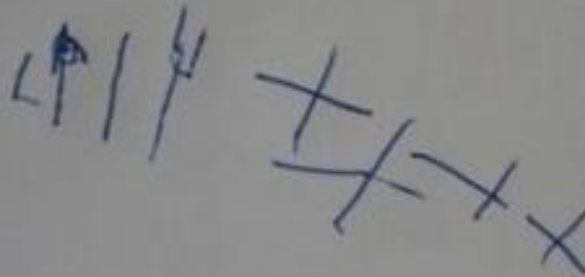


Sainsbury's Supermarkets Ltd  
33 Holborn  
London  
EC1N 2HT

Dear  
Sainssssssssssssssssssssssbbbbbbsburyys,

Why is tiger bread c\alled tiger bread?  
It should be c\alled giraffe bread.

Love from Lily Robinson age 3 ½



Our reference: 1-251167834

14 June 2011

Sainsbury's



official partner of the Paralympic Games

Sainsbury's Supermarkets Ltd  
39 Market  
London  
EC3N 2JF

Telephone 0800 036203  
Fax 0800 028705  
www.sainsbury.co.uk

Thanks so much for your letter. I think renaming tiger bread giraffe bread is a brilliant idea – it looks much more like the blotches on a giraffe than the stripes on a tiger, doesn't it?

It is called tiger bread because the first baker who made it a looong time ago thought it looked stripey like a tiger. Maybe they were a bit silly.

I really liked reading your letter so I thought I would send you a little present. I've put a £3 gift card in with this letter, if you ask your mum or dad to take you to Sainsbury's you could use it to buy some of your own tiger bread (and maybe if mum and dad say its OK you can get some sweets too!). Please tell an adult to wait 48 hours before using this card.

I'm glad you wrote in to us and hope you like spending your gift card. See you in store soon.

Yours sincerely

Chris King (age 27 & 1/3)  
Customer Manager

Enclosed: £3 gift card







# Tools available from the Smart Campaign



Keeping clients first  
in microfinance

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Tools & Resources

## tools & resources

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## Tools & Resources

### Article List

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| 1 | <a href="#">Complaints-Analysis Spreadsheet (Fundacion Delamujer)</a>                | 3155 |
| 2 | <a href="#">Complaints-Handling Manual (Tamweelcom)</a>                              | 3105 |
| 3 | <a href="#">Complaints-Handling Brochure for Clients (Opportunity Bank)</a>          | 2200 |
| 4 | <a href="#">Complaints-Handling Manual (FONDESURCO)</a>                              | 2045 |
| 5 | <a href="#">Smart Note: Responding to Client Complaints at Tameer Bank, Pakistan</a> | 637  |

# Tools available from the Smart Campaign



Tameer Bank, Pakistan employs a unique approach to the complaints handling process by using preemptive, outbound calls to clients, made routinely from Tameer's own in-house call center, the Tameer Customer Service Unit.



The Smart Campaign's Client Protection Principle, Mechanisms for Complaints Resolution states that institutions should:

- have a formal, systematic mechanism for receiving client complaints;
- respond to client complaints in a timely manner
- use information from those interactions to improve operations.

Tameer's approach to complaint resolution can serve as an "excellent practice" example of these items. Tameer staff member Murium Hadi discussed the institution's complaint mechanism with Zahra Khalid of the Pakistan Microfinance Network (PMN), revealing several valuable lessons from the field.

## Responding to Client Complaints at Tameer Bank, Pakistan

**Pakistan Microfinance Network (PMN):** Thank you for giving us the opportunity to learn from Tameer's experience as one of the first Pakistani microfinance institutions to create a call center. What prompted Tameer to do this?

**Tameer Bank:** In 2007, just two years after its inception, Tameer faced the problem of severe client delinquency. The crisis led to a comprehensive review of credit policies and lending procedures. As part of this effort, Tameer realized the importance of exploring an alternative channel to customers, apart from the link already in existence through its loan officers. The idea was to build stronger relationships and deeper understanding of client needs.

In line with these two goals, Tameer established a call center – the Customer Services Unit (CSU) – that would:

1. Allow Tameer to formally monitor and address client complaints
2. Allow Tameer to verify client data before disbursing loans.

### PMN: How does Tameer use the Customer Service Unit (CSU) to monitor client complaints?

**Tameer Bank:** The CSU accepts incoming client complaints with a universal access number (UAN) and dedicated staff to monitor complaints and gather feedback on client satisfaction levels.

