



Keeping clients first  
in microfinance

## Proposal for a Certification Program on Client Protection Principles – November 2011

### Background

No one argues against the importance of client protection. Indeed, the fact that financial institutions (FIs) should operate in a responsible way vis-à-vis their clients is such a universal principle that it is sometimes taken for granted. Recent problems highlighted in the press, as well as assessments of financial institutions' client protection practices by raters, investors, and the Smart Campaign, show that there is still a lot of work to be done to ensure that all microfinance institutions are acting responsibly. The microfinance community has come together around a set of [Client Protection Principles](#) (CPPs) which are widely endorsed by financial service providers, funders, investors, supporting organizations, and individuals.<sup>1</sup> In order to provide assurance that the CPPs are being implemented, it is agreed that self-reporting is insufficient. A process of third-party certification is needed.

Since June 2010, the Smart Campaign has been working with the microfinance industry (through a task force of over 30 experts representing various stakeholders)<sup>2</sup> to develop a Client Protection Certification Program. The Certification Program will enable financial institutions worldwide to demonstrate their adherence to the Campaign's core CPPs as verified by third-parties. Financial institutions that have met adequate standards in Client Protection will be highlighted publicly.

Several methodologies already exist to assess Client Protection Practices (client protection assessments, client protection evaluations conducted by social raters, social auditors, and the due diligence processes of social investors). It is envisioned that the certification process will build on the existing methodologies, but also be available as a stand-alone product for financial institutions that do not wish to undertake a rating.

The Certification Task Force has made great progress over the past year to identify the main pillars of the program and the indicators that will comprise the basis for the certification. The task force agreed that certification needs to recognize real achievement in client protection and provide incentives for financial institutions to improve their practices. The task force recognizes

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<sup>1</sup> As of October 24, 2011, the Campaign has 2,323 endorsements from 120 countries on 5 continents, including 714 financial institutions, 133 investment funds and donors, 114 networks, 158 supporting organizations and 1,204 individuals.

<sup>2</sup> See Appendix 1 for full list of members.

that it requires significant commitment and attention to achieve adequate client protection performance. The fact that a financial institution has responsible practices should not be taken for granted, but rather celebrated as a true achievement.

Certification of adherence to the CPPs also requires some level of client validation through means of verification such as focus groups or a survey. The certification process also recognizes and incorporates this important element.

The Certification Program is still in development, and many of the parameters of the program need to be validated through industry feedback from October through December 2011. The testing phase will run in parallel starting in November 2011, with a focus on credit, savings and credit life insurance. Throughout Q1 2012 field testing will take place. The pilot Certification Program is expected to be launched in the first half of 2012.

As the certification process develops, it is important to recognize that due to the recent revision of the Client Protection Principles, a number of areas are still in the formative stage. The recent revision adjusted the Principles to address the broad range of financial services, while the original version focused on credit. An important non-discrimination clause was also added. Since the assessment methodologies available for developing certification were developed around the original version, they will be the focus of the certification at the start. More work will be done to develop methods for assessing: appropriate product design and delivery, insurance (except for credit life insurance, which is already included), payments, agent banking and the incorporation of the notion of non-discrimination. While the Certification Program will first focus on credit, savings and credit life insurance, standards and indicators will be developed for these new areas in 2012 and incorporated in the Certification Program in 2013, so that it reflects the full suite of financial products encompassed in the new Principles.

## FAQ about Client Protection Certification

### What does it mean to be certified for client protection?

A financial institution that is certified for the Client Protection Principles takes appropriate care to ensure that its offering to clients and treatment of clients adequately fulfill the spirit and meaning of each Client Protection Principle.

1. It designs products with client characteristics taken into account, with the intent to do them no harm. (Appropriate product design and delivery)
2. It prevents the risk over-indebtedness by checking client capacity to repay and providing staff incentives based on the quality of the portfolio, not just growth. (Prevention of over-indebtedness)
3. It communicates clear, sufficient, and timely information (especially on pricing, terms and conditions of products) in a manner that clients can understand, so that they can make informed decisions. (Transparency)
4. It sets prices, terms, and conditions that are affordable to clients while allowing for its own sustainability. (Responsible pricing)
5. It has a very low probability of experiencing clients' rights violations. (Fair and respectful treatment of clients, staff ethics, and non-discrimination)
6. Both staff and clients know how client data will be collected and used. Client data is protected at least to the minimum requirements of the country (or regional proxies when country policy is not available). (Privacy of client data)
7. Clear information is available to customers about how to submit a complaint, and the organization has an effective, appropriate system in place to resolve complaints in a timely way. (Mechanisms for complaints resolution)

It is important to note that while certification for client protection indicates a lower likelihood that financial institutions are harming clients, it cannot represent a 'guarantee' because no institution can guarantee that all of its staff members are meeting intended standards 100 percent of the time. Thus, Certification means that the institution is taking what the task force believes (on the basis of practical research and experience) to be adequate steps to ensure that violations of the principles are rare.

### Why certify?

The main rationales for the Client Protection Certification program are:

- To enable financial institutions worldwide to demonstrate their adherence to the Campaign's core Client Protection Principles as verified by third-party assessors.
- To highlight publicly those financial institutions that meet adequate standards in regards to Client Protection.
- To spur or improve the implementation of the Client Protection Principles.

## When will the certification program be launched?

In October 2011, the Smart Campaign entered a period of public comment to receive feedback from the industry, refine the certification program, and pilot test the application of the standards in the field.

From now through mid-2012, the client protection standards will be tested in the field, with a targeted launch of the pilot Certification Program in June 2012. The program is then expected to be in a pilot phase for a year, and officially launched in June 2013.

**Table 1. Certification timeline**

<b>October – December 2011</b>	Public comment period: Open webinars for Q&A in: <ul style="list-style-type: none"> <li>• Spanish– October 25</li> <li>• English – October 26</li> <li>• French – November 7</li> </ul>
<b>November 2011 – June 2012</b>	Testing period of indicators and benchmarks
<b>June 2012 – June 2013</b>	Pilot Year Launch of Client Protection Certification Program with eligible specialized microfinance rating agencies.
<b>June 2013 – onward</b>	Revisions to methodology based on pilot learning. Expansion of coverage to full range of financial products. Licensing of additional certifying organizations.

## Who will certify?

The Certification Program will be piloted with eligible specialized microfinance rating agencies that it will license, based on an evaluation of their certification methodology.<sup>3</sup> Specialized microfinance rating agencies were selected for the pilots given their in-depth experience of client protection evaluations and their involvement in the Sub-Committee of the Certification Task Force that developed the standards.

Beyond that, the Smart Campaign is envisioning that other organizations that meet the Smart Campaign licensing criteria will be eligible to become certifiers. Some concerns were expressed about having local associations become certifiers given potential issues of conflict of interest. Local associations have a critical role to play in preparing FIs for certification, and providing the needed technical assistance to improve their client protection practices.

## Will the results of certification be confidential?

The results of the certifications performed during the testing period for calibrating indicators and benchmarks will be kept confidential. Once the pilot Client Protection Certification Program is launched in mid-2012, results of the certification will be public for financial institutions that pass certification. Financial institutions that do not pass certification will share the results at their discretion. This is in keeping with the intent of the certification program to incentivize improved practices.

<sup>3</sup> Potential organizations include Planet Rating, MicroFinanza Rating, M-CRIL, and MicroRate.

## How much will certification cost?

In order to reduce the cost for financial institutions, certification will be available not only as a stand-alone product for financial institutions, but can also be added as a module to a financial rating or a social rating, as most of the ground work required to assess a financial institution's client protection practices is done during a rating. It is envisioned that certification can be linked to a number of existing rating products in order to reduce overall costs for the financial institution. A brief description of such products is provided in Table 2.

**Table 2. Available products**

Financial Rating	External and independent evaluation of the financial risk profile and the performance of a Microfinance Institution (MFI).
Social rating	External and independent evaluation of the Microfinance Institution (MFI) capacity to put its social mission into practice and to achieve social goals.
Social rating – with survey	External and independent evaluation of the Microfinance Institution (MFI) capacity to put its social mission into practice and to achieve social goals. Additional verification is conducted through at the client level surveys.

Table 3 shows the likely cost breakdown depending on whether the certification is done on a stand-alone basis or linked to other existing products. The task force is committed to bringing the cost down as much as possible to make the certification process affordable to a wide range of financial institutions. The pilot phase will allow testing different methods to gather the necessary information (including client feedback) at the lowest cost, so that the certification remains meaningful. The Smart Campaign will not specify prices, leaving the certifying organizations free to set prices as they see fit. The prices below are based on past data and conversations with the rating agencies, but are not firm offers.

**Table 3. Estimated cost of certification (pilot year)\***

	<b>Pilot Phase Certification Pricing</b>
<b>Stand alone</b>	~USD 15,000
<b>With financial rating</b>	~ USD 7,500
<b>With social rating</b>	~ USD 5,000
<b>With social rating with client survey</b>	~ USD 3,500

\* Notes: Prices exclude travel costs. The wide range reflects the fact that these are estimates from all combined rating agencies and from the Smart Campaign. Prices will vary per region, provider, and based on the results of the pilot phase.

Six major elements will drive the range of costs for certifications:

- 1) Level of readiness of financial institutions to be certified (availability of documents, involvement in the planning process, level of responsiveness);
- 2) Size and complexity of the financial institution;
- 3) Honorariums of certifiers;
- 4) Travel costs;
- 5) Pricing in USD vs. EUR; and

- 6) Inclusion of client focus groups or client surveys. Client feedback in the form of focus groups or surveys is a prerequisite for certification. Costs will depend on the sample size and whether focus groups or surveys are selected.

We envision that through their work on client protection, national and regional microfinance associations will play a key role in helping member financial institutions prepare for certification and therefore reduce the overall costs required.

### **Who is eligible to be certified for client protection?**

Retail financial institutions that provide services to the lower segments of the market and/or financially excluded populations are eligible for client protection certification. This includes institutions of any legal form: bank, finance company, NGO, credit union, etc.

### **What happens when a financial institution is certified?**

Certified financial institutions will get a short report highlighting the key results of the certification and examples of how they have met adequate standards for client protection. They will have the right to use the 'Client Protection Principles Certification' label, indicating the year the certification took place. A brief version of the report will be available through the certifier's website, and the name of the certified institution will appear on the Smart Campaign website. The certification process does not envision a Principle by Principle certification. Rather, the certification requires meeting adequate standards on *all* of the principles. The standards are presented in Appendixes 2 to 8.

### **What happens when a financial institution fails certification?**

Financial institutions that fail to meet one or several of the standards for client protection will be given a certification status report that identifies the areas where they have weaknesses and will have from 6 to 12 months to put in place corrective measures to improve their practices and enable them to be certified for complete compliance. The report will be confidential and financial institutions will be able to share the results at their discretion.

### **How will the certification information be used?**

- **Financial institutions** will use the certification results to market their organization as a pro-client institution to their clients, funders, regulators and the general public. They will also use the certification tool to pursue continued improvement in practices beyond the adequate standards to emerging high standards for each CPP.
- **Investors and donors** will use the certification results to inform their funding decisions (i.e., focus on the financial institutions that have already passed the CPP certification, or on the contrary focus on the ones that are not yet certified in order to provide the support needed for them to get there). Investors will use the certification results during due diligence, and require certification during a reasonable time prior to or after the investment.

