

Session 4: Client Protection

Summary of the session

Objectives	<p><u>By the end of the session participants will have:</u></p> <ul style="list-style-type: none"> • learnt the seven principles of client protection • discussed the good and bad practices of MFIs in relation to compliance with the seven principles
Session Structure	<ol style="list-style-type: none"> 1. Introduction (2-3 min) 2. Seven principles of Client Protection (10 min) 3. Good and bad practices for seven principles of Client protection (35 min) 4. Client Protection global initiatives (15 min) 5. Importance of the Client Protection in the local context and the role of MFIs (45 min) 6. Closure and link to the next session (5 min)
Time/ Duration	<p>115-145 mins (Subject to the Network's clearance about promoting Client Protection principles in the country)</p>
Slides number	27-43
Materials	<p>Materials 1, 2 and 3 below in the Annex:</p> <p>For the group of 20 people:</p> <ul style="list-style-type: none"> • HO 4.1 10 Sets of cut-outs • HO 4.2 Good and Bad practices – answer key • Internet access to websites of the SMART Campaign and Microfinance Transparency Initiative • Getting Started Questionnaire (to be downloaded from Smart Campaign) • Flipcharts (blank).
Trainer preparation	<p><u>Before the session starts:</u></p> <ul style="list-style-type: none"> • Familiarize yourself with both websites mentioned. • Make sure you have read about some tools of the SMART Campaign and microfinance Transparency and are ready to present some of them (for example, protection assessment by SMART).
Session delivery	
1. Introduction: (2-3 min)	<p><u>Say:</u> The purpose of this session is to understand the client protection principles and to fit them into the SP framework.</p> <p>Introduce objectives of the session (slide 28).</p>

2. Seven principles of client protection
(10 min)

(Lecture)

(10 min)

Give a short talk using **slide 29** with the seven principles. Comment that some participants might know six principles of client protection, however recently they were re-visited and now they are presented here as seven (some are the same, some have been expanded or revised).

Introduce each principle as presented below. When introducing each principle, make sure that you underline key points and concepts, so that participants can memorize them. Whenever applicable, key points/words are underlined for easy reference. At this point, there is no need to ask for examples from the group, however one or two examples per principle will be OK (there will be a separate exercise on examples for each principle).

Say:

The industry agreed on the following principles:

1. Appropriate product design and delivery.
Providers will take adequate care to design products and delivery channels in such a way that they do not cause clients harm. Products and delivery channels will be designed with client characteristics taken into account (underline: products AND delivery channels, so not just products; clients characteristics are taken into account at the design stage; all are appropriate to clients, not just for the benefit of the MFI)
2. Prevention of over-indebtedness.
Providers will take adequate care in all phases of their credit process to determine that clients have the capacity to repay without becoming over-indebted. In addition, providers will implement and monitor internal systems that support prevention of over-indebtedness and will foster efforts to improve market level credit risk management (such as credit information sharing) (underline: providers make efforts, not just transfer responsibility to clients; the care is adequate, not just exists; care in all phases, not only during the loan application phase; systems, not just elements, are in place to prevent, not just treat, over-indebtedness).
3. Transparency.
Providers will communicate clear, sufficient and timely information in a manner and language clients can understand so that clients can make informed decisions. The need for transparent information on pricing, the terms and conditions of products is highlighted (underline: providers communicate in a relevant manner, not just have the information and pass the burden to clients to understand the information, the final indicator is the ability of clients to make informed decisions, not just MFIs having “done” what is needed).
4. Responsible pricing.
Pricing, terms and conditions will be set in a way that is affordable to clients while allowing for financial institutions to be sustainable. Providers will strive to provide positive real returns on deposits (underline: the principle does not require low interest rates, however affordability for clients is the key).
5. Fair and respectful treatment of clients.
Financial service providers and their agents will treat their clients fairly and respectfully. They will not discriminate. Providers will ensure adequate safeguards to detect and correct corruption as well as aggressive or abusive treatment by their staff and agents, particularly during the loan sales and debt collection processes (underline: providers AND agents as well, fair and respect are commonly known aspects and MFIs should strive to ensure that there is no corruption, aggressive, abusive treatment – not only on paper, but also in practice).

