



Smart Operations

A Guide for Financial Institutions on Incorporating
Client Protection Practices into Institutional Operational Areas



Smart Campaign

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Introduction

Financial institutions (FIs) must involve employees from every operational area in an effort to achieve adequate client protection. Rather than designating client protection as a “special project” to select employees, FIs should ensure that **each department** has specific client protection responsibilities. This tool suggests appropriate roles for 11 of the most common areas of microfinance operations. FIs can use this tool to **assign client protection responsibilities to each operational department** and to **understand how responsibilities are shared among operational departments**.

The 11 operational areas discussed in this tool include:¹

1. Executive Management² (pg. 8)
2. Product Research and Development (pg. 8)
3. Product Management³ (pg. 8)
4. Human Resources (pg. 8)
5. Marketing and Promotions (pg. 9)
6. Sales Force and Frontline Employees⁴(pg. 9)
7. Finance (pg. 9)
8. Risk Management⁵ (pg. 9)
9. Legal (pg. 10)
10. Information Technology and Communications (ICT) (pg. 10)
11. Complaints/Customer Service (pg. 10)

Client protection initiatives require the cooperation of multiple operational areas. For this reason, **responsibilities listed under one operational area are cross-referenced to the other operational areas that should be involved**.

¹ These operational areas vary by institution, so institutions should apply this tool to their own organizational structure by matching the recommendations to the department or employee that most closely resemble the categories above.

² This includes top managers and the Board.

³ This includes management of all products and services, including credit management, savings, payments, insurance, etc.

⁴ This includes employees that interact with clients on a regular basis, including credit officers, tellers, collections agents, etc.

⁵ This includes internal audit.

Tool Structure

Section 1 (pages 6 to 7) describes how each of the 11 operational areas are central to client protection.

Section 2 (pages 8 to 47) lists the 11 operational areas and the client protection responsibilities of each. Where existing [client protection tools](#) apply, they are listed for further reference.

How to Use this Tool

This tool lists the client protection tasks that apply to each operational area of an FI. An institution may choose to use this tool *in its entirety*—as a guide for integrating client protection into every area of its operations, or *in parts*—as a guide for integrating client protection into specific operational areas.

Specifically, an institution can use the tool to:

- **Evaluate and make changes to a single department.** For example, the institution might identify Human Resources as a priority department, and use the tool to improve the client protection practices of that department. The institution can return to the tool each time it is ready to evaluate and improve a new operational area.
- **Evaluate the entire institution.** A single person, such as the Executive Director, or a team, such as the Board of Directors, may use the tool to evaluate how each department functions in relation to the guidelines presented in the tool, and to create a strategy for making institutional changes. The tool can be useful in setting such a strategy, including:
 - Identifying priority operational areas for improvement.
 - Identifying priority Client Protection Principles for improvement.
- **Understand how different operational areas share client protection responsibilities.** Institutions can use the cross references to understand how changes to a policy or practice in one operational area both *rely on and support* changes in another operational area. For example, an institution might learn how improvements to Product Research and Development are dependent on, and essential to, improvements in Product Management. This understanding will facilitate the process of improving client protection practices across the institution.

Overview of the Primary Client Protection Responsibilities of Each Operational Area



Executive Management

Executive management's role is to communicate the importance and advantages of protecting clients to motivate employees and to ensure the design and implementation of sound policies and procedures. Executive Management also sets the tone for institution's organizational culture and values. The Board and top management's commitment to client protection is a pre-condition for strong practices among other employees.



Product Research and Development

The Product Research and Development team designs products that meet clients' needs. Through market research and client satisfaction assessments, the product research and development team contributes vital information that enables the institution to design appropriate products and services for clients.



Product Management

Product Management oversees the delivery of products and services to clients. The Product Management team ensures that the client protection policies and procedures defined at the Executive Management level are respected at the operational level.



Human Resources

Human Resources (HR) is essential for creating a culture of high standards of ethical behavior throughout the organization. The Code of Ethics developed by HR and policies on recruitment, training, and evaluation help determine whether employees treat clients with fairness and respect.