- **Technical assistance providers** will use the results of the certification to target the financial institutions that need assistance in putting the Client Protection Principles into practice.
- **Organizations monitoring and rating client protection and rating agencies** will update their methodologies to reflect the standards defined for the certification program, providing a unified basis for how client protection is measured.

### Other intended outcomes from certification

The certification indicators can serve as a best practice document that clearly describes adequate standards in regards to client protection. It is expected that they will inform other stakeholders' work, such as regulators' efforts to better understand and address client protection issues of microfinance service providers. A long run vision is that certification might evolve into a tool that clients could use in selecting their providers.

### How often will the certification need to be done?

Over time, financial institutions' client protection practices are likely to improve. Nevertheless, there may be cases where providers adopt new practices or product features that put clients at risk. Also, new providers may enter the market with the objective of achieving high growth and market share at any cost. Therefore, certification should be done on a regular basis. Our proposal is that certification is valid for 2 years, after which a new certification should be obtained by the financial institution.

### Who will certify financial institutions for client protection?

Certification will be done by organizations licensed by the Smart Campaign. From 2012 until mid-2013, licenses will be granted to members of the Technical Sub-Committee of the Certification Task Force. Beyond mid-2013, licenses will be open to others, provided they meet the licensee criteria.

### How will compliance with adequate standards be evaluated?

Through the program, financial institutions will apply for certification and one certifier (from among the group of certifiers accredited by the Smart Campaign) will verify whether the financial institution meets the standards for client protection. Adequate standards<sup>4</sup> will be evaluated through a streamlined desk review and on-site due diligence process that will include staff and client feedback. Through this 2-step process, the certifiers will judge whether the financial institution meets adequate standards to warrant an on-site evaluation. Financial institutions need to apply for certification and will be asked to share key documents with the certification team. At the time of application, the financial institution will pay a fee to the certifiers for the desk review. Field work will be scheduled only if the financial institution has submitted all the required information and is responsive to the certifiers' questions. If big gaps

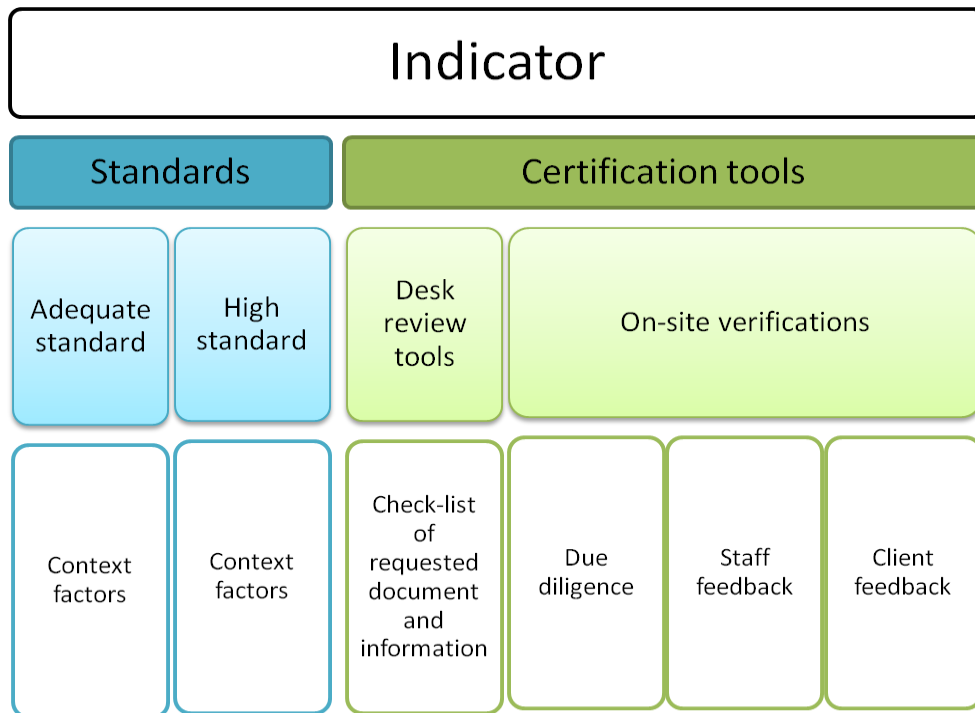
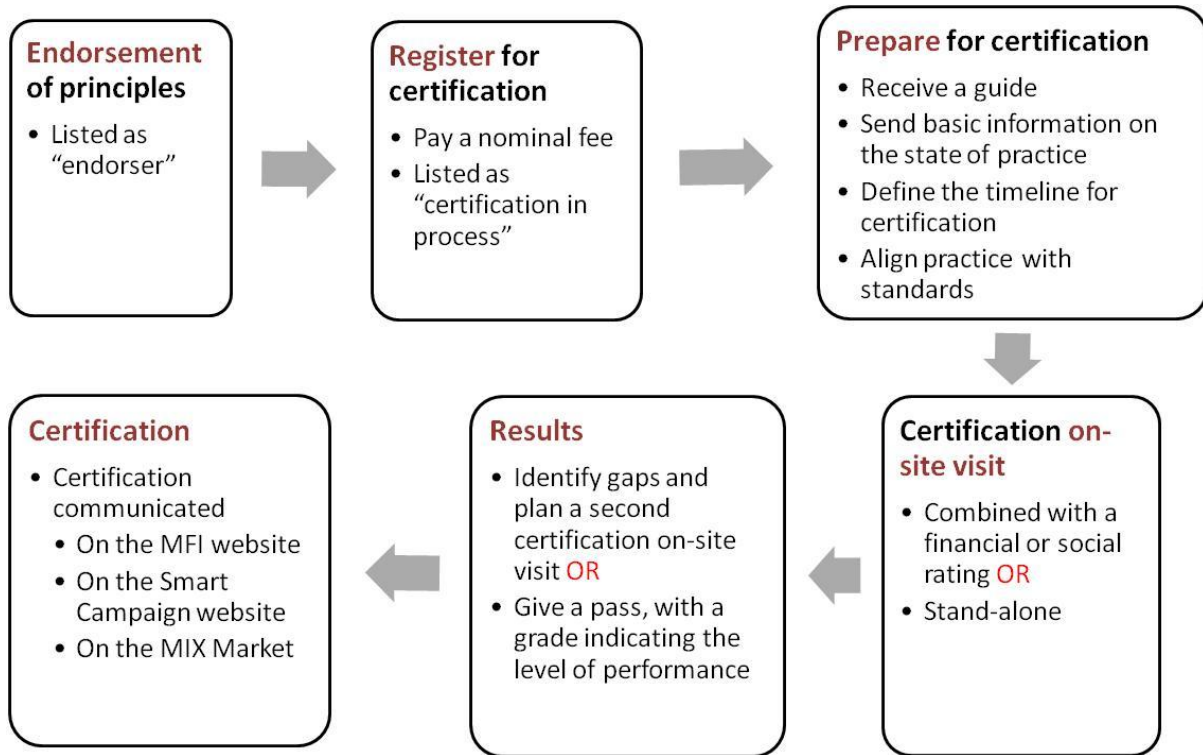
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<sup>4</sup> See Appendixes 2 to 8 for a full list of the proposed standards, per principle. Please note that as of July 2011, the principles have been updated. The Smart Campaign assessment methodology will be updated in the future to reflect the new principles. For more information, click [here](#).

are identified during the desk review process, feedback will be given to the financial institution so that they can improve before the field visit is scheduled and improve their chances of meeting the standards for certification.

The key elements of the content of the certification methodology are as follows:

- There are **five major categories** that the certification process will examine –governance, policies and procedures, staff incentives and staff training, compliance, and results. The detailed content of the certification process, including adequate standards is presented in Appendixes 2 to 8.
- **The key indicator is noted.** Although all indicators are equally weighted and need to be met in order for the financial institution to be certified, the key indicators represent indicators that are particularly important and for which evidence of compliance will be reviewed in detail.
- A brief note on **context** is provided. Context recognizes any special circumstances that may require a more in-depth analysis, such as in countries where there is a higher risk of over-indebtedness. The context note also considers the financial infrastructure available, such as the quality of credit bureaus or the regulatory environment.
- **Adequate standards** for certification are listed by indicator. The financial institution must meet all the standards to be certified. **High standards** are also listed, as a basis for differentiating between the minimum for certification, and strong practices.
- A **desk review** and an **on-site review** are the main certification tools in the two-step certification process. Appendix 2 provides information about what each review entails, such as document reviews, interviews with the financial institution staff, focus groups with clients and loan officers, and sampling of client files.
- **Client verification** is an important step in the certification process. Client verification is most often carried out through focus groups, a sampling of client files, and review of contracts and passbooks, etc. Specific focus group and interview questions are noted.
- The certification process is **a work in progress**. Pilot testing will hone many of the quantitative indicators which are currently based on prior working group experience with financial and social ratings, social audits and CPP assessments. The quantitative indicators draw from the [indicators](#) developed by the Smart Campaign to evaluate the performance of financial institutions in client protection, but have not yet been tested within the certification process. The first principle, appropriate product design and delivery, currently focuses on credit products; it will be expanded to include savings, insurance and payments, in light of the [new Client Protection Principles and corresponding guidance](#) updated by the Campaign in July 2011.



## Appendix 1 – Members of the Certification Task Force

Financial institutions	
Partner, Bosnia & Herzegovina	Senad Sinanovic
FMMB, Colombia	Juan Manuel Grau
Ujjivan, India	Samit Ghosh
International Networks	
Women's World Banking (WWB)	Miguel Arvelo
Women's World Banking (WWB)	Celina Kawas
Associations	
ACCESS Development Services	Radhika Agashe
Association of Microfinance Institutions of Uganda (AMFIU)	David Baguma
Microfinance Center (MFC)	Ewa Bankowska
Pakistan Microfinance Network (PMN)	Aban Haq
SEEP	Cara Forster*
SEEP	Tricia Gates* (now with Banyan Global)
SEEP	Jenny Morgan*
Rating Agencies	
M-CRIL	Alok Misra*
EDA/ M-CRIL	Frances Sinha
Microfinanza Rating	Lucia Spaggiari*
Microfinanza Rating	Micol Guarneri* (now with Microfinanza Srl)
PlanetRating	Emmanuelle Javoy*
MicroRate	Sebastien von Stauffenberg*
MicroRate	Rebecca Waskey*
Moodys	Jody Rasch
Investors	
Argidius Foundation	Dr. Koenraad Verhagen
Global Social Investment Funds, Deutsche Bank USA	Asad Mahmood*
INCOFIN	David Dewez
Kiva	JD Bergeron
Hivos	Pieter Bas Schrieken
Independent Consultants	
Consultant for the Smart Campaign	Heather Clark*
Consultant for the Smart Campaign	Leah Nedderman
Support Organizations	
CERISE	Cecile Lapenu
CGAP	Kate McKee*
MF Transparency	Alexandra Fiorillo*
MIX	Micol Pistelli*
MIX	Blaine Stephens – Observer
SPTF Network Group	Sharon D'Onofrio – Observer (now with SEEP)
SPTF Network Group	Laura Foose*
Center for Financial Inclusion at ACCION International	Elisabeth Rhyne*
Smart Campaign	Isabelle Barrès*
Smart Campaign	Charlotte Connors
Smart Campaign	Sergio Guzman*

\*Indicates individuals participating in the Task Force technical sub-committee

**Client Protection Principle: Appropriate Product Design and Delivery<sup>5</sup>**

**Certification in this principle means:** The financial institution designs products taking client characteristics taken into account with the intention to provide value to clients and do them no harm.