	<p>6. Privacy of client data The privacy of individual client data will be respected in accordance with the laws and regulations of individual jurisdictions. Such data will only be used for the purposes specified at the time the information is collected or as permitted by law, unless otherwise agreed with the client.</p> <p>7. Mechanisms for complaint resolution Providers will have in place timely and responsive mechanisms for complaints and problem resolution for their clients and will use these mechanisms both to resolve individual problems and to improve their products and services.</p> <p>The principles have been agreed by the industry and are included in a number of tools and initiatives: SPS reporting, various certification initiatives, due diligence of investors. They are considered to be a minimum the financial institution should meet no matter what their social aspirations are. The principles are very straightforward and nobody can admit they are not relevant. However, practice shows it is not that easy for the institution to meet the principles. Let's have a look at good and bad practices of MFIs around the world.</p>
<p>3. Good and bad practices for 7 principles of Client protection (35 min)</p> <p><i>(Group exercise)</i></p>	<p>(3 min) Introduce the exercise.</p> <p><u>Say:</u> I will now divide you into groups of two people.</p> <p><u>Divide the audience.</u> Simply show each group of two, where they are sitting (divide into pairs).</p> <p><u>Say:</u> Each pair will receive a list of seven principles and cut-outs of practices. While the list of principles will be the same for all pairs, one pair will receive Good practices, another – Bad practices, then again – good, again – bad – so that the pairs sitting next to each other do not receive the same “good” or same “bad” practices.</p> <p>The task for each pair will be to match the practices with principles. So when you finish your task, turn to the pair next to you and see how they matched the principles.</p> <p>(8 min) Distribute the material HO 4.1 (which should be cut in advance) to each pair and invite them to start working – matching practices with the principles. Participants discuss the material and put each practice in the box of the corresponding principle. The trainer walks around the room and makes sure that practices are discussed and allocated correctly. Some practices might belong to several principles, but ask participants to put the practice next to the one which is most relevant.</p> <p>(4 min) Ask participants to change to another pair and look at the opposing practices and their relevance with principles.</p> <p>(15-20 min) Going through the results of the exercise:</p> <p><u>Ask:</u> How did the exercise go? Was it hard to allocate practices to principles? Were there practices related to several principles? Are there any principles with only good or only bad practices? Please share this or other feedback with the whole group.</p>

	<p>Note some comments. Participants might agree that this task was not very difficult and they easily agreed on the allocation to the principles.</p> <p>However develop the discussion further and ask if participants have other examples of positive and negative practices to share? It is important to make participants share examples at this stage because this is when they will compare the principles with their own practices, not just practices from the exercise.</p> <p>There may be more discussion when discussing negative practices: organizations can be conservative in seeing gaps in this area and sometimes they try to justify their negative behaviour by clients' negative approaches and eventually the only option of "no choice" from the organization's side. For example, they may say that "clients will cheat if they have such an opportunity" and thus "we have to be strict and demonstrate our strictness, thus sometimes we might ask collectors to demand selling property etc so that neighbours can see and will never try to cheat the MFI again".</p> <p>During such discussions bring the audience to the seven principles again and stress that they have been developed by the industry practitioners, not just outside experts. Each MFI should strive to eliminate such negative practices and at the same time not compromise their financial stability. Of course, there will be clients who try to cheat, but if their number is so big that aggressive behaviour from the MFI side becomes the norm, then something is wrong somewhere in the system: either in targeting clients, or in the incentive system of loan officers, or the loan application process, or delinquency management process, etc.</p> <p>Do not leave the audience with a message that sometimes such negative practices might be justified. Stress that anything might happen, of course, but as a matter of accepted practice and behaviour the MFI must strive to eliminate negative practices and have the seven principles applied in daily work.</p> <p>If participants do not raise this point during the discussion, it is recommended that the trainer himself starts the discussion. This may reveal some negative approaches, if they exist in the audience.</p> <p><u>Conclude</u> that each MFI perhaps has positive and maybe even some negative practices, and work should be done in order to strengthen compliance with the seven principles of client protection both in policies and procedures and of course in implementation and daily practice. Often we accept our practices as "granted" and justify our negative behaviour by the specifics of the clientele, but this is not good. The time has come to revisit our work, to reveal strong and weak points and design policies which will deliberately address the seven principles of client protection. This will include design, implementation and monitoring of new or revised processes and procedures in line with the seven requirements of client protection.</p> <p>Distribute HO 4.2 'Good and Bad practices – answer key.</p>
<p>4. Client protection global initiatives (15 min)</p> <p><i>(Talk, information sharing and demonstration of websites)</i></p>	<p>Present key initiatives related to the theme of client protection: the SMART Campaign and Microfinance Transparency. Show slide 39 with the two initiatives.</p> <p><u>Say:</u> The SMART Campaign is housed at the Center for Financial Inclusion at ACCION International. Accion managed to invite the representatives of all stakeholders into its steering committee and engaged many industry players into its work.</p>