Marketing and Promotions

Marketing and Promotions ensures that employees are truthful and transparent with clients, and are in line with any existing consumer protection legislation. The marketing team designs materials that help clients understand their products and rights. Marketing and Promotions can also play a role in protecting privacy by ensuring client consent to use client photos or information in marketing materials.



Sales Force and Frontline Employees⁶

As the employees with the most frequent contact with clients, frontline employees execute the client protection policies established by other departments. Loan officers, in particular, are central to preventing over-indebtedness while all frontline employees play a major role in promoting transparency, upholding high ethical standards, listening to clients, and safeguarding their privacy.



Finance

The Finance department ensures responsible, competitive, affordable, and sustainable pricing policies. Finance may also contribute to defining profitability targets, and helping define profit allocation policies that bring value for clients.



Risk Management

Risk Management verifies compliance with policies and procedures. These employees monitor risk factors for over-indebtedness, verify client files, and conduct client visits to ensure employees are communicating transparently and respecting the institution's ethical standards. Risk management also verifies the proper functioning of complaints mechanisms and client privacy procedures.



Legal

Many countries have laws that influence client protection such as legislation on interest rates, transparency, professional codes of conduct, collateral seizure, truth-in-advertising, discrimination, and data privacy. The legal department is responsible for ensuring compliance with any existing consumer protection legislation, and for assisting the institution in establishing sound legal policies concerning client and employee rights.



Information Communications and Technology (ICT)

ICT is critical to safeguarding client data and keeping IT systems secure. ICT can also contribute to defining appropriate products and monitoring over-indebtedness by providing platforms that facilitate analysis of client-level data, product portfolios, and tracking client complaints.

⁶ This includes employees that interact with clients on a regular basis, including credit officers, tellers, collections agents, etc.



Complaints/Customer Service

The Complaints or Customer Service department ensures that clients' voices are heard. Complaints mechanisms give clients a way to express their discontent, feedback, and suggestions and provide an opportunity for institutions to improve their products, and detect any unethical treatment of clients. Regular analysis of complaints allows the institution to evaluate overall trends and identify systemic problems.

The Client Protection Principles (CPPs)

The CPPs are the minimum standards that clients should expect to receive when doing business with an FI. They were distilled from work by providers, international networks, and national microfinance associations to develop pro-client codes of conduct and practices. There is consensus within the microfinance industry that FIs should adhere to these core 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.
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).
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, terms, and conditions of products is highlighted.
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.
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 employees and agents, particularly during the loan sales and debt collection processes.
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.
7. **Mechanisms for complaint resolution:** Providers will have in place timely and responsive mechanisms for receiving client complaints and resolving problems, and will use these mechanisms both to correct individual actions and to improve their products and services.

CPP: Appropriate Product Design and Delivery

Request and analyze regular market studies and client surveys—including client satisfaction and drop-out surveys—from Product Research and Development. Analyze these data regularly to understand information on client needs and constraints.

Also responsible:



PR

Based on this analysis, provide guidance to Product Research and Development on how to design/improve products and services so that they more closely match clients' needs and constraints.

Also responsible:



PR

Offer loan products that match the identified business and family needs of diverse segments of the institution's target population. This means:

Also responsible:



PR

- The institution offers an acceptable variety of loan products, designed to match the main business and family needs of the target segment.
- The loan size matches the target clients' main financial needs.
- The repayment schedule (grace period, repayment frequency, and term) is tailored to the business activity and household cash flow.
- Prepayment is not subject to excessive penalties or unjustified interest charges after a minimum period.
- The institution does not continue to accrue interest on non-performing loans (which indebts clients further), except if there is capacity to repay but not willingness to repay.

Design savings products that are appropriate for clients.⁷

- Offer minimum account balances appropriate to small savers.
- Calculate interest on a daily basis.
- Do not charge excessive fees for closing a client savings account.
- If compulsory savings are mandatory, they are taken into account in the institution's calculation of the EIR.