When the CSU receives a call, a CSU staff logs the details in a complaint tracking database. If the inquiry or complaint is simple, it is resolved immediately, over the phone. For other complaints, the CSU staff initiates an investigation of the complaint by contacting the relevant branch office or bank department. For example, if a client complains about incorrect interest charges, the CSU staff sends the complaint information to the branch where the loan was processed, with a request that the branch follow up with the client and resolve the problem.



acts the client  
If Tameer  
the client  
ected date  
aint that  
t highest

**PMN:** You mentioned that Tameer uses a system of outbound calls as a way to validate the information collected on credit applicants. What type of information is gathered on potential/existing clients through these calls?

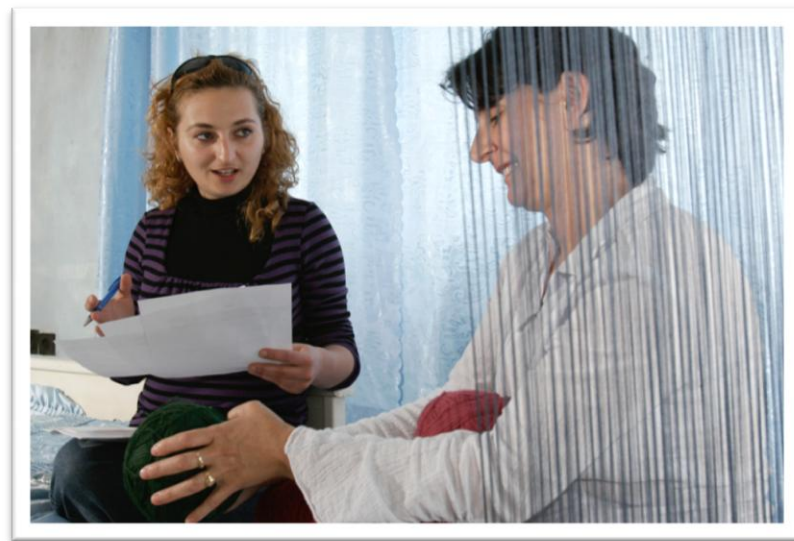
**Tameer Bank:** CSU staff call all unsecured loan clients (around 3,400 customers per month) as part of pre-disbursement verification process. They check whether or not the client's data in our system is correct. If there is an error, the relevant department is contacted and the data are corrected. This call is required before the loan can be disbursed. In addition to using the calls to verify and correct client information, we also take the opportunity to answer any questions the client may have about their product, and to emphasize the importance of on-time repayment.

While these calls serve the bank's purpose of validating and correcting client data, they also function as a welcome to our clients. We ensure they understand that we are here to serve them, and that they can call us any time they have a question or complaint. We think this is an important part of building client loyalty and a culture of service at the bank.

1. Introduction to the Smart Campaign
2. Principles, Standards and Indicators
3. What we do
4. Get Involved!

## In short...

- Client protection in microfinance is still relatively new, but thriving.
- Organizations are at different levels of implementation.
- The state of practice is improving.





# External Client Protection Assessment

## Main objective of the assessment :

- Identify good practices and challenges in the principles' implementation
- Provide the institution with a useful recommendations on how to improve practices and reduce the risk of harming clients.
- Prepare institution for Certification!