RESULTS	
Context	
<ul style="list-style-type: none"> <li>Adapt the focus group discussions to the client profile, culturally sensitive topics, and the likelihood of over-indebtedness in the local context.</li> </ul>	
<b>Indicator:</b> The financial institution offers loan products or flexible ones that address different business and family needs of <i>diverse segments of the target population</i> .	
Adequate Standard	High Standard
<ul style="list-style-type: none"> <li>Acceptable variety of loan products, designed to match the needs of the main business and family needs of the target population.</li> <li>The repayment schedule (grace period, repayment frequency and term) is tailored to the business activity and household cash flow.</li> <li>The loan size matches the target clients' main financial needs.</li> <li>Prepayment is allowed and it is not subject to excessive penalties or unjustified interest charges after a minimum period.</li> </ul>	<ul style="list-style-type: none"> <li>Good variety of loan products, designed to match the needs of the target population in different circumstances.</li> <li>The financial institution actively discourages specific loan uses to which the products are not tailored.</li> <li>Clients are aware about the range of products offered and their characteristics.</li> <li>Demand analysis is carried out through market survey and analysis of client feedback.</li> </ul>
Review	Client Verification
<p><b>Desk review:</b></p> <ul style="list-style-type: none"> <li>Review of credit manual and other documents explaining products offered and target population.</li> <li>Review of market study and documents about the demand needs, new products/ changes to current products.</li> <li>Analysis of data from MIS about client base by loan characteristics (term, repayment frequency, grace period, collateral, etc.).</li> </ul> <p><b>On-site review:</b></p> <ul style="list-style-type: none"> <li>Interview with operation/marketing manager.</li> <li>Sample loan files (review them with loan officers).</li> <li>Focus group discussions with loan officers.</li> <li>Interview with branch manager; Interview with audit department; Interview with developers of new products</li> </ul>	<ul style="list-style-type: none"> <li><b>Focus group discussion:</b> Client explanation about the choice of the product; Client awareness of the range of products available.             <ul style="list-style-type: none"> <li><b>Sample questions:</b> 1/ Which are the products available? 2/ What did the field staff explain to you about the products available? 3/ Who chose which type of product you purchased? 4/ Did the field staff take into account your family and business circumstances when analyzing your loan application? How? 5/ How did you use the loan? 6/ Did you receive field staff visits after the loan disbursement? What did the staff ask you about? (if loan was used for a purpose different from the loan product) 7/ Did the field staff make any comment on the way you had used the loan? 8/ Is your loan backed by collateral? How did the collateral value compare with the loan amount? 9/ Is it possible to prepay the loan? How does it work?</li> </ul> </li> </ul>

<sup>5</sup> This section is under construction as it refers to a new Principle, updated in July 2011 by the Campaign. The Campaign will continue to work on guidance and indicators to reflect the changes to the Principles implemented in July.

**Client Protection Principle: Prevention of Over-indebtedness**

**Certification in this principle means:** The financial institution prevents the risk of over-indebtedness by checking client capacity to repay and providing incentives based on the quality of the portfolio.

GOVERNANCE	
Context	
<ul style="list-style-type: none"> <li>Stronger efforts are required when the risk is higher in a given context; relevant market level information should come to management and the board.</li> <li>Consider adequate standards regarding Board of Directors, if the ownership is private and the Board of Directors is a real decision making center in practice.</li> </ul>	
<b>Indicator:</b> Management and Board of Directors are aware of and regularly monitor risk of over indebtedness.	
Adequate Standard	High Standard
<ul style="list-style-type: none"> <li>Management demonstrates awareness of the risk and relevance of client over-indebtedness and of the main risk factors, including the context (approximate % of multiple borrowing, etc.), policies, staff skills, incentive scheme and productivity target.</li> <li>Client over-indebtedness information is conveyed to the management through field staff feedback; regular reports on PAR and write-off are produced and reviewed by the management.</li> <li>Board of Directors shows concern about the risk of client over-indebtedness (see Context).</li> <li>Reasonable portfolio quality is maintained over time: Total risk (=PAR30 + write-off) &lt;12% for &gt;18 months.</li> </ul> <p><i>Note:</i> ensure portfolio quality indicators look at total risk, including restructured portfolio.</p>	<ul style="list-style-type: none"> <li>A clear definition of client over-indebtedness is adopted by the management.</li> <li>The level of borrower over-indebtedness is periodically monitored through surveys, audit, or formal feedback from field staff, branch managers or credit bureau, at least annually.</li> <li>Specific management and audit reports on over-indebtedness are reviewed and discussed at management level.</li> <li>Evidence exists of changes made in the product design and credit policy/procedures based on the client over-indebtedness risk information.</li> <li>The Credit Bureau data are also analyzed at aggregate level in order to inform decisions about the product mix, geographical expansion and targeting of specific populations with manageable levels of multiple borrowings.</li> <li>Reasonable portfolio quality is maintained over time: Total risk (=PAR30 + write-off) &lt;10% for &gt;18 months.</li> </ul>
Review	Client Verification
<p><b>Desk review:</b> Review of management and audit reports; Review of documents including over-indebtedness information and changes to the products.</p> <p><b>On-site review:</b> Interview with top and middle management, audit and field staff; Review of loan files; Review the minutes of the Board meetings for several meetings</p>	<p>For cooperatives ask clients about their participation in the General Assembly.</p>

POLICIES AND PROCEDURES	
<p><b>Key Indicator:</b> The loan approval process requires evaluation of borrower repayment capacity and loan affordability. Loan approval does not rely solely on guarantees (whether peer guarantees, co-signers or collateral) as a substitute for good capacity analysis.</p>	
<p><b>Context</b></p>	
<ul style="list-style-type: none"> <li>• More prudential criteria (e.g. cash flow before loan, moderate/pessimistic scenario) are required when the context risk is higher.</li> <li>• The number of additional loans to be considered reasonable depends on the context and on the quality of assessment of repayment capacity.</li> </ul>	
<p><b>Adequate Standard</b></p>	<p><b>High Standard</b></p>
<ul style="list-style-type: none"> <li>• Appropriate methodologies to collect information and assess client repayment capacity are available (at least in the case of individual loans).</li> <li>• The cash flow analysis forms and the analysis actually performed in practice consider business and family expenses as well as liabilities from other sources. A cash flow analysis covering the entire loan period is performed for the households with seasonal cash flows (e.g. agriculture).</li> <li>• Loans are not approved if the repayment capacity is weak, regardless of the collateral.</li> <li>• A repayment capacity analysis is performed at each loan cycle or at a minimum once a year, even if simplified for secondary aspects at loan renewal. Early repayment followed by renewal is within prudent limits.</li> <li>• The analysis is based on a client visit (performed by the loan officer or delegated to the group/village members).</li> <li>• If the analysis is delegated, the appropriate guidance, training and tools are provided to the clients (i.e. effective practice). In group methodologies, the systems ensure the prudent self-selection of members.</li> <li>• Training on assessment of repayment capacity by loan officers is appropriate.</li> <li>• Junior loan officers receive adequate field mentoring from senior staff. Supervisors coach loan officers to maintain an acceptable quality of repayment capacity analysis that is performed.</li> <li>• For group loans that are not evaluated by the FI on an individual basis: the FI trains group members on how to select members based on credit-worthiness, such as knowledge of the household, trust-worthiness, honesty and reputation to fulfill commitments.</li> <li>• Groups and village bank members are sensitized on the fact that they should know the other member’s businesses.</li> </ul>	<ul style="list-style-type: none"> <li>• The analysis follows prudential criteria (e.g. cash flow before loan, moderate/pessimistic scenario). Conservative criteria are applied to volatile income sources (e.g., remittances) and higher risk loans (start-up, consumption, higher loan amounts to a more vulnerable segment).</li> <li>• The client indebtedness level includes all the household members as well as the clients' direct and indirect loans (as guarantor). Indirect indebtedness limits for the guarantors are established by policy.</li> <li>• Hierarchical supervision mechanisms are in place to verify the client visit performed by the loan officer in order to analyze the repayment capacity. Cross-check mechanisms are in place to verify the information consistency. Supervision mechanisms are in place to verify the quality of the repayment capacity analysis performed by the group.</li> <li>• Loan approval and amounts at an appropriately decentralized decision making level.</li> <li>• <b>In group methodologies, internal default is monitored.</b></li> <li>• Group members receive training from the FI on how to assess group member repayment capacity.</li> </ul>
<p><b>Review</b></p>	<p><b>Client Verification</b></p>
<p><b>Desk review:</b></p> <ul style="list-style-type: none"> <li>• Review of credit policy and procedures, and other written guidelines, including policy on early renewal.</li> <li>• Review and careful analysis of the methodology for the assessment of repayment capacity and cash flow.</li> <li>• Review training and guidance materials provided to the clients by the FI if the analysis is delegated to the group or village bank.</li> </ul> <p><b>On-site review:</b>                      Interview with credit/operation manager; Interviews and focus group with loan officers and loan officer supervisors/branch managers (going through a sample of clients files to see if collateral is considered as the main characteristic to determine the loan amount, the practice of loan renewal, etc.); Interviews with risk managers and internal auditors; Sit in a credit committee if possible to observe criteria used and deliberations; Observe a group or village bank decision making process for loan approval and amounts to determine how well the group understands and implements the FI guidance.</p>	<p><b>Focus group discussion questions:</b></p> <ul style="list-style-type: none"> <li>• Did you receive the amount you asked for (more or less)? Why? Did you receive a visit from the loan officer/group leader as part of the loan analysis? What did the loan officer/group leaders ask you?</li> <li>• Did you receive field staff visits after the loan disbursement? What did the field staff ask you about?</li> <li>• What is the process to receive a subsequent loan?</li> <li>• Does the repayment schedule match your cash flow?</li> <li>• In case the analysis is delegated to the group or village bank: did representatives receive guidance and training on how to perform the analysis of repayment capacity?</li> </ul>

<p><b>Indicator:</b> Credit approval policies give explicit guidance regarding borrower debt thresholds and acceptable levels of debt from other sources.</p>	
<p><b>Context</b></p>	
<ul style="list-style-type: none"> <li>• Minimum repayment capacity threshold depends on the context: quality of information available (credit bureau), macroeconomic cycle and other factors.</li> <li>• Maximum leverage may depend on business size, growth factors and other context factors, such as the level of financial penetration.</li> </ul>	
<p><b>Adequate Standard</b></p>	<p><b>High Standard</b></p>
<ul style="list-style-type: none"> <li>• The credit policy or other written guidance materials include clear and reasonable minimum repayment capacity ratio: installment/disposable income &lt;70%, accounting for a margin of error/inaccuracy.</li> <li>• The debt threshold policy is adequately disseminated among staff and uniformly used in the practice, considering the staff growth and turn-over.</li> <li>• If multiple borrowing is likely in the context, there is a formal cross-indebtedness policy in place.</li> <li>• Debt consolidation is allowed only under specific circumstances and with higher level approval required with specific post-disbursement monitoring systems in place.</li> </ul>	<ul style="list-style-type: none"> <li>• The credit policy includes clear and reasonable maximum indebtedness ratio, e.g. debt/equity &lt;2 for collateralized lending and installment/available income. The maximum indebtedness allowed is lower if the information exchange systems are not fully effective (e.g. credit bureau not available). The threshold is adjusted over time according to the segment's risk exposure.</li> <li>• For financial institutions with a weak assessment of repayment capacity, debt consolidation is not practiced.</li> <li>• Group members are trained to identify likely cash flow to support loan repayment.</li> </ul>
<p><b>Review</b></p>	<p><b>Client Verification</b></p>
<p><b>Desk review:</b> Review of credit policy and procedures, and other written guidelines.</p> <p><b>On-site review:</b></p> <ul style="list-style-type: none"> <li>• Interview with credit/operation manager; Interviews and focus group with loan officers and loan officer supervisors (going through a sample of clients files, how is the loan amount determined? etc.); Interviews with risk managers and internal auditors.</li> </ul>	<ul style="list-style-type: none"> <li>• Does the loan officer explain why the loan amount is different from the amount requested?</li> <li>• Ask clients what sort of review is done e.g. home visit, business visit, interview to build cash flow profile, references?</li> <li>• Ask if the same process is followed at loan renewal or how it differs</li> </ul>