Also responsible:



PR

⁷ For more information, see the Smart Campaign's *Smart Savings*: www.smartcampaign.org/tools-a-resources/286.

Offer insurance products that are appropriate for clients.⁸

- Only charge clients for the insurance premium passed on to the insurance company or premium as per actuarial (if in house); the institution should absorb the operational cost.
- Minimize the number of exclusions and rejections.
- Keep the claims procedure as simple as possible.
- Ensure claims are processed in a timely way.
- Ensure the coverage amount and costs are affordable to the client and sustainable for the institution.
- Set prices according to clients' willingness and ability to pay for insurance (verified by market studies or surveys).
- Make sure products do not have premiums that are significantly higher than expected payouts.
- Ensure frequency of premium collection is appropriate to clients' cash flows and collection methods are convenient for clients.

Also responsible:



Offer payments products that are appropriate for clients.⁹

- Offer affordable exchange rates to clients.
- Offer the possibility to cancel the payment within a short window of time after sending the payment.
- Consider how linking payments products to other financial products might create benefits for clients.
- Provide different options for receiving payments, such as home delivery and direct deposit into a savings account.

Also responsible:



CPP: Prevention of Over-Indebtedness¹⁰

Regularly monitor the risk and level of client over-indebtedness.

- Require regular reporting (at least annually) on the level and risk of client over-indebtedness and multiple borrowing.
These reports should present information on:
 - Non-performing loans, rescheduled loans, and loan write-offs.
 - Multiple borrowing within the institution and between institutions.
 - Credit bureau information analyzed at the aggregate level in order to inform decisions about product mix, geographical expansion, and targeting of specific populations.

Also responsible:



⁸ For more information, see the Smart Campaign's *Smart Microinsurance*: www.smartcampaign.org/tools-a-resources/573.

⁹ For more information, see the Smart Campaign's *Smart Payments*: Coming soon.

¹⁰ For in-depth guidance on prevention of client over-indebtedness, see the Smart Campaign's *Avoidance of Over-indebtedness: Guidelines for Financial and Non-financial Evaluation*: www.smartcampaign.org/tools-a-resources/514.

- The results of client visits by Risk Management, to look at loan use and monitor the risk of over-indebtedness.
- Scrutinize institutional policies to look for those that may contribute to over-indebtedness, like zero tolerance for delinquency, and employee incentive schemes that prioritize growth and productivity over portfolio quality.
- Scrutinize institutional weaknesses to look for those that may contribute to over-indebtedness, such as inexperienced or undertrained loan officers.
- Define the scope of “high risk” in the local market, and increase monitoring if the institution is in high risk. Use at least the following factors to determine risk: multiple borrowings, lack of effective credit bureau, high growth, high penetration rates, and high competition.

In addition to the monitoring mechanisms listed above, also require specific reports on over-indebtedness with the opinions and recommendations made by independent areas from the institution’s business side (i.e. Risk Management).

Also responsible:



For individual loans, develop a loan assessment process that requires rigorous evaluation of borrower repayment capacity. The process should:

Also responsible:



- Ensure individual loan assessments include a cash flow analysis of both the business and the household, and takes into account liabilities from other sources, including indirect loans (as guarantor). The cash flow analysis should cover the entire loan period for household with seasonal cash flows. Analysis should not emphasize additional cash flow anticipated as a result of the loan, and should consider the volatility of the income source (e.g. remittances are typically volatile).¹¹
- Follow prudential criteria (e.g., cash flow before loan, moderate/pessimistic scenario) during the assessment.
- Require analysis at each loan cycle or at minimum once a year, even if simplified for secondary aspects at loan renewal.
- For clients with informal revenues and/or non-consumption loans (most cases), base the repayment capacity analysis on a client visit (performed by the loan officer through client visit or delegated to the group/village members). Verify the information consistency through cross checks. For clients with a salary asking for a consumption loan, a client visit is not required.
- Require that loan approval is not based solely on guarantees (whether peer

¹¹For an example of a rigorous analysis methodology, see Banco Solidário Loan Officer Training Manual: www.smartcampaign.org/tools-a-resources/252.