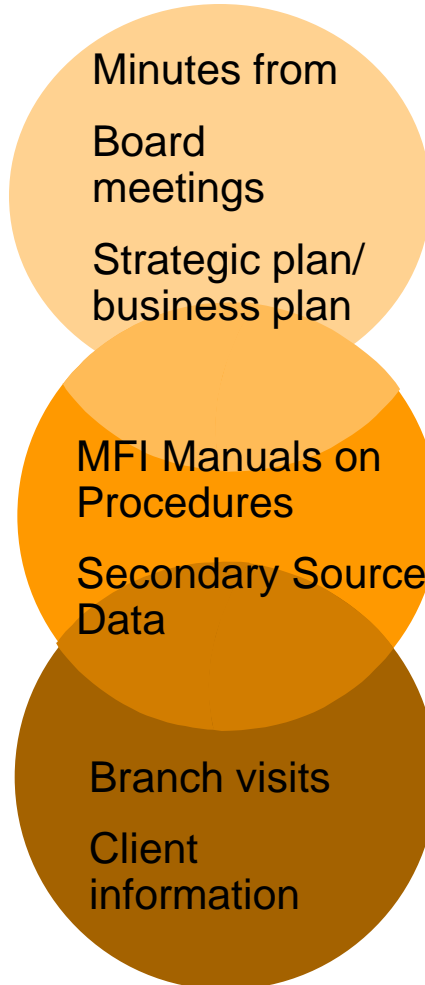


# External Smart Assessment Methodology

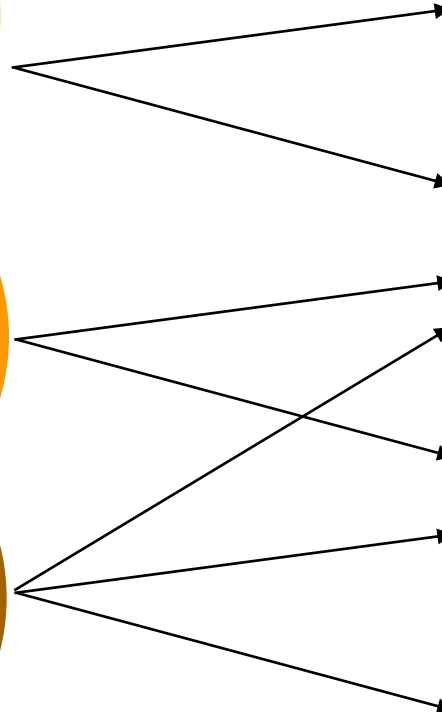
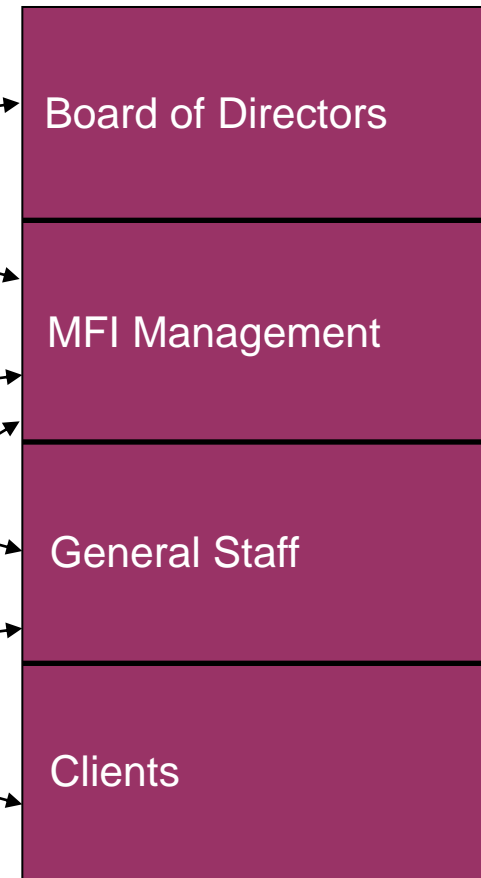
- **On-site analysis at three broad levels:**
  - 1) Market and regulatory context
  - 2) MFI policies, procedures, and practices
  - 3) Organizational culture and how policies are reflected in staff behavior
- **Evidence:**
  - 1) Review of manuals, policies, other documentation
  - 2) Interviews with Board, staff, clients
  - 3) Observations of field operations and credit process