<p><b>Indicator:</b> When available, the financial institution checks a Credit Registry or Credit Bureau for borrower current debt levels and repayment history. When not available, the financial institution maintains and checks internal records and consults with competitors for same.</p>	
<p><b>Adequate Standard</b></p>	<p><b>High Standard</b></p>
<p><i>When a credit bureau is available:</i></p> <ul style="list-style-type: none"> <li>• Policies include clear credit bureau consultation and the client situation is systematically reviewed at each loan cycle, prior to disbursement.</li> <li>• The financial institution systematically reports to the credit bureau about its clients.</li> </ul> <p><i>When credit bureau is not available or not reliable:</i></p> <ul style="list-style-type: none"> <li>• The common practice for financial institution is to exchange informal data with competitors consistent with legal limitations.</li> <li>• For group lender: group leaders and group members are trained or provided orientation about the potential risk to the group of multiple borrowing of members.</li> <li>• Group members are provided with the credit bureau information or credit checks done on other members.</li> </ul>	<p><i>When a credit bureau is available:</i></p> <ul style="list-style-type: none"> <li>• The FI uses the credit bureau to assess the level of client over-indebtedness.</li> <li>• Supervisory systems are in place to ensure that the credit bureau is effectively used to inform credit analysis and decisions.</li> <li>• A credit bureau check is also conducted regularly on the whole database, in order to identify: the level of cross indebtedness; the potential patterns of clients that borrow from other sources right after contract a loan with the FI.</li> <li>• The credit bureau data are also analyzed at aggregate level in order to inform decisions about the product mix, geographical expansion and targeting of specific populations with manageable levels of multiple borrowings.</li> </ul> <p><i>When credit bureau is not available or not reliable:</i></p> <ul style="list-style-type: none"> <li>• Level of overlap between the FI clientele and other FIs is tested at least every year by database verification (all FIs provide their client database to a third party that calculates the rate of shared clientele and provides the info to all actors).</li> </ul>
<p><b>Review</b></p>	<p><b>Client Verification</b></p>
<p><b>Desk review:</b> Review of credit policy and procedures, and other guidelines.  <b>On-site review:</b>                  Interviews with operations manager, branch managers, loan officers, to double check if the clients’ current situation is verified in the credit bureau before the approval of the loan; Interview with staff involved in the credit bureau reporting process; Review of a sample of loan files. Interview group leaders to assess group leadership’s attention to repayment history, possible multiple borrowing and knowledge about the existence of credit bureau information.</p>	<p>Do you know that the FI consults the credit bureau about you?</p>
<p><b>Indicator:</b> Internal audit and/or internal controls department verifies the compliance with the policies and systems to prevent the risk of client over-indebtedness.</p>	
<p><b>Adequate Standard</b></p>	<p><b>High Standard</b></p>
<ul style="list-style-type: none"> <li>• The audit includes the verification of the compliance with the policies on: client repayment capacity and debt exposure, use of credit bureau, existence of multiple borrowings, rescheduling/refinancing agreements and other practices that could increase client indebtedness.</li> <li>• Audit visits of at least 2% of total clientele per year. Client visits are used to verify the compliance with the policies and mitigate the risk of client over-indebtedness.</li> </ul>	<ul style="list-style-type: none"> <li>• Effective follow-up systems for the implementation of audit recommendations are in place.</li> <li>• Audit investigates cases where risk is higher related to the incentive scheme and productivity targets.</li> <li>• Audit produces data on client cross-indebtedness (with reasonable accuracy).</li> <li>• Audit verifies that household members and the clients' direct and indirect loans (as guarantor) meet the credit criteria and credit policies.</li> </ul>
<p><b>Review</b></p>	<p><b>Client Verification</b></p>
<p><b>Desk review:</b> Audit questionnaire and reports; Audit manual.  <b>On-site review:</b> Interview with internal audit (including review of audit sampling methodology), evidence of measures taken as a result of non-compliance with policies to mitigate the risk if client over-indebtedness, loan officer focus group discussions.</p>	<p><b>Client focus group discussion questions:</b></p> <ul style="list-style-type: none"> <li>• Did you receive a visit from any member of the financial institution staff, different from your loan officer?</li> <li>• What did they ask you about?</li> </ul>

STAFF INCENTIVES AND STAFF TRAINING	
<b>Key Indicator:</b> Productivity targets and incentive systems value portfolio quality at least as highly as other factors, such as disbursement or customer growth. Growth is rewarded only if portfolio quality is high.	
Adequate Standard	High Standard
<ul style="list-style-type: none"> <li>Productivity targets and incentive schemes are reasonable as compared to the industry benchmark (parameters and proportion of fixed/variable remuneration).</li> <li>Incentive pay does not exceed 100% of fixed income.</li> <li>None of the single targets or incentive components have “excessive”<sup>6</sup> parameters and competition among loan officers is not encouraged.</li> <li>The Incentive is structured to reward the quality of portfolio at least as highly as growth.</li> </ul>	<ul style="list-style-type: none"> <li>The targets and incentive scheme are differentiated among the staff and adjusted according to the market potential, infrastructure and other factors.</li> <li>Productivity targets and incentive scheme parameters are periodically reviewed for changing market conditions.</li> <li>Incentives are not issued unless PAR is under control</li> </ul>
Review	Client Verification
<p><b>Desk review:</b></p> <ul style="list-style-type: none"> <li>Review of staff incentive scheme and productivity targets at different levels of the organization; review of base salary (salary scale) compared to average incentive and a living wage.</li> </ul> <p><b>On-site review:</b></p> <ul style="list-style-type: none"> <li>Interview with loan officers, recovery officers, branch manager, credit manager.</li> <li>Loan officer focus group discussions.</li> </ul>	<p><b>Client focus group discussion questions:</b></p> <ul style="list-style-type: none"> <li>How did you approach / were you approached by the financial institution?</li> <li>How did you decide to take a loan?</li> <li>What is the process of applying for a loan like?</li> <li>Did you feel pressured to take a loan?</li> </ul>

<sup>6</sup> The term ‘excessive’ is still unclear.

**Client Protection Principle: Transparency<sup>7</sup>**

**Certification in this principle means:** The financial institution communicates clear, sufficient and timely information (especially on pricing, terms and conditions of products) in a manner that clients can understand so that they can make informed decisions.

STAFF INCENTIVES AND STAFF TRAINING	
Indicator: Staff is trained to communicate effectively with all customers, communicating in such a manner that clients can understand the terms of the contract, their rights and obligations. Communication techniques address literacy limitations (e.g., reading contracts out loud, materials available in local languages).	
Adequate Standard	High Standard
<ul style="list-style-type: none"> <li>• Communications skills are in some way incorporated into training for all staff who deals directly with clients.</li> <li>• Loan Officers are trained on effective communication (front line staff are trained to communicate to different groups of clients, from different market segments, and who have different skills and levels of understanding (perhaps languages), in a way that will help the clients make informed decisions about purchasing a product.</li> <li>• Written and verbal communications are in local languages.</li> <li>• Standard practice includes reading contracts out loud in the case of client illiteracy.</li> <li>• Loan officers are trained to help clients make informed decisions about the product.</li> </ul>	<ul style="list-style-type: none"> <li>• Plain language is used to communicate pricing and terms to clients.</li> <li>• Formal system in place for how clients receive information, especially in the case of illiteracy.</li> <li>• The FI trains and tests clients on understanding of product terms and prices, rights and obligations</li> </ul>
Review	Client Verification
<p><b>Desk review:</b></p> <ul style="list-style-type: none"> <li>• Review staff manuals or training materials to see if staff is trained in communication. Is it a separate module of training, is it written or on site? What techniques are used to communicate terms to client?</li> <li>• Review promotional materials for plain language and use of local languages</li> </ul> <p><b>On-site review:</b></p> <ul style="list-style-type: none"> <li>• Interview HR manager or person in charge of training to get a sense of training; Interview loan officer to ask how their clients understand the process they are entering. This interview determines if the loan officers received training on how to communicate or if it is ad-hoc.</li> <li>• Ask loan officers if they received training and how, in practice, their training helps clients make informed decisions about the product.</li> </ul>	<ul style="list-style-type: none"> <li>• Communication breakdown usually happens between loan officer and client – interview with clients can inform how effective loan officer training is at producing the desired level of client understanding</li> <li>• Observe the results of training by seeing how loan officers behave in the field.</li> <li>• Ask clients if they understood the terms of the product before borrowing, opening an account, sending a payment, etc.</li> </ul>

<sup>7</sup> Note to reviewers: the **Transparency Principle and indicators are a bit more lenient than the others. Recommendations to toughen them up are welcome.**

COMPLIANCE	
<b>Indicator:</b> The financial institution follows truth-in-lending laws and required APR or effective interest rate calculation formulae. In the absence of industry-wide requirements, information is provided that shows the total amount that the customer pays for the product. <sup>8</sup>	
Adequate Standard	High Standard
<ul style="list-style-type: none"> <li>• Must be in compliance with Truth in Lending laws and local regulations, for all products offered.</li> <li>• Regardless of local regulations, FI provides clients information that shows the total amount the client pays for the product.</li> </ul>	<p>The financial institution is setting a standard for transparency that is above and beyond what is expected in their market.</p>
Review	Client Verification
<p><b>Desk review:</b></p> <ul style="list-style-type: none"> <li>• Do promotional materials contain interest rates or sample calculations that show principle and interest?</li> <li>• Is the APR shown on the contract?</li> </ul> <p><b>On-Site review:</b></p> <ul style="list-style-type: none"> <li>• Do the clients have pass books or amortization tables that show the total price of the loan?</li> </ul>	<p>If laws require disclosure, check for compliance with this requirement through client interviews.</p>

<sup>8</sup> MFTransparency has offered to link country data bases on regulation, specifically Truth in Lending regulation, to certifiers and raters.