- guarantees, co-signers, or collateral).
- Require that credit team checks the credit registry or credit bureau for borrower's current debt levels and repayment history (when available). Establish a supervisory system to ensure that credit bureau information is used to inform credit analysis and decisions. When a credit bureau is not available, require that employees check internal records before processing the loan further.
 - Ensure that credit staff limit client debt thresholds to a level deemed acceptable by the institution.
-

For group loans, develop a pre-loan process that requires evaluation of borrower repayment capacity and group preparation. The process should:

- Include training of group members on how to assess their own, and their group members' repayment capacity.
- Include training on the concepts of solidarity payments, the dangers of over-indebtedness, and the risks associated with multiple borrowing.
- When available, provide group members with access to up-to-date credit bureau information on their fellow group members. Inform group members about the level of over-indebtedness of any group member that surpasses the established limit in the credit policy.

Also responsible:



Develop a policy describing how and when to consolidate or reschedule loans for clients who are willing but unable to repay. Describe specific cases under which clients can be granted rescheduling or refinancing, and considerations for clients who have demonstrated good history of repayment.

Also responsible:



Develop a policy that the institution will systematically report to the credit bureau about its clients (where a credit bureau is available).

Also responsible:



Require that a credit bureau check is conducted regularly on the whole client database (e.g. check 25 percent of the database each month, completing a check of 100 percent of the database quarterly) in order to identify the level of cross-indebtedness, and the potential patterns of clients that borrow from other sources immediately after contracting a loan with the institution. Analyze the reports that are produced from these checks.

Also responsible:



Establish productivity targets and employee incentives that are reasonable compared to the industry benchmark (parameters and proportion of fixed/variable remuneration). Ensure that:

- The incentive structure rewards the quality of the portfolio at least as highly as growth.
- The FI does not issue bonuses/incentives unless PAR is under control (i.e., PAR30 <10 percent).
- The incentive structure does not incentivize the over-selling or mis-selling of products (e.g. incentivizing portfolio growth over portfolio quality), or overly aggressive collections practices due to a “zero delinquency” policy or an incentive scheme based on very short delays (for example, judging loan officer’s PAR on the basis of PAR 1).
- Productivity targets and incentive schemes are differentiated among employees and are adjusted according to the market potential, infrastructure, and other factors.
- Productivity targets and incentive schemes are periodically reviewed for changing market conditions and Risk Management investigates cases where risk is higher related to the incentive scheme and productivity targets.

Also responsible:



CPP: Transparency¹²

For all products, present to clients the total amount that the client pays for the product, regardless of local regulations (including in the absence of industry-wide requirements).¹³

Also responsible:



Develop a policy that requires sales and frontline employees to communicate to clients all the prices, terms, and conditions of all financial products, including any possible changes to these over time, prior to signing a contract. The policy should:

- Require that loan documentation includes:

Also responsible:



¹² For more information on pricing transparency, including the information that the financial institution should provide to the client, see 1) *Putting Transparency into Practice, Communicating About Pricing*: www.smartcampaign.org/tools-a-resources/498; 2) *Transparency in Promotions and Sales*: www.smartcampaign.org/tools-a-resources/494.

¹³ For help calculating the interest rates, see the [Calculating Transparent Prices tool](#) from MFTransparency.