Currently, it enjoys 2,000+ endorsers from over 100 countries. The campaign facilitated the process of developing the seven principles and runs a resource centre with tools for MFIs willing to improve their practices. The campaign developed a methodology for assessing MFIs and currently works on the certification process – we should expect a certification process for MFIs in 2012.

If possible, show [slide 40](#) or the website of the Smart campaign and point to different links and tools.

Continue:

Microfinance Transparency is an initiative of Chuck Waterfield, focused on transparent pricing: their key work is to collect data, analyze and produce country analysis of prices for all the MFIs active in each market. The participating institutions submit their pricing data to this platform.

If possible, show [slide 41](#) or the website of Microfinance Transparency and point to different links and tools.

42 How MFIs can be involved?

Smart Campaign:

- Endorse principles: there is a list of stakeholders (various organizations) on the Smart Campaign website, which has expressed the support to the 7 client protection principles. There are organizations and individuals. This is expression of support and commitment to the principles
- Be assessed in client protection (the information about how to find an assessor is presented at www.smartcampaign.org)
- Be certified in client protection (this will be discussed shortly)
- Be trained in client protection (the information about how to find a trainer is presented at www.smartcampaign.org)

Continue to talk about client protection certification ([show slides 43-44](#)):

The SMART Campaign is about to launch the client protection certification for MFIs. The goal of the certification is to differentiate MFIs which implement client protection principles from those that do not. MFIs will receive a type of stamp showing that they meet the good practice requirements. It is planned that the first certifications will start in 2012.

It is expected this will most probably be one of the key information sources for many investors.

Explain the “Seal of excellence” idea. Seal of Excellence for Poverty Outreach and Transformation in Microfinance will recognize those institutions doing the most to help families lift themselves out of poverty. The Seal is working to build on the Smart Campaign’s client protection principles and the work of the Social Performance Task Force and is discussing ways to implement the seal that would use the systems that have already been developed for understanding the SP of microfinance institutions.

Say: when we look at all three initiatives, there are two extremes. Some MFIs will fit into the group, which is interested in meeting the minimum standard, which is the client protection. The other group is devoted to poverty reduction –they would be delighted to be certified by the Seal of excellence initiative. Another large group of MFIs represent various social aspirations: job creation, outreach to poor, enterprise development etc. For them, the Universal Standards for Social Performance, which we will discuss in a separate session, are the most relevant.

Conclude by saying that the industry puts high requirements on the MFIs for

	<p>compliance with the seven principles, at the same time resources and support are available to help those MFIs who wants to stay in the stream and certify themselves as responsible providers.</p>
<p>5. Compliance with the seven principles (30 mins)</p> <p><i>(Discussion)</i></p>	<p>Distribute the Smart Campaign Getting Started Questionnaire. Ask participants to assess their institution (ensure they understand that it is a confidential self-assessment).</p> <p>Ask volunteers to share the results of self-assessment (only if someone is willing). Ask them in which principle they think there is the biggest gap.</p> <p>Discuss with participants how we can address the gaps.</p>
<p>6. Closure and link to the next session (5 mins)</p>	<p>Sum up the session:</p> <ul style="list-style-type: none"> • Client protection is a minimum requirement for any financial institution, no matter what their social goals are; • There are various issues – for some countries one issue may be more relevant than another (refer to what was discussed); • Despite the self-explanatory nature of principles, MFIs do not meet them. They need help in improving the practices; • There are a number of simple tools and resources available which can help MFIs improve their practice; • Certification of MFIs in client protection is going to be introduced very shortly; • Identified the key issues of client protection in the countries and the number of ways to address those issues with the help of the Network. <p>Link to the next session.</p>