RESULTS	
<b>Context</b>	
<ul style="list-style-type: none"> <li>APR and EIR calculations differ by country.</li> <li>Regulatory requirements may be different in distinct countries.</li> <li>Communication of flat or declining balance showing intent/attitude of financial institution is contextual.</li> </ul>	
<p><b>Key Indicator:</b> Prices, terms and conditions of all financial products are fully disclosed to the customer prior to transaction including interest charges, insurance premiums, minimum balances, all fees, penalties, linked products, 3rd party fees, and whether those can change over time. Information is provided that shows the total amount that the customer pays for the product.</p>	
<b>Adequate Standard</b>	<b>High Standard</b>
<ul style="list-style-type: none"> <li>Loan documentation lists all information on installments, charges and fees, associated prices, terms, conditions, forced savings, (credit life) insurance premiums and penalties for late payment.</li> <li>Information is provided that shows the total amount the customer pays for the product.</li> <li>FI avoids using pricing mechanisms that create confusion on the total costs (several commissions, use of cash collateral (mandatory savings), flat interest rates; use of word “monthly” to identify “4-weeks period”, etc.</li> <li>Loan documentation, including an amortization table, is handed to client to take home (both group and individual loan clients).</li> <li>Loan contracts show an amortization schedule that separates principal, interest, fees; define the amount, number and due dates of installment payments and include fees and conditions for early repayment, late payments and default.</li> <li>Contracts contain simple language; no fine print (figuratively or literally).</li> <li>Customer must receive hard copy of information at beginning of loan process and copy of signed contract with all terms and conditions: no blank terms in contract – it must be completely filled out.</li> <li>Debt collections practices are revealed to borrower at time of sale.</li> <li>FI participates in the MF Transparency project.</li> </ul>	<ul style="list-style-type: none"> <li>General terms posted in public domain.</li> <li>Information is provided that shows the total amount that the customer pays for the product in a way that it is comparable to others. The calculation includes all costs, notably (mandatory insurance or mandatory savings; and all mandatory taxes)</li> <li>A clear facts summary page is given if plain language contract is unavailable or the legally necessary contract is deemed too technical for the clients.</li> <li>Village banking clients each receive contract.</li> <li>Loan documentation communicates APR/EIR. Customers need to be able to see and compare APR/EIR in a yearly standardized manner that allows for Total Cost comparisons.</li> <li>Not only does the financial institution meet the criteria but they ensure that the client has understood.</li> <li>The Financial Institution scores at least a 75 on the MF Transparency Index.</li> </ul>
<b>Review</b>	<b>Client Verification</b>
<p><b>Desk review:</b></p> <ul style="list-style-type: none"> <li>Review Loan Documentation in advance to check for: Fees, forced savings, insurance premiums, and communication of flat or declining balances. If all financial institutions list in flat, then that should be taken into account.</li> <li>Documents to review: 1) Contract; 2) Amortization schedule including savings if not in contract – both upfront and at end of loan term; 3) Other loan documentation.</li> </ul> <p><b>On-site review:</b> (for adequate standard):</p> <ul style="list-style-type: none"> <li>Check the accuracy of what is quoted to client: certifier checks on accuracy of quoted price to client. Are prices accurate with what the client ultimately pays?</li> <li>Check MIS reports with client documentation to verify accuracy.</li> </ul>	<p>To review the adequate no client interviews are necessary. Review of lien loan documentation is a sufficient means of client verification.</p> <p><b>For high standard:</b></p> <ul style="list-style-type: none"> <li>Interview clients to see if they understand pricing, terms and conditions.</li> </ul>

<b>Indicator:</b> Multiple channels for disclosing clear and accurate information about the product are used, such as brochures, orientation sessions, meetings, posting information in the branch, websites, etc.	
<b>Adequate Standard</b>	<b>High Standard</b>
<ul style="list-style-type: none"> <li>At least two different communication channels employed: written and communicated verbally is minimum requirement.</li> </ul>	<ul style="list-style-type: none"> <li>Posted conditions clearly displayed in public space or where public has access, such as on wall of branch.</li> <li>More than two forms of written/oral communication are employed.</li> <li>Financial education training provided on clients’ rights and responsibilities.</li> </ul>
<b>Review</b>	<b>Client Verification</b>
<b>On-site review (for high standard):</b> <ul style="list-style-type: none"> <li>Look for efforts beyond loan contract and repayment schedule such as TV in branches, brochures, web site, materials in local languages etc.</li> </ul>	NA
<b>Indicator:</b> Customers are given adequate time to review the terms and conditions of the product and have an opportunity to ask questions and receive information prior to signing contracts.	
<b>Adequate Standard</b>	<b>High Standard</b>
<ul style="list-style-type: none"> <li>Conditions of loan are communicated upfront.</li> <li>Information is accessible before signing.</li> <li>Someone is available to answer questions.</li> <li>Cooling off period exists e.g. client can take information home and think about it or consult with family and still receive the same terms the following day.</li> </ul>	<ul style="list-style-type: none"> <li>No forced signing to guarantee conditions.</li> <li>Financial education information is provided to clients even if they do not ask questions.</li> </ul>
<b>Review</b>	<b>Client Verification</b>
<b>On-site review:</b> <ul style="list-style-type: none"> <li>Review the FI’s policy on the accessibility of information to the client before the product is sold.</li> <li>Ask branch staff and clients how long they have to review the contract/loan terms prior to signing.</li> <li>Check that LOs are sensitive to “group dynamics” to prevent the possibility that group members are forced to decide too quickly under the pressure of the group (and check that supervisors monitor that as well).</li> </ul>	<ul style="list-style-type: none"> <li>Ask clients if they felt rushed during their decision making process on whether to take out a loan (by the loan officers, or by the group members in case of group loans).</li> </ul>
<b>Indicator:</b> Customers regularly receive clear and accurate information regarding their accounts (e.g., account statements, receipts, and balance inquiries).	
<b>Adequate Standard</b>	<b>High Standard</b>
<ul style="list-style-type: none"> <li>Proof of payment is mandatory.</li> <li>The financial institution provides clients with updated balances on request.</li> <li>Accurate savings account information is available to borrowers – to give options to use/access savings at end of cycle.</li> </ul>	The financial institution regularly provides updated account balances.
<b>Review</b>	<b>Client Verification</b>
Check in the field or branch if receipts are given to clients when payment is collected.	NA

**Client Protection Principle: Responsible Pricing**

**Certification in this principle means:** The institution sets prices, terms and conditions that are affordable to clients while allowing for the financial institution sustainability.

<b>RESULTS</b>	
<b>Key indicator:</b> Prices are market oriented and competitive within the country context, and are not subsidized. Any product contributing >25% of portfolio needs to be evaluated (both APR & EIR must be considered).	
<b>Context</b>	
<ul style="list-style-type: none"> <li>Government requirements – e.g. interest rate cap, requirement for issuing government subsidized loans. FI should not be penalized for complying with legal requirements.</li> <li>In several countries all pricing is skewed. A meaningful comparison may be found in neighboring countries with similar contexts.</li> </ul>	
<b>Adequate Standard</b>	<b>High Standard</b>
<p><u>Credit products:</u></p> <ul style="list-style-type: none"> <li>Loan prices do not deviate significantly from the peer group.<sup>9</sup> Acceptable deviation range is +/- 10%. If credit life and/or compulsory savings are mandatory they are taken into account in the EIR calculation.</li> <li>Pre-payment penalties, account closure fees, transaction fees or other penalties are not excessive, e.g. they would not prevent a customer from changing to another provider, and do not unreasonably compound debt. Prepayment penalty should be commensurate with the cost of account closure, and generally should not exceed the interest amount of remaining loan term, plus operating costs for account closure. Processing fees should be in line with peers (can be checked through EIR).</li> </ul> <p><u>Saving products:</u></p> <ul style="list-style-type: none"> <li>Returns on deposits are not below the average return offered by banks for comparable types of products. Deposit rates not below formal sector banks.</li> <li>Well laid out policy for interest rates, including accounting for inflation: rates do not differ based on preferential treatment for account holders, but on the product terms and amounts.</li> </ul> <p><u>Insurance products:</u></p> <ul style="list-style-type: none"> <li>Credit life insurance is not priced to provide hidden profits to the financial institution, and insurance coverage is not excessive. Difference between premiums collected and paid to insurance company does not exceed an estimate of reasonable costs to administer the product (e.g. double the premium passed on). In case of in house insurance; it should be not more expensive than that offered by the formal sector.</li> </ul>	<p><u>Credit products:</u></p> <ul style="list-style-type: none"> <li>Loan prices are at par with the peer benchmark.</li> <li>Account closure is allowed without charging interest for full loan term.</li> <li>Loan processing fees are the same or less than peers.</li> </ul> <p><u>Saving products:</u></p> <ul style="list-style-type: none"> <li>Rates are comparable with peer group (+/-10%) and not less than formal sector rate.</li> <li>Interest calculated based on daily balance.</li> </ul> <p><u>Insurance products:</u></p> <ul style="list-style-type: none"> <li>Only insurance premium passed on to insurance company or premium as per actuarial (if in house) charged to client - operational cost absorbed by the financial institution.</li> </ul>

<sup>9</sup> Peers are defined as FIs in the same country of similar size and target market (per MIX Market definition). At least 5 FIs need to comprise a peer group. In case of no in-country peer group, the regional peer group will be used. The guidance for peer group selection will be refined based on the testing phase for the indicators.

Review	Client Verification
<p><u>Credit products:</u>  <b>Desk review:</b></p> <ul style="list-style-type: none"> <li>If credit life insurance is present, it needs special analysis</li> <li>APR or EIR calculation based on interest rate policy documents (including all fees), on and product terms and conditions, conducted by product for major products contributing to &gt;25% of portfolio.</li> <li>Benchmark against rates of comparable peer group, e.g. at MIX or MFT.</li> </ul> <p><b>On-site review:</b></p> <ul style="list-style-type: none"> <li>Verify actual practice by looking at sample: customer loan cards and repayment schedules.</li> </ul> <p><u>Saving products:</u>  <b>Desk review:</b> Review policy documents.  <b>On-site review:</b> Check customer files.</p> <p><u>Insurance products:</u>  <b>Desk review:</b></p> <ul style="list-style-type: none"> <li>Return calculation based on policy documents (including expected fees). By product for major products.</li> <li>Benchmark against rates of comparable peer group, e.g. financial institutions and formal banks.</li> </ul> <p><b>On-site review:</b></p> <ul style="list-style-type: none"> <li>Verify actual practice by looking at sample client files.</li> </ul>	<p><u>Credit products:</u></p> <ul style="list-style-type: none"> <li>Check loan cards to see rates charged are same as prescribed in policy.</li> <li>Solicit customer feedback on whether interest rates and fees are reasonable and competitive. (To interpret this information, actual rates must be taken into account.)</li> <li>Ask whether excessive fees have been charged that deterred switching.</li> </ul> <p><u>Savings products:</u></p> <ul style="list-style-type: none"> <li>Client pass book must clearly show savings balance and interest separately for voluntary and compulsory deposits. Pass book rates must be the same as those specified in policy.</li> </ul>
<p><b>Indicator:</b> The institution earns a rate of return to support operations and grow, <i>that does not deviate significantly from the peer group.</i></p>	
Context	
<ul style="list-style-type: none"> <li>Difficulty of establishing relevant benchmark, given factors such as urban/rural cost differences; age of institution, and variation in applicability of ratios (e.g. ROA can be manipulated). Going ahead, it is suggested that for each country-based (or region if country data is not available) benchmarks should be used.</li> </ul>	
Adequate Standard	High Standard
<ul style="list-style-type: none"> <li>Does not deviate significantly from the peer group.</li> <li>Considering the different stages of a financial institution (growing to mature), a higher range of + 50% is suggested.<sup>10</sup></li> </ul>	<ul style="list-style-type: none"> <li>Well defined organizational policy on profitability and margins approved by the Board.</li> <li>Acceptable thresholds for levels of returns will be tied to what is decided for the Universal Standards defined by the SPTF.</li> </ul>
Review	Client Verification
<p><b>Desk review:</b> Check Return on Assets for the last 3 years; Check portfolio yield and operating expense ratios.</p> <p><b>On-site review:</b> Check accounting methods for computing interest rates, cash/accrual, provisions, and similar issues.</p>	<p>NA</p>

<sup>10</sup> Note to the reviewers: it is acknowledged that this rate (+50%) may be high. We will need to take a look at a variety of start-ups and find an average or a range that is based on experience.