- charges and fees, including 3rd party fees
 - terms/maturity
 - conditions
 - information on compulsory savings
 - information on credit-life insurance premiums
 - penalties for late payment
 - conditions for early repayment
- Require that clients receive a copy of documentation at beginning of the loan process.
 - Require that the loan contract be handed to clients (both group and individual loan clients) at the time of signing the contract.
 - Require that debt collections practices be revealed to the client at the time of sale.
 - If applicable, require that savings¹⁴ documentation lists eligibility criteria, interest rates, fees for withdrawal, withdrawal limits, minimum and maximum balance, and use of savings in case of credit default (if applicable).
 - If applicable, require that payment/money transfer service documentation lists: the amount to be paid by the sender in the sender's currency and the amount to be received in the recipient's currency; all fees; taxes; estimated exchange rate; possible changes; conditions for collecting money; cancellation conditions; and linked product requirements (e.g., having to open a savings account).
 - If applicable, require that insurance product documentation lists eligibility criteria; cost and how premiums are collected; specific events covered by product and amount of loss covered; length and term of coverage, and premium due dates; all exclusions; any expiry conditions; waiting periods, if used; how to file a claim; contact information for making a claim; reimbursement conditions; and whether and how insurance is regulated by a third party. Require that clients receive written proof of their insurance coverage.
 - For all product contracts (loans, savings, insurance, payments/money transfer), include a privacy clause that describes how the institution will use and share client data.

Develop a policy that employees communicate with clients in a way that helps clients make informed decisions about purchasing a product. The policy should require:

- Employees use multiple channels for disclosing information, such as brochures, orientation sessions, meetings, branch postings, and websites.
- All written and verbal communication with clients is in the local language and that plain language and terms are used to describe products, prices, terms, and

Also responsible:



¹⁴ For additional guidance on transparency in savings, see *Smart Savings: Client Protection in the Savings Process*: www.smartcampaign.org/tools-a-resources/286.

conditions.

- Employees read contracts aloud to illiterate or low-literate clients.
- Employees check client understanding by asking follow-up questions.

Develop a policy to give clients adequate time to review the terms and conditions, and an opportunity to ask questions and receive additional information prior to signing contracts. The policy should require:

- Employees communicate product information and conditions upfront, including debt collection procedures.
- Employees take time to answer all of the client's questions.
- Employees inform clients of how to contact the institution if they have further questions or want to make a complaint.

Also responsible:



Develop a policy to provide clients with proof of payments for all products, and provide information on accounts (e.g. loan balance, savings balance) either upon request from clients, or on a regular basis (e.g. account statements).

Also responsible:



CPP: Responsible Pricing¹⁵

Establish formal, internal pricing procedures for each product.
When establishing prices:

- Offer market-based, non-discriminatory prices.
- Ensure that efficiency ratios are aligned with peers.¹⁶
- Calculate interest according to the exact date of payment.
- If credit/life insurance and/or savings are compulsory, take these into account in the EIR calculation.¹⁷

Also responsible:



CPP: Fair and Respectful Treatment of Clients

Establish a Code of Ethics/Code of Conduct that spells out

Also responsible:



¹⁵ For more resources on Responsible Pricing, see: 1) *Responsible Pricing: The State of the Practice*: www.smartcampaign.org/tools-a-resources/243; 2) *Calculating Transparent Prices Tool* from MFTransparency: www.smartcampaign.org/tools-a-resources/81.

¹⁶ Peer groups are defined as financial institutions of similar size, with similar delivery models and channels, targeting the same types of clients, in the same country. At least five institutions are needed to comprise a peer group. In case of no in-country peer group, the regional peer group should be used.

¹⁷ For help calculating the interest rates, see the [Calculating Transparent Prices tool](http://www.smartcampaign.org/tools-a-resources/81) from MFTransparency.

organizational values and the standards of professional conduct expected of all employees.¹⁸

- Ask the Board to review and approve the Code.
- Review the Code for updates at least every three years, in order to reflect changes in societal or international norms on ethics or disability.
- Provide employees with opportunities to offer amendments or changes to the Code and submit them to the Board for consideration.

Establish a non-discrimination policy, including a policy on the treatment of people with disabilities that applies to employees and clients.¹⁹

Also responsible:



Establish and execute efficient and fair procedures and sanctions to deal with violations of the Code of Conduct and the non-discrimination policy, and to protect employees who report violations by other employees (“whistleblowing”). In the event of misconduct, inform staff of the case and sanctions that were taken, and allow employees to ask questions about the case.