Handout 4.1 - Material to be cut

✂ For the group of 20 participants: 10 copies of this material (e.g. number of participants divided by 2)
Each piece should be cut separately (headings and examples)

Principle 1: Appropriate product design and delivery
The MFI offers a business loan with a flexible amount from USD 100 to USD 1000, with the loan period from 12 to 24 months, and with the grace period up to 4 months, depending on the business needs of each client.
The MFI regularly conducts a satisfaction survey and an exit survey. The results are followed up through in-depth interviews with selected clients. New products or modifications are tested in one or two branches before being introduced in all branches. MFI offers the same product to male and female clients. Male clients are served within 20 minutes in the branch. Female clients are visited by a Loan Officer at their business premises.
The MFI has been offering the product for small retailers. In order to increase the outreach, the MFI decided to work with rural clients. The same product is offered to farmers. As the loan for small retailers is for a short period and has no grace period, farmers have to borrow from other MFIs to repay the loans.
The MFI offers lower interest rates for loyal clients. In order to receive a lower interest rate, the client has to take a higher loan (no matter what the business needs) than the previous one.
Principle 2: Prevention of Over-indebtedness
An internal auditor regularly visits a sample of all clients and a sample of delinquent clients. The clients who are visited are interviewed to review the lending practices of Loan Officers, in order to prevent any breach of procedures that may lead to over-indebtedness of clients.
The MFI offers the clients a training program on debt management.
The MFI aims for market dominance, that's why it advertises and lends in larger amounts, accepting all borrowers, even if from another MFI.
MFI allows wives to guarantee the loans of the husbands despite the culture in which they cannot say no to the husband. If the husband leaves them, they have to repay the loan anyway.
Principle 3: Transparency

<p>The MFI wants to make sure each client understands the contract. For this, the Loan Officer is required to read the contract aloud. Then, according to the check-list, the Loan Officers asks the client a series of questions, confirming the client has understood their obligations and rights.</p>
<p>Working with the population of poorly literate clients, the MFI prepared special, simplified contracts, with language adapted to the skills of target clients.</p>
<p>The MFI deducts the administration fee (2%) at the disbursement of the loan. Clients learn about the fee only at the moment of loan disbursement, when the amount is lower than they applied for.</p>
<p>The MFI charges a small amount for an account balance check through the clients' mobile telephone. However, the clients are not informed about the charge. As a result, a few clients nearly drained their accounts checking the account balance (as each time the balance was lower and lower).</p>
<p>Principle 4: Responsible pricing</p>
<p>When a financial crisis hits both clients and the institution, the MFI looks for savings internally (cutting office costs, travel costs, etc) instead of increasing prices for clients.</p>
<p>The MFI enjoys high profits while clients pay prices higher than the market average.</p>
<p>Principle 5: Fair and respectful treatment of clients</p>
<p>The MFI introduced a bonus for staff which, in part, rewards ethical behaviour. The system includes ten criteria, which cover the assessment of behaviour to clients and colleagues. The staff have to gain at least a 60% score to receive the bonus.</p>
<p>The collection staff receives training for job specific ethical dilemmas, related to dealing with delinquent clients, and clients coming from different social groups.</p>
<p>Staff regularly receive anti-corruption and fraud training based on real case studies.</p>
<p>Staff in the rural branch forbid clients to enter the office – they have to wait outside in the sun with no shelter or shade because they smell of animals and work in the field.</p>

Loan officers while collecting delayed loans can use various forms of “pressure”, some balancing at the edge, some breaching the cultural norms, for example: sitting in front of the house the whole day; visiting the place of work (for salaried workers), contacting family and neighbours, etc.

Principle 6: Privacy of client data

The desks of Loan Officers in branches are separated from the rest of the office to ensure privacy with the client.

Each new client has to go through a session on safeguarding PINs.

Principle 7: Mechanisms for complaint resolution

The internal auditor checks if clients have been advised by Loan Officers about complaints and the ‘**obligation**’ to complain.

The MFI introduced a free telephone line for clients to allow them to complain. All complaints should be addressed within two days.

The MFI uses complaints boxes, which are located in each branch. However, only the internal auditor has a key to open the box. The auditor visits each branch once a quarter, and only then the complaints can be read. However, there are no complaints in the box.