RESULTS	
Context	
<ul style="list-style-type: none"> <li>National policy mandated use of profits for financial institutions should not be taken into account.</li> </ul>	
<b>Indicator:</b> Use of profits. The financial institution invests a portion of its profits to increase value to customers, such as lowering interest rates or adding or improving products and services.	
Adequate Standard	High Standard
<ul style="list-style-type: none"> <li>All products are affordable to clients.</li> <li>Shareholders expected returns are reasonable (provide range).</li> <li>Board of Directors considers how FI can add value to customers.</li> <li>A % of the portfolio is dedicated to relatively riskier, yet highly appreciated, products (such as housing, agriculture).</li> </ul>	Allocation of profits to areas that add value to clients, such as <ul style="list-style-type: none"> <li>--non-financial services;</li> <li>--lowering of interest rates with increase in profitability and scale;</li> <li>--new products developed in line with client needs;</li> <li>--other initiatives the FI may have developed.</li> </ul>
Review	Client Verification
<b>On-site review:</b> <ul style="list-style-type: none"> <li>Discuss with senior management and look at detailed financial statements and interest rate policy. Point to be seen in case of non financial services is that it is not donor driven; Ask senior management or board how the FI adds value to customers; Board Minutes, Strategic Plan, or business plan.</li> </ul>	<ul style="list-style-type: none"> <li>Client interaction to see whether non financial services and new product offerings meet their needs.</li> </ul>

**Client Protection Principle: Fair and Respectful Treatment of Clients**

**Certification in this principle means:** The probability that a client's rights would be violated by the Institution or its staff is very low. Client's rights are understood as the right to be treated with dignity and respect, the right to a fair and non-discriminatory treatment.

<p><b>GOVERNANCE:</b> The organization's corporate culture values and rewards high standards of ethical behavior and customer service.</p>	
<p><b>Indicator:</b> A written code of business ethics spells out organizational values and the standards of professional conduct expected of all staff. The code of ethics has been reviewed and approved by the Board.</p>	
<p><b>Adequate Standard</b></p>	<p><b>High Standard</b></p>
<p>The Code of Ethics exists and has been <b>approved by the Board</b>. The financial institution has a non-discrimination and disability policy.</p>	<ul style="list-style-type: none"> <li>• There is an <b>Ethics Committee at the Board level</b>, or a Board member in charge of the issues related to the Code of Ethics. The Committee is in charge of <b>dealing with cases of misconduct</b>, and investigating cases of <b>whistle-blowing</b>. Procedures have been defined to deal with these type of cases (whistle-blowing and misconduct), which ensure an efficient and fair investigation.</li> <li>• The Code of Ethics is reviewed every 3 years and updated in order to reflect changes in societal or international norms on ethics or disability.</li> <li>• Staff has opportunity to offer amendments or changes to the code of ethics and submit them to the Board for consideration.</li> </ul>
<p><b>Review</b></p>	<p><b>Client Verification</b></p>
<p><b>Desk review:</b></p> <ul style="list-style-type: none"> <li>• Review minutes of the Board that approves the Code of Ethics.</li> <li>• Review the Code of Ethics and other policies that treat non-discrimination.</li> </ul> <p><b>On-site review:</b></p> <ul style="list-style-type: none"> <li>• Discuss the Code of Ethics with the Board to see if it has really been discussed thoroughly at Board level.</li> <li>• Discuss the principles and possible consequences that guide or would guide the investigation in case of (alleged) misconduct.</li> </ul>	<p>NA</p>

POLICIES AND PROCEDURES	
Context	
<ul style="list-style-type: none"> <li>In countries where legal systems are very weak and do not protect the institution's rights properly, institutions often use practices that are considered inadequate or are very close to illegal.</li> <li>A minimum list of “internationally unacceptable” practices should be put together, that guarantees that client's rights are always respected, but that also takes into account the concerns of financial institutions that are in challenging environments.</li> <li>Targeting of previously discriminated against groups, such as women or indigenous groups, can be acceptable.</li> </ul>	
<p><b>Key Indicator:</b> Standards of professional conduct are expected of all staff, and especially acceptable and unacceptable debt collection practices, are clearly spelled out in a code of ethics, book of staff rules or debt collection manual.</p>	
Adequate Standard	High Standard
<ul style="list-style-type: none"> <li>The credit policies or collection manual, or any other document that is distributed to all staff (including third party staff) involved in collection, describe:                             <ul style="list-style-type: none"> <li>the precise standard steps that <b>are to be followed</b> in case of a default or repayment delays from a borrower.</li> <li>the <b>actions that should not be taken</b> or the behaviors that are considered to violate the borrower's rights.</li> </ul>                             In the case of <b>group loans</b>, the procedures also describe actions that <b>group members</b> are expected to take and are prohibited from taking.                         </li> <li>The following behaviors <b>are always prohibited</b>, and staff sign a document by which they acknowledge that they will not: use abusive language, use physical force, limit physical freedom, shout at the client, enter in the client’s home uninvited, publicly humiliate the client, violate the client’s right to privacy, discriminate based on ethnicity, gender, sexual orientation, religious belief, political opinions, disability; participate in corruption, kickbacks, theft; participate in sexual or moral harassment.</li> <li><b>Clients are informed</b> of the main aspects of the Code of Conduct through posters, or during the disbursement sessions if most clients are not literate. The information includes the clients’ are informed about their right to complain and how to submit a complaint.</li> </ul>	<ul style="list-style-type: none"> <li>The collection guidelines describe <b>differentiated</b> strategies that are to be used in case of incapacity to repay or lack of willingness to repay.</li> <li>The <b>level of compliance</b> with these guidelines:                             <ul style="list-style-type: none"> <li>is tested by internal auditors through visits to a sample of clients that must represent between <b>1% to 2%</b> of the total clientele each year, and <b>5%</b> of the cases where risk of abusive practices are high (late clients, or clients of Loan Officers that have extremely low PAR; etc.).</li> <li>is fostered by the existence of a formal complaint mechanism.</li> </ul> </li> <li>Test of compliance by <b>independent third party</b>, such as external auditors or client surveys is a plus.</li> <li>Existence of a <b>staff member in charge of educating</b> other staff members <b>on non-discrimination</b>, and in charge of reaching out to specifically discriminated groups of the population <b>is a plus</b>.</li> <li><b>Accessibility of services</b> to persons with <b>disabilities</b> (staff that are able to communicate in sign language, documents available in Braille, premises accessible for persons with mobility problems) <b>is a plus</b>. Sensitivity training for staff about working with persons with disability, both as fellow staff and also clients is provided.</li> </ul>

Review	Client Verification
<p><b>Desk review:</b></p> <ul style="list-style-type: none"> <li>• Review credit policies, collection manual, and other documents that contain lists of acceptable and unacceptable collection practices.</li> <li>• Review Code of Ethics.</li> <li>• Data on client satisfaction regarding collections, client service and staff behavior.</li> <li>• Review internal audit reports, internal audit manual to check how compliance with ethics and collection procedures are monitored.</li> <li>• Data on frequency of complaints related to collection, or staff behavior.</li> <li>• Data on number of clients visited by “non-operational” staff (people not involved in the credit process, such as monitoring officers, customer satisfaction surveyors etc.).</li> <li>• Verify country compliance with UN Convention of Persons with Disability and FI compliance.</li> </ul> <p><b>On-site review:</b></p> <ul style="list-style-type: none"> <li>• Interview manager in charge of collections (potentially credit manager / operations manager, etc.).</li> <li>• Interview with Internal auditor.</li> <li>• Interview with branch manager.</li> <li>• Interview loan officers to test their level of knowledge of the collection policies, boundaries that should not be overrun and general code of ethics. Interviews should be done individually and in focus group. The certifier should hold interviews at least 10 loan officers from 2 different branches.</li> <li>• Check information on Code of Conduct provided to clients (attend a disbursement session or see documents in the branches).</li> <li>• Discuss the terms given to 3rd party contractors and the standards to which they are held.</li> </ul>	<p>Since problems of repayment are a very sensitive issue and difficult to discuss openly, the certifiers will convene focus groups of clients and ask them to describe consequences of late payments, both with the evaluated institution and in the market, and asked to compare practices between different institutions. (if 30% of answers are negative then the institutions fails this indicator.)</p> <p><b>Client focus groups:</b> clients will be asked whether they remember being informed of behaviors that loan officers or other staff members should not have and the type of recourse they have in case this happens.</p>

<p><b>Indicator:</b> Staff rules include specific provisions on what is considered acceptable/unacceptable behavior. Provisions describe reprimands and actions that can result in termination of employment. Staff is informed of penalties for non-compliance with ethics code/collections policies, violations are sanctioned and sufficient monitoring of the practices (by operations department, internal audits) is carried out to provide education or sanctions as necessary.</p>	
<b>Adequate Standard</b>	<b>High Standard</b>
<ul style="list-style-type: none"> <li>Procedures <b>describe the sanctions</b> that will be taken in case of violation of the collection practices norms or of the Code of Ethics (harassment, discrimination, theft, corruption, kickbacks, etc.).</li> <li>Staff have been trained on these procedures.</li> <li>Cases of misbehavior identified by management, internal audit or thanks to an efficient complaint mechanism, <u>have been sanctioned</u> according to the set rules.</li> </ul>	<ul style="list-style-type: none"> <li>In the event of misconduct, <u>staff is informed of the cases and sanctions that were taken</u>, and discussions are organized for staff to be able to ask questions on cases about when this has happened.</li> <li><u>Whistle blowers are protected</u> against potential negative consequences; malicious whistle blowers are sanctioned.</li> </ul>
<b>Review</b>	<b>Client Verification</b>
<p><b>Desk review:</b></p> <ul style="list-style-type: none"> <li>List of sanctions in case of breach of appropriate collection practices/ code of ethics.</li> </ul> <p><b>On-site review:</b></p> <ul style="list-style-type: none"> <li>Look into internal audits reports to identify cases of misbehavior and check in HR records for potential sanctions.</li> <li>Look at cases of complaints and check in HR records how they have been dealt with.</li> <li>Loan officer focus group: do they know the sanctions that could apply? Do they remember cases of sanctions being applied?; Do they know how they are supposed to behave?</li> <li>Interview with Internal Audit to ask how they verify compliance with the code of ethics, or how they detect corruption and mistreatment of clients and the action steps that are taken.</li> <li>Discuss the cases of employees that have been sanctioned in the past 3 years, with details on reasons and procedures.</li> </ul>	<p>NA</p>

**Indicator:** The institution has two credit policies in place: 1) a policy describing acceptable pledges of collateral, including not accepting collateral that will deprive borrowers of their basic survival capacity, and offering an explanation of the role of guarantors; the policy guarantees clients receive a fair price for any confiscated assets; and 2) a policy to actively work out solutions for rescheduling loans/ writing off on an exceptional basis for clients who have the “willingness” to repay but not capacity to repay.

**Context**

Acceptance of collateral seizing without prior legal action varies significantly by country; the minimum should be that assets are not seized without prior legal authorization or client consent.