Also responsible:



Establish a designated committee at the Board or senior management level, or designate a Board member or senior manager to deal with issues related to ethics. The committee or Board member should handle serious cases of employee misconduct, and investigate cases of whistleblowing.

Also responsible:



Establish a policy that clients must be informed of the main aspects of the Code of Conduct, particularly those related to clients’ rights and how they can make complaints to the institution. This information should be presented in a format that clients, including illiterate clients, can understand (e.g. posters, illustrations).

Establish acceptable and unacceptable debt collection practices,²⁰ and provide them to employees in writing, in a Code of Conduct,

Also responsible:



¹⁸ For more information on the process of creating or improving an institutional Code of Conduct, see the Smart Campaign’s *How to Develop an Institutional Code of Ethics*: www.smartcampaign.org/tools-a-resources/2/84. Also see *Client Protection and Ethics Codes: Examples for Getting Started*: www.smartcampaign.org/tools-a-resources/44.

¹⁹ For more information on non-discrimination, see the Smart Campaign’s *Responsible Treatment of Clients: Practicing Non-discrimination*: www.smartcampaign.org/tools-a-resources/548.

²⁰ For more information on collections, see the Smart Campaign’s *Collections Guidelines for Financial Service Providers*: www.smartcampaign.org/tools-a-resources/496.

book of employee rules, debt collection or credit procedures manual. The policy should include:

- Precise standard steps to follow in case of repayment delays.
- Different strategies to be used in case of inability to repay and unwillingness to repay.
- Actions and behaviors considered to violate the borrower's rights.²¹
- In the case of group loans, actions group members are expected to take and are prohibited from taking when group members are delinquent.

Compensate employees at a level that constitutes a living wage,²² and do not rely heavily on incentive schemes, such as bonus pay.²³ Under-compensation and high bonus pay can incentivize fraud, mistreatment of clients, inappropriate loan sizes, and other unethical behavior.

Also responsible:



Ensure that performance evaluation procedures and employee incentives incorporate the values and standards spelled out in the Code of Conduct. Use the institution's incentive system to reward ethical behavior and good customer service—especially for those employees who are in direct contact with clients.

Also responsible:



During the institution's annual evaluation, review and discuss whether employee incentives are aligned with the institution's corporate values and business ethics.

Also responsible:



Establish a policy describing acceptable collateral. The policy should include:

- Guidelines for how collateral is registered and valued.
- Guidelines to ensure clients receive a fair price for their confiscated assets.
- Guidelines that ensure that procedures for confiscation respect clients' rights and follow local laws.
- Guidelines for the safe storage of client collateral, if kept on the institution's premises.

Also responsible:



²¹ The following behaviors should never be permitted: use of abusive language, use of physical force, limiting client's physical freedom, shouting at the client, entering the client's home uninvited, publicly humiliating the client, violating the client's right to privacy, discriminating based on ethnicity, gender, sexual orientation, religious belief, political opinions, disability; participating in corruption, kickbacks, theft; participating in sexual or moral harassment.

²² A living wage is a wage sufficient to provide minimally satisfactory living conditions for the employee in the location where s/he works.

²³ Incentives that represent more than 100 percent of an employee's base salary should be reviewed for unintended consequences such as incentivizing employees to mistreat clients in order to improve their loan portfolio.

CPP: Privacy of Client Data

Participate in the design of an institutional policy on security and privacy of client data. The policy should specify:

- Which client data is covered by the policy.
- Procedures for ensuring **information security**, including:
 - Which employees have access to different types of client data.
 - How client data should be collected.
 - Where and how client data should be stored.
- Procedures for ensuring **information privacy**, including:
 - How to advise clients about legal requirements for collecting, sharing, and using information.
 - How to safely share information with third-party providers such as credit bureaus, marketing companies, data processing companies, collections agencies, etc.
 - How to for ensure third parties follow appropriate data privacy procedures.
 - How to share information within the same financial institution or corporate group for purposes of cross-selling.
 - How to treat data when clients have voluntarily waived their right to data privacy.
 - What to do in the event of a privacy breach or complaint.