# Information Used: People, Paper, and Process

## Written Sources



## Interviews



# Assessment & Certification Standards

7 Principles

30 Standards

95 Indicators

| Client Protection Principle  | Standard  | Indicator   |
|--|---|---|
| Client Protection Principle 1:<br>Appropriate Product Design<br>and Delivery Channels  | The FI designs products that are appropriate to client needs and do no harm             | <p>The FI designs products that are appropriate to client needs and do no harm. It does not offer products that produce negative value for the clients.</p> <p>The FI has a policy describing acceptable pledges of collateral; Has clear guidelines for how collateral is registered and valued.</p>   |
|  | The FI seeks client feedback for product design and delivery                            | <p>The FI investigates reasons for clients drop out.</p> <p>The FI uses client feedback to inform product development and improve existing products (client feedback can be informal).</p>  |
|  | The FI does not use aggressive sales techniques   | The FI does not use high pressure/ aggressive sales techniques. Does not force clients to sign contracts (for credit, no forced signing of any individual borrower or group member, or any guarantor).  |
| Client Protection Principle 2:<br>Prevention of Over-<br>indebtedness  | The FI conducts appropriate client repayment capacity analysis before disbursing a loan | The FI policies support good repayment capacity analysis. The loan approval does not rely solely on guarantees (whether peer guarantees, co-signers or collateral) as a substitute for good capacity analysis. [individual lending] Repayment capacity analysis is done for every loan. [group lending] The group formation and loan approval process ensure the prudent self-selection of members, with emphasis on the concept of solidarity payment. |
|  |   | The FI's repayment capacity policy is adequately disseminated among staff, considering the staff growth and turn-over.  |
|  |   | The FI's repayment capacity policy is uniformly used in the practice.   |
|  |   | The FI performs a repayment capacity analysis at each loan cycle, even if simplified for secondary aspects at loan renewal.   |
|  | The FI incentivizes quality loans   | For clients with informal revenues and/or non consumption loans (most cases), the repayment capacity analysis is based on a client visit (performed by the loan officer or delegated to the group/village members). The FI verifies the information consistency through cross-checks. For clients with a salary asking for a consumption loan, a client visit is not required.  |
| Regular reports on PAR and write-offs are produced and reviewed by the FI's management.  |   |   |
| Reasonable portfolio quality is maintained over time. If there is poor long term quality of loan portfolio, and linked to over-indebtedness, corrective measures have been put in place. |   |   |
|  |   | The FI's productivity targets and incentive systems value portfolio quality at least as highly as other factors, such as disbursement or client growth.   |



# Scoring

0

Does not meet the indicator

- Does not meet any part of the indicator
- Absent practice

1

Partially meets the indicator

- Does not fully meet all parts of the indicator

2

Meets the indicator

- Meets all parts of the indicator

-n/a-

Not applicable

- This does not apply to the organization

# The Process

## To be Completed:

1. Head Office and Field Assessment
2. Debrief (Last Day)
3. Draft Report
4. Finalized Report
5. Identification of Pilot Projects



## Optional/Follow-up to Assessment:

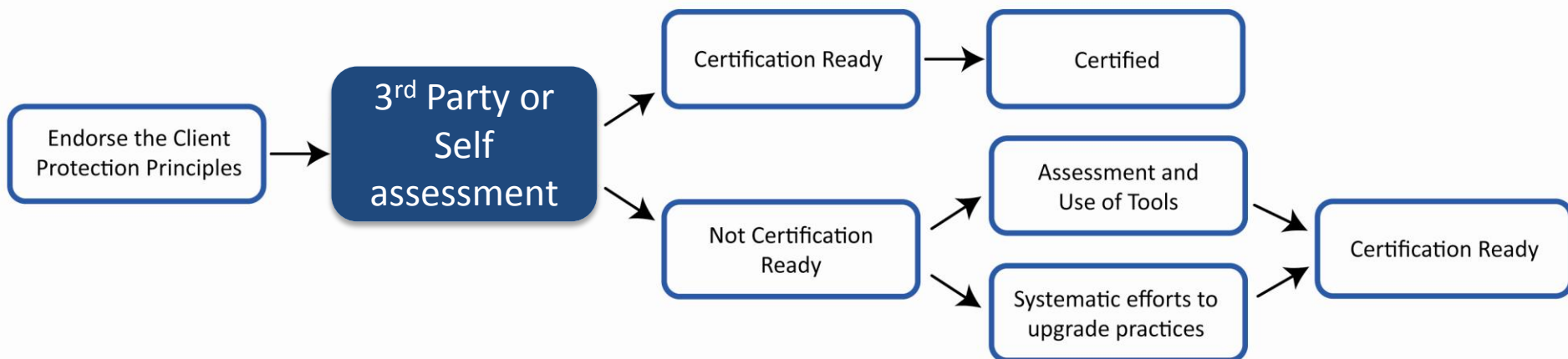
7. Identify Best Practices - Smart Notes
8. Collaboration/Technical Support for Pilot Implementation
9. Certification

# Preparing for Certification

Step 1: Orient Yourself with the [Certification Standards](#)

Step 2: Download the [Getting Started Questionnaire](#) and conduct self-assessment

Step 3: If ready, go for a Certification mission. If not ready take necessary steps to diagnose and improve areas of weakness