Adequate Standard	High Standard
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**1. Acceptable Collateral**

- If applicable, the credit policies indicate a **list of assets that cannot be accepted as collateral**, or that cannot be seized in case of default, because they would **deprive borrowers of their basic survival capacity** (including business assets).
- If applicable, there are clear guidelines for how collateral is registered and valued, and the value of the required collateral does not represent more than **200%** of the value of the loan.
- Procedures ensure that **collateral seizing is respectful of clients' rights**. These principles are also explained to group clients:
  - Unless authorized by a legal court order, seizing collateral only occurs after receiving the client's consent.
  - Collateral cannot be sold to staff of the financial institution or to their relatives, or third parties involved in the seizing process.
  - If the value of the collateral exceeds the debt, the remaining amount is given back to the client.
  - The fees related to the collateral sales are clearly explained to the client before the sale, are within normal ranges compared to peers, and the difference between the value of the asset and the outstanding balance is reasonable.

**2. Rescheduling**

Specific procedures, including how to execute collateral, exist to deal with clients that **have "willingness" to repay, but have no capacity to repay**: 1/ Procedures list cases of specific distress under which clients can be granted **rescheduling or refinancing** (death of relative; natural disaster leading to destruction of asset or production tool; sickness; etc.); 2/ Rescheduling or refinancing can also be considered if clients have demonstrated good history of repayment and request a rescheduling due to business or personal problems; 3/ Rescheduling is authorized by a supervisor.

**1. Acceptable Collateral**

- Either the institution has never done any seizing of collateral, or the **history of collateral execution** shows good compliance with the stated rules re: type of collateral seized and the process of execution.
- The potential practices of **collateral confiscation** within groups is monitored and **discussed** regularly within **group meetings**.
- Procedures ensure that clients receive **fair prices** for assets. The principles are also explained to group clients. Reasonable **efforts are made to publicize** the sale to potential buyers; and **transparent pricing** mechanisms exist by auction or market price investigation if there is a market.
- Procedures related to collateral execution are carried out by specialized, staff or are subcontracted to third parties whose procedures have been approved by the institution for compliance with client protection principles.
- In case collateral is kept in the **financial institution premises**, procedures are in place to ensure its **security**, and the goods are **duly insured** against theft or destruction.

**2. Rescheduling**

- Rescheduling policies are applied in a **consistent** and **fair** way across the financial institution.
- Even in cases of rescheduling, installments are designed in such a way that clients **always reimburse a portion of capital** with each installment in order to gradually reduce their debt.

Review	Client Verification
<p><b>Acceptable Collateral</b></p> <p><b>Desk review:</b></p> <ul style="list-style-type: none"> <li>• Credit manual section describing collateral requirements and procedures related to legal and transparent seizure and selling of collateral.</li> <li>• Data on number of cases of collateral seizing + revenues derived from seizing.</li> </ul> <p><b>On-site review:</b></p> <ul style="list-style-type: none"> <li>• Loan officer focus group to discuss collateral requirements and execution procedures and to check consistency of the process with the credit manual.</li> <li>• Check a sample of credit files to verify the type of collateral taken and verify that it does not include “essential goods” (e.g. 50 files).</li> <li>• Listing of cases of collateral seizing with nature and price of sale, amount due by the client, and fees charges.</li> <li>• Visit of “collateral storage room” to check type of collateral and conditions of storage.</li> </ul> <p><b>2. Rescheduling</b></p> <p><b>Desk review:</b></p> <ul style="list-style-type: none"> <li>• Rescheduling policies.</li> <li>• Data on # and amounts of outstanding loans rescheduled annually.</li> </ul> <p><b>On-site review:</b></p> <ul style="list-style-type: none"> <li>• During discussion with loan officer, Board members, and credit manager, check actual policy on rescheduling, current practice, and any examples of extreme cases.</li> </ul>	<p>Client focus groups with questions:</p> <ul style="list-style-type: none"> <li>• What have you heard or experienced related to confiscation practices, or from the financial institution or from the market in general?</li> <li>• About “instances of collateral seizing, personally, in the institution, in the market.</li> </ul>

STAFF INCENTIVES AND STAFF TRAINING	
<b>Indicator:</b> The incentive system is designed in a way that does not put the Loan Officers in a “conflict of interest” with the clients, at the time of collection, and rewards ethical behavior. Managers and supervisors review ethical behavior, professional conduct and the quality of interaction with customers as part of staff performance evaluations.	
Adequate Standard	High Standard
<ul style="list-style-type: none"> <li>Incentive schemes for loan officers <b>avoid putting staff in a situation of "conflict of interest" with clients</b> at the time of collection: impact of PAR levels on bonus level is gradual.</li> <li>Zero tolerance for PAR is not endorsed.</li> <li>Loan officer base pay should be a living wage.</li> <li>Incentives that represent more than 100% of the base salary trigger additional verifications.</li> <li>Incentives schemes are not based on short delays (less than 5 days).</li> <li>Incentives of staff, and especially of those in direct contact with clients, reward ethical behavior and customer service.</li> <li>The <b>alignment of staff</b> with corporate values and <b>business ethics</b> is reviewed and discussed during the <b>annual evaluation.</b></li> </ul>	<ul style="list-style-type: none"> <li>Annual evaluations and/ or incentive scheme include feedback from peers, results of internal audit or client satisfaction surveys.</li> <li>Internal audit <u>over-samples the clients / loans</u> in order to control for the <u>specific risk related to the incentive schemes</u>, e.g. the last collection made before the end of the month for loan officer with score that could put them at a risk of not getting a bonus.</li> </ul>
Review	Client Verification
<p><b>Desk review:</b></p> <ul style="list-style-type: none"> <li>Description of incentive scheme and PAR policy/targets.</li> <li>List of the categories of incentive-based salaries from HR</li> </ul> <p><b>On-site review:</b></p> <ul style="list-style-type: none"> <li>Check that the compensation and incentive is not designed in a way that might put loan officers in that conflict of interest; Ask staff members how they are provided incentives (or not) to have good ethical behavior or provide good customer service. Look for mention of the systems that have been designed by management.</li> <li>Ask management what measures are put in place to foster ethical behavior within staff or a culture of good customer service.</li> <li>Discuss in country minimum wage and % of base pay that can be earned as variable income by loan officers.</li> </ul>	<p>NA</p>

<p><b>Indicator:</b> Staff is recruited and trained in line with the Code of Ethics, particularly collections staff receives training in acceptable debt collections practices and loan recovery procedures. In-house and 3rd party collections staff are expected to follow the same practices. Group loans: clients receive awareness-raising sessions about the concept of solidarity loans, the need to cover for co-borrowers in case of late payment AND on the repayment capacity that is not to be exceeded.</p>	
<p><b>Adequate Standard</b></p>	<p><b>High Standard</b></p>
<ul style="list-style-type: none"> <li>Recruitment procedures include a <b>background check on staff</b> that focuses on identifying potential previous instances of misconduct.</li> <li>Staff recruitment occurs without prejudice based on ethnicity, gender, disability, political affiliation, sexual orientation among others.</li> <li><b>Initial training</b> includes a review of the Code of Conduct and a discussion with new staff on the situations where the compliance with the Code might be a challenge.</li> <li><b>Collection practices</b> are covered during the initial training of all staff involved in collections (loan officers, collections staff, and branch managers).</li> <li>Staff is <b>informed of the potential sanctions</b> in case of a breach of the Code</li> <li>The same training is provided to <b>third party collections staff</b> in case collection is subcontracted.</li> <li>Supervision of loan officers: ethics are considered in performance evaluations, incentive structures, mentoring etc.</li> </ul>	<ul style="list-style-type: none"> <li>Compliance with background checks is verified by <b>Internal audit</b></li> <li>Employees regularly have to pass a <b>Code of Conduct test</b> and/or take a <b>Code of Conduct refresher training</b>, which includes concrete illustrations of the do's and don'ts that are laid out in the Code of Conduct.</li> <li>Trainings provided to staff on collection practices are conducted at least once every year and include <b>specific strategies for handling difficult collections</b> and <b>real life</b> case studies during which staff can <b>share their experiences</b> and doubts on the right way to deal with especially difficult cases.</li> <li>Human resources recruiting and outreach to persons with disability and minorities is recommended</li> </ul>
<p><b>Review</b></p>	<p><b>Client Verification</b></p>
<p><b>Desk review:</b></p> <ul style="list-style-type: none"> <li>Review template for background checks.</li> <li>Review Training manual.</li> <li>Review orientation materials, or instruction booklets on the code of conduct.</li> <li>Review Code of Conducts tests and pass rates.</li> </ul> <p><b>On-site review:</b></p> <ul style="list-style-type: none"> <li>Interviews or focus group with LOs that check on quality and usefulness of training in helping to deal with difficult cases.</li> <li>Interviews with HR on type of staff training offered and any difficulties encountered.</li> </ul>	<p>NA</p>

**Client Protection Principle: Privacy of Client Data**

**Certification in this principle means:** Both staff and clients know how client data will be collected and used. Client data is protected at least to the minimum requirements of the country (or regional proxies when country policy is not available).

POLICIES AND PROCEDURES	
<b>Context</b>	
<ul style="list-style-type: none"> <li>Determine what the country privacy data regulations are if such regulations exist.</li> </ul>	
<b>Indicator:</b> A written privacy policy governs the gathering, processing, use and distribution of client information.	
<b>Adequate Standard</b>	<b>High Standard</b>
<ul style="list-style-type: none"> <li>A policy exists. The policy covers current staff and those who leave the organization and information leakage.</li> <li>The financial institution is aware of local regulation regarding client data privacy and complies.</li> <li>Staff Book of Rules and Code of Conduct penalize misuse or misappropriation of client data.</li> </ul>	<ul style="list-style-type: none"> <li>The policy exists, and                             <ul style="list-style-type: none"> <li>it is explicit about the usage and storage of data; and,</li> <li>it is well-communicated to employees (through training) and clients (during the data collection process).</li> </ul> </li> <li>There are different staff access levels for confidential client data and its usage.</li> <li>There are penalties for exposing or revealing client data to third parties without prior client consent.</li> </ul>
<b>Review</b>	<b>Client Verification</b>
<p><b>Desk review (adequate standard):</b></p> <ul style="list-style-type: none"> <li>Collect and review written policy, read staff book of rules or code of conduct and see if this topic is included.</li> </ul> <p><b>Desk review (high standard):</b></p> <ul style="list-style-type: none"> <li>Research country's data privacy policy regulation for the financial sector if it exists.</li> </ul> <p><b>On-site review:</b></p> <ul style="list-style-type: none"> <li>If no policy is in place, skip. If policy in place, ask staff about it (in the next indicator).</li> </ul>	NA