Also responsible:



Ensure procedures are in place for frontline employees to obtain written consent from clients to use information or photos or to share their personal data with any external audience, including credit bureaus, insurance agents, collections companies, etc. Institute penalties for exposing or revealing client data to third parties without prior client consent.

Also responsible:



Establish a policy that clients must be instructed on their responsibilities for keeping data private, such as storing any records in a secure location and not sharing personal identification codes. Group leaders should be trained to safeguard group member information, including saving balances, dates of loan disbursement, and information on repayment problems.

Also responsible:



Establish a policy that employees should hold group meetings in locations that allow discussions among group members to remain private, whether the locations are chosen by the group or the

Also responsible:



institution.

Ensure that the employee book of rules and Code of Conduct penalize misuse or misappropriation of client data, including revealing data to third parties without client consent.

Ensure that ICT systems have different password protection systems that are changed periodically with different access levels according to the position of the staff member accessing the data.

Also responsible:



CPP: Complaints Resolution

Develop a policy for managing client complaints. The policy should:

- Ensure clients rights, including the right to:
 - complain to the institution
 - receive a quick response to the complaint
 - complain anonymously
 - complain without negative consequences
- Establish a mechanism for resolving client complaints, including:
 - an organizational position in charge of overseeing complaints resolution, at least on a part-time basis
 - procedures for collecting, tracking, and responding to complaints
 - a timeline for responding to and resolving complaints
 - a process for handling serious complaints (e.g. alleged abuse, fraud)
 - a process for providing responses directly to clients who complain, within one month of complaint submission.

Also responsible:



Evaluate overall trends in client complaints to identify any systemic problems that go beyond individual grievances.

- Use complaints data to correct mistakes, omissions, and activities that may be harmful to the client (e.g., recurring complaints about “hidden” fees, multiple complaints about a particular branch office).
- Use complaints to guide operational improvements related to the institution’s interactions with its clients, including changes to products and services.

Also responsible:



Make the final decision on how to resolve client complaints that cannot be resolved by the designated complaints personnel or other employees.

CPP: Appropriate Product Design and Delivery

Conduct regular market studies and client surveys including client satisfaction and drop-out surveys, to collect information on client needs and constraints.

Also responsible:

EM

Use these data to design and improve products and delivery mechanisms.

Design loan products according to identified business and family needs of diverse segments of the institution's target population. This means:

Also responsible:

EM

- The institution offers an acceptable variety of loan products, designed to match the main business and family needs of the target population.
- The loan size matches the target clients' main financial needs.
- The repayment schedule (grace period, repayment frequency, and term) is tailored to the business activity and household cash flow.
- Prepayment is not subject to excessive penalties or unjustified interest charges after a minimum period.
- The institution does not continue to accrue interest on non-performing loans (which indebts clients further), except if there is capacity to repay but not willingness to repay.

Design **savings products** that are appropriate for clients.

- Offer minimum account balances appropriate to small savers.
- Calculate interest on a daily basis.
- Do not charge excessive fees for closing a client savings account.
- If compulsory savings are mandatory, they are taken into account in the institution's calculation of the EIR.

Also responsible:

EM

²⁴ For additional guidance on collecting client data for product design, see the Social Performance Task Force Universal Standards for Social Performance Management, *Section 4: Design Products, Services, Delivery Mechanisms that Meet Clients' Needs and Preferences*: <http://sptf.info/sp-standards>.

Offer **insurance products** that are appropriate for clients.²⁵

- Only charge clients for the insurance premium passed on to insurance company or premium as per actuarial (if in-house); the institution should absorb the operational cost.
- Minimize the number of exclusions and rejections.
- Keep the claims procedure as simple as possible.
- Ensure claims are processed in a timely way.
- Ensure the coverage amount and cost are affordable to the client and sustainable for the institution.