# Focus on India

- **Client protection assessments – Covered 20 institutions with outreach of 15 Million+ – across MFIs, Cooperatives, Banks, Non-profits**
- **Tool / Smart Note development**
- **Pilot projects with practitioners**
- **Trainings**

# Smart Note / Tool

- **Documents best client protection practices in a given function or methodology**
- **May emerge from:**
  - Best practices noticed during assessment
  - Industry need / gap
  - Collaborate with a technical partner
  - Workshop model – collaboration with multiple stakeholders

| Tool / Smart Note                                    | Partner organisation                           |
|--|--|
| Member Protection in SHG model                       | APMAS  |
| Client protection in CGT (Compulsory Group Training) | Ujjivan, Equitas, SKS, Swadhaar, Grameen Koota |
| Exercise of group guarantee at client level          | MBK (Indonesia), Utkarsh                       |
| Product diversity                                    | Sewa Bank, IFMR – KGFS                         |
| Non-financial incentives for staff retention         | Bandhan  |
| Complaint Resolution Mechanism – a case study        | Ujjivan  |

# Pilot projects

- **Work with an institutions to strengthen specific areas of client protection**
- **Typically a follow up to an assessment**
- **Technical assistance (limited) to operationalise projects**
- **Examples:**
  - Strengthening Greivance Redressal Mechanism
  - Preparing institution to achieve certification – based on gaps identified in the assessment

- **Client Protection Principles' training**

For microfinance practitioners – an introduction to the seven client protection principles. Covered nearly 100 institutions across India through 10 trainings. Partnered with industry networks Sa-Dhan & MFIN, Access and social investors such as Oiko Credit.

- **Smart Assessors' training**

For raters, consulting agencies, investors who wish to independently conduct client protection assessments. Trainings in Delhi & Mumbai with participants from banks, social investors apart from rating agencies and consultants. Refresher training (on new methodology) conducted in Cambodia.

- **Technical assistance training**

For consultants / technical assistance providers to take up TA / Pilot projects on client protection with microfinance practitioners. Scheduled in Nepal, November'13

## **The Client Protection Certification program is important:**

- To enable financial institutions worldwide to demonstrate their adherence to the Campaign's client protection principles as verified by third-party assessors.
- To highlight publicly financial institutions who meet the minimum standards for client protection.



# Monitoring progress: Certification

- Client Protection Certification is an independent, third-party evaluation to publicly recognize institutions that meet adequate standards of care in client protection.
- The Certification program was launched in 2013 to set global standards around client protection in the microfinance industry.
- The program is designed for retail financial institutions that provide services to financially excluded or underserved populations.



# Who is eligible for Certification?

Retail Financial Institutions Who Serve the Poor Including:

- NGOs
- Banks
- Consumer Finance Companies
- Credit Unions
- Non-Bank Financial Companies



# What are organizations Certified Against?

In order to be Certified a financial institution must meet all 30 standards based on the 7 Client Protection Principles

- [Standards \(English\)](#)
- [Standards \(Spanish\)](#)
- [Standards \(French\)](#)

# First batch of certified organizations!

## certification

All About Certification

Certification Standards

Certification Frequently Asked Questions (FAQ)

Information for Investors

Licensed Certifiers

> Certified Organizations

Get Certified!

Assessments

## Certified Organizations

We are pleased to announce the first group of institutions which are Client Protection Certified. These microfinance institutions participated in the Certification pilots and have been found to meet the 30 adequate standards care in the treatment of their clients.

| Organization   | Certifier     | Date Certified |
|--|---------------|----------------|
|  EKI, Bosnia & Herzegovina                            | Planet Rating | January 2013   |
|  Cashpor, India                                       | M-CRIL        | January 2013   |
|  Grameen Koota, India                                 | M-CRIL        | January 2013   |
|  Partner Microcredit Foundation, Bosnia & Herzegovina | MicroFinanza  | January 2013   |
|  Mi-Bospo, Bosnia & Herzegovina                      | MicroFinanza  | February 2013  |
|  Ujjivan, India                                     | M-CRIL        | January 2013   |

# Certification Important to Financial Providers



- Home
- Who We Are
- What We Do
- Code of Conduct
- Careers@GFSPL
- Stay Informed
- Contact Us
- Newsletter
- SEARCH