Handout 4.2 Good and Bad practices as per each of seven principles – answer key

Principle 1: Appropriate product design and delivery

- The MFI offers a business loan with a flexible amount from USD 100 to USD 1000, with the loan period from 12 to 24 months, and with the grace period up to 4 months, depending on the business needs of each client.
- The MFI regularly conducts a satisfaction survey and an exit survey. The results are followed up through in-depth interviews with selected clients. New products or modifications are tested in one or two branches before being introduced in all branches.
- MFI offers the same product to male and female clients. Male clients are served within 20 minutes in the branch. Female clients are visited by a Loan Officer at their business premises.
- The MFI has been offering the product for small retailers. In order to increase the outreach, the MFI decided to work with rural clients. The same product is offered to farmers. As the loan for small retailers is for a short period and has no grace period, farmers have to borrow from other MFIs to repay the loans.
- The MFI offers lower interest rates for loyal clients. In order to receive a lower interest rate, the client has to take a higher loan (no matter what the business needs) than the previous one.

Principle 2: Prevention of Over-indebtedness

- An internal auditor regularly visits a sample of all clients and a sample of delinquent clients. The clients who are visited are interviewed to review the lending practices of Loan Officers, in order to prevent any breach of procedures that may lead to over-indebtedness of clients.
- The MFI offers the clients a training program on debt management.
- The MFI aims for market dominance, that's why it advertises and lends in larger amounts, accepting all borrowers, even if from another MFI.
- MFI allows wives to guarantee the loans of the husbands despite the culture in which they cannot say no to the husband. If the husband leaves them, they have to repay the loan anyway.

Principle 3: Transparency

<ul style="list-style-type: none"> • The MFI wants to make sure each client understands the contract. For this, the Loan Officer is required to read the contract aloud. Then, according to the check-list, the Loan Officers asks the client a series of questions, confirming the client has understood their obligations and rights.
<ul style="list-style-type: none"> • Working with the population of poorly literate clients, the MFI prepared special, simplified contracts, with language adapted to the skills of target clients.
<ul style="list-style-type: none"> • The MFI deducts the administration fee (2%) at the disbursement of the loan. Clients learn about the fee only at the moment of loan disbursement, when the amount is lower than they applied for.
<ul style="list-style-type: none"> • The MFI charges a small amount for an account balance check through the clients' mobile telephone. However, the clients are not informed about the charge. As a result, a few clients nearly drained their accounts checking the account balance (as each time the balance was lower and lower).
<p>Principle 4: Responsible pricing</p>
<ul style="list-style-type: none"> • When a financial crisis hits both clients and the institution, the MFI looks for savings internally (cutting office costs, travel costs, etc) instead of increasing prices for clients.
<ul style="list-style-type: none"> • The MFI enjoys high profits while clients pay prices higher than the market average.
<p>Principle 5: Fair and respectful treatment of clients</p>
<ul style="list-style-type: none"> • The MFI introduced a bonus for staff which, in part, rewards ethical behaviour. The system includes ten criteria, which cover the assessment of behaviour to clients and colleagues. The staff have to gain at least a 60% score to receive the bonus.
<ul style="list-style-type: none"> • The collection staff receives training for job specific ethical dilemmas, related to dealing with delinquent clients, and clients coming from different social groups.
<ul style="list-style-type: none"> • Staff regularly receive anti-corruption and fraud training based on real case studies.

- Staff in the rural branch forbid clients to enter the office – they have to wait outside in the sun with no shelter or shade because they smell of animals and work in the field.

- Loan officers while collecting delayed loans can use various forms of “pressure”, some balancing at the edge, some breaching the cultural norms, for example: sitting in front of the house the whole day; visiting the place of work (for salaried workers), contacting family and neighbours, etc.

Principle 6: Privacy of client data

- The desks of Loan Officers in branches are separated from the rest of the office to ensure privacy with the client.

- Each new client has to go through a session on safeguarding PINs.

Principle 7: Mechanisms for complaint resolution

- The internal auditor checks if clients have been advised by Loan Officers about complaints and the ‘**obligation**’ to complain.

- The MFI introduced a free telephone line for clients to allow them to complain. All complaints should be addressed within two days.

- The MFI uses complaints boxes, which are located in each branch. However, only the internal auditor has a key to open the box. The auditor visits each branch once a quarter, and only then the complaints can be read. However, there are no complaints in the box.