STAFF INCENTIVES AND STAFF TRAINING	
Indicator: Staff training & technology systems are appropriate for ensuring that client data is secured.	
Adequate Standard	High Standard
<ul style="list-style-type: none"> <li>• Systems, including secure IT systems, are in place and staff is trained to protect the confidentially, security, accuracy and integrity of customers’ personal and financial information.</li> <li>• IT systems in place have different password protection systems that are changed periodically with different access levels according to the position of the staff member accessing the data.</li> <li>• Meeting places for groups guarantee that discussions among group members can remain private. This is the case whether the places are chosen by the FI or chosen by the group members, with guidance of the FI.</li> <li>• Group leaders are trained to safeguard group member information, particularly savings account balances, and dates of loan disbursement, and information on repayment problems.</li> </ul>	<ul style="list-style-type: none"> <li>• If the institution has most of its files in a digital format. IT systems have modern anti-virus/firewall technology; perform daily back-ups of client information which is stored either in house and/or in a secure location. If files are stored in physical format, the institution stores the client files in a secure location, within the branch or headquarters that has 1) restricted access only to selected persons; 2) is kept in a facility secure from arson or theft.</li> <li>• The FI does not allow: 1) staff to photocopy or take client folders home, 2) use USB drives in work computers or 3) permit unauthorized persons to access workstations or data storage spaces.</li> </ul>
Review	Client Verification
<p><b>Desk review:</b></p> <ul style="list-style-type: none"> <li>• Request training manual (see if this practice is mentioned/ included).</li> <li>• Request information on the financial institution's IT system and parameters.</li> </ul> <p><b>On-site review:</b></p> <ul style="list-style-type: none"> <li>• Ask staff how client data is secured and if they perceive any weaknesses in the practices and the IT system in place to protect client data.</li> <li>• Verify with IT department the policies that govern data usage, agreements with credit bureaus and other third parties.</li> <li>• Ask staff to describe training they received on this.</li> <li>• Ask the IT manager about how secure the database or MIS is.</li> <li>• Ask staff what type of information is shared with external agents, such as insurance companies and collections agencies.</li> <li>• Ask the loan officers how the client files are stored and how the information safe guarded.</li> <li>• For group lenders, ask group leadership how they are oriented to protect and safe-guard group member information, including savings account balances and date when loans are disbursed in cash, and whether they have been guided to choose the location of the meetings, or whether they feel comfortable with the place that the FI has chosen to hold the meetings.</li> </ul>	<p>See if information on confidentiality is included in contracts or loan documents and if staff talks about this during disbursement.</p>

RESULTS	
<b>Context</b>	
<ul style="list-style-type: none"> <li>What is the security situation of the country? Countries where there are significant risks of kidnapping/money-laundering/identity theft might have special protections that others do not.</li> </ul>	
<b>Key Indicator:</b> Customer Knowledge: Customers know how their information will be used internally and, when applicable, when it will be shared externally.	
<b>Adequate Standard</b>	<b>High Standard</b>
<ul style="list-style-type: none"> <li>A policy exists and is included in the training manual for how to talk to clients about this topic.</li> <li>The organization includes information about how client data is secured as well as if/when it is distributed/reported to the credit bureaus in communications with client, during any data collection/financial service application process, OR during any orientation or educational sessions done with clients.</li> <li>The FI includes data privacy clause in contracts, aside from credit bureau information.</li> <li>Privacy clause is in plain language and not hidden in legalese or contract. Privacy clause stands out and is not in small print</li> </ul>	<p>Staff explains how data will be used and seeks permission for use.</p> <ul style="list-style-type: none"> <li>The organization trains clients on how to safeguard information, access codes or PIN numbers, as appropriate for the financial service they are requesting.</li> <li>During the filling of the loan application, staff member explains to clients that they will share their information with a credit bureau (when applicable).</li> <li>Staff explains to clients the benefits of being reported positively to a credit bureau and also the risks associated with negative reports.</li> <li>The financial institution provides written information that addresses how/why client data is collected and how it will be used.</li> <li>FIs have videos or instructional materials on how clients can safeguard their information and privacy/security tips for safeguarding it. Clients sign a separate document from the contract called a Privacy Agreement where credit bureaus, disclosures and consents are explained, staff explain privacy agreements to clients.</li> </ul>
<b>Review</b>	<b>Client Verification</b>
<p><b>Desk review:</b> Loan contracts; Educational or promotional materials, including those for group leaders; Forms and documentation for client approval is presented.</p> <p><b>On-site review:</b> Review the loan disbursement process to see how the client's privacy of data is explained. (The same for groups.)</p>	<p>Ask clients if they know how their information will be used, and how this knowledge was communicated to them.</p>
<b>Indicator:</b> Client permission is collected appropriately for any necessary distribution of client data.	
<b>Adequate Standard</b>	<b>High Standard</b>
<ul style="list-style-type: none"> <li>Written customer consent is required for use of information or photos in promotions, marketing material and other public information.</li> <li>Customers are asked to express their written agreement for sharing personal information with any external audience, including credit bureaus, insurance agents, collections companies, and others.</li> <li>Prior to loan disbursement, staff members read the privacy portion of the contract to the client and get their approval to use and report their information to the credit bureaus (when applicable).</li> </ul>	<ul style="list-style-type: none"> <li>Clients sign separate waivers for promotional material (videos, photos, or interviews) the financial institution might conduct in the future.</li> </ul>
<b>Review</b>	<b>Client Verification</b>
<p><b>Desk review:</b> Forms and documentation for client approval; Loan contracts.</p> <p><b>On-site review:</b> Review the loan disbursement process to see how the client's privacy of data is explained.</p>	<ul style="list-style-type: none"> <li>Ask clients if they know what the functions of a credit bureau are (when applicable- not all countries have credit bureaus, not all financial institutions report to them even where they exist).</li> <li>See if information on confidentiality is included in contracts or loan documents and if staff talks about this during disbursement.</li> </ul>

**Client Protection Principle: Mechanisms for Complaint Resolution**

**Certification in this principle means:** Clear information is available to customers about how to submit a complaint and the organization has an effective, appropriate system in place to resolve complaints in a timely way.

STAFF INCENTIVES AND STAFF TRAINING	
<b>Indicator:</b> Staff is trained to inform customers of the opportunity to make a complaint as well as how to handle complaints and refer them to the appropriate person for investigation and resolution.	
Adequate Standard	High Standard
<ul style="list-style-type: none"> <li>The FI has a training manual that includes policies on 1) how to inform client about the complaint mechanism and 2) how to handle complaints.</li> <li>Staff is trained to inform customers about 1) their right to complain and 2) how to submit a complaint (verbally and in writing).</li> </ul>	<ul style="list-style-type: none"> <li>Dedicated staff induction training includes a session on how the complaints mechanism works, the loan officer’s role in the process and how to appropriately manage complaints until they are completely resolved.</li> </ul>
Review	Client Verification
<p><b>Desk review:</b> Staff training manual; Complaints handling policy or manual; If no documents are available, the financial institution would be asked to provide a description of how staff is trained to 1) to inform client of the complaint mechanism and 2) to handle complaints.</p> <p><b>On-site review:</b> Ask staff how frequently trainings are conducted; Ask HR what is covered in the training.</p>	NA
RESULTS	
<b>Key Indicator:</b> An effective mechanism to handle customer complaints is in place.	
Context	
<ul style="list-style-type: none"> <li>There are some environments where people will not complain directly to the institution; they complain to their neighbors. Some cultures do not present critical information in writing, but will tell someone if they ask directly. It would be important to know how people complain and what is culturally appropriate.</li> </ul>	
Adequate Standard	High Standard
<p>"Effective mechanism in place":</p> <ul style="list-style-type: none"> <li>The FI has assigned someone to handle complaints and refer them to the appropriate person for resolution, at least on a part-time basis.</li> <li>The mechanism is actively used by clients. (Suggestion boxes alone are generally not adequate).</li> <li>Clients receive a timely response to their issues, within a month of complaint submission</li> </ul>	<ul style="list-style-type: none"> <li>The financial institution has multiple channels available to reach different clients (call center, customer service staff, front-line staff, and group leaders).</li> <li>The financial institution has a dedicated staff responsible for complaint resolution.</li> <li>MFI tracks the number and type of complains received on a monthly and yearly basis.</li> </ul>
Review	Client Verification
<p><b>Desk review:</b> Complaints policy; Review job descriptions for staff involved in resolving complaints.</p> <p><b>On-site Review:</b> Ask who is "dedicated" to receive and handle complaints (branch managers, LOs). How can group members deliver their complaints directly to appropriate FI staff? Ask how the complaints mechanism is marketed (e.g. posting of "tell us how we are doing"); Look at communications material and customer service staff accessibility. Check log of complaints and results/outcomes; Check the complaints log viewing usage by clients and solutions. If no documents were available, the financial institution would be asked to provide a description of: 1) who is involved in the process; and 2) how they resolve complaints (ideally with examples of complaints and outcomes/resolutions).</p>	<ul style="list-style-type: none"> <li>Evaluate if the channel is appropriate for clients (given a number to call but have no cell phone; suggestion boxes when clients can't write, etc).</li> <li>Have you ever wanted to log a complaint, but didn't and why was that?</li> <li>Have you ever lodged a complaint? If so, how was it resolved?</li> </ul>

<b>Indicator:</b> Customers are informed of their right to complain and know how to submit a complaint to the appropriate person.	
<b>Adequate Standard</b>	<b>High Standard</b>
<ul style="list-style-type: none"> <li>Staff informs customers (explains verbally in addition to in writing or posting it on the wall at the branch) about their right to complain and how to complain.</li> </ul>	<ul style="list-style-type: none"> <li>Clients understand how to submit complaints to the appropriate person (or where they could find that information if they don't know it first-hand).</li> </ul>
<b>Review</b>	<b>Client Verification</b>
<p><b>Desk review:</b> Complaints resolution policy, including how the complaints mechanism is marketed; the communications material and customer service staff accessibility.</p> <p><b>On-site review:</b> Ask loan officers to describe the messages that they give to the clients during promotion and disbursement; Observe the loan disbursement process and see how/if it is included; Observe any posters about the complaints mechanism and client rights.</p>	<ul style="list-style-type: none"> <li>If client sampling is done, ask about this area and If anyone has ever had a complaint, If so, how was it handled? How long it took to resolve, how satisfied they are with the resolution, how long it took to find the appropriate person.</li> </ul>
<b>Indicator:</b> Customer complaints to be taken seriously, fully investigated and resolved in a timely manner without bias.	
<b>Adequate Standard</b>	<b>High Standard</b>
<ul style="list-style-type: none"> <li>Internal audit or other monitoring systems check that complaints are resolved satisfactorily.</li> </ul>	<ul style="list-style-type: none"> <li>Customer complaints are considered by financial institution and are resolved appropriately.</li> <li>Serious matters are handled swiftly (firing/disciplining fraudulent, unethical staff behavior); less serious matters or complaints that would require a long-term solution (product changes, new branch locations, etc) need not be handled as immediately to get an "adequate" score.</li> </ul>
<b>Review</b>	<b>Client Verification</b>
<p><b>On-site review:</b> Interview auditor, see sample auditor reports to the board; Ask senior management how they resolve customer complaints.</p>	NA
<b>Indicator:</b> Complaints information is used to improved the organization's operations/products/ communications.	
<b>Adequate Standard</b>	<b>High Standard</b>
<ul style="list-style-type: none"> <li>Information is used to correct mistakes, omissions and activities that may be harmful to the client. (Minimum goal is to ensure CPP-related complaints are a priority to ensure that there is no harm being done towards clients).</li> </ul>	<ul style="list-style-type: none"> <li>Complaints information is used to guide operational enhancements related to the financial institution's interactions with its clients, including the revision and improvement of both products and services.</li> <li>Complaints information is tracked, analyzed and used proactively to make future operations/products more successful.</li> </ul>
<b>Review</b>	<b>Client Verification</b>
<p><b>On-site review (for adequate standard):</b></p> <ul style="list-style-type: none"> <li>Internal audit or other monitoring systems check that complaints are resolved satisfactorily. Interview auditor; see sample auditor reports to the board that discuss complaint resolution.</li> <li>Ask operations manage if they have ever changed products or services due to information from complaints; Ask the database manager if they ever use complaints information to correct client profiles.</li> </ul> <p><b>On-site review (for high standard):</b> Interview auditor; Check if a call log is maintained that shows frequency and type of complaints; Ask the staff involved in product development if they use this type of information; Ask the staff that conducts or analyzes the customer satisfaction surveys about the follow up actions taken based on their data.</p>	NA