## Outreach

As on January 2013

Members: 3,59,772

Loan Outstanding: 42,350

Branches: 160

Employees: 1191

Repayment Rate: 99.95%

States: 3

- 1
- 2
- 3
- 4

## Microfinance Plus

- What We Do
- Gravity
- Hippocampus
- Maarg
- Jagruthi



GFSPL IS NOW CLIENT PROTECTION CERTIFIED BY SMART CAMPAIGN

GFSPL clients can raise their queries, requests & grievances by speaking to our grievance redressal officer Mr Arunkumar B on our Toll Free Number 1800 425 0205

## Our Commitments

- Code of Conduct
- Consumer Protection
- Transparency
- Environment
- Social Performance Management

## Stories from the Field



Manisha trusts GK third time round



Water connection makes Poornima a happy lady

## Latest News

- Grameen Koota raises Rs 53.20 cr in its 3rd round of equity funding
- Grameen Koota today announced its third round of equity...
- Navyadisha backed Buzz Bus launched in Bangalore
- ...
- GFSPL personnel undergo 3 day People Management training sessions

## Awards and Recognition

- 2012- MIX Silver award for Social Performance
- 2011 - PPI Certification from Grameen Foundation USA



**Now** is a critical time to focus on client protection, for several reasons:

- Demands for accountability and transparency
- Microfinance crises in several countries
- Negative media attention regarding impact
- Public and governmental concern over high interest rates
- Rapid growth, rising competition, and new players

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3. What we do
4. Get Involved!

# Smart Campaign Encourages MFIs to “REACT”

**R**espond – endorse the Campaign

**E**ducate – learn, train, and self-assess

**A**ssess – commission an external evaluation

**C**hange – pilot projects, share experience,  
utilize available technical tools

**T**rack – report and receive certification



## Endorsing is very easy!

Go to our website ([smartcampaign.org](http://smartcampaign.org))

to find:

- A diverse set of ways that you can support the Campaign
- Options to receive more information, tools, and other instruments to implement the Client Protection Principles.

**about**  
the campaign ▾

**tools**  
& resources ▾

**take**  
action ▾

**news**  
& highlights ▾

**donate**  
today ▾

## Join Us!

Add your voice and endorse the Campaign for Client Protection and support the Client Protection Principles.

First Name \*

Last Name \*

Email Address \*

Do not send me email communications

**Endorse Now** ▶

[Learn more about endorsement »](#)

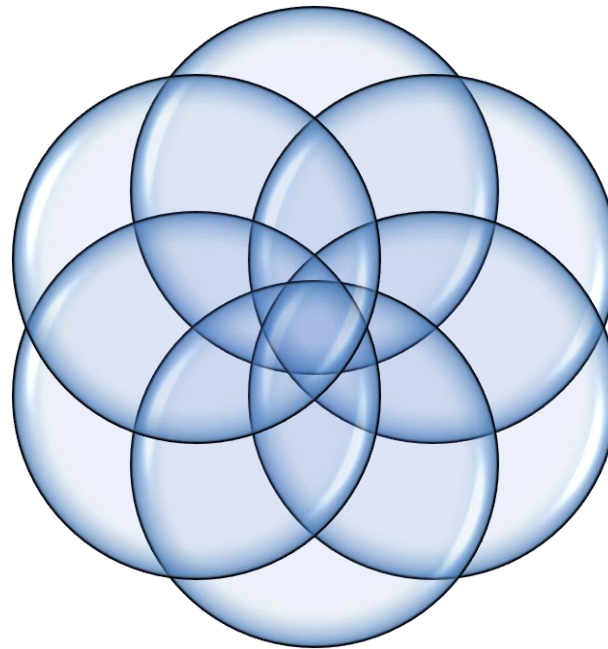
# Tools to Improve Practice Include

“How to”  
Guides

Strategic  
planning  
guides

Case studies

Training  
presentations



Technical  
guides

Example  
forms

102

# Improving Client Protection Practice

“My institution believes that client protection is important—but we need help improving practice!”

- The Smart Campaign offers [over 60 practical tools](#) to help financial service providers implement the client protection principles.
- All of the tools are available for download free of charge.
- New tools are added regularly.





Keeping clients first in microfinance



**Thank you!**

**For your interested in  
The Smart Campaign**

**For more information, please visit:**

**[www.smartcampaign.org](http://www.smartcampaign.org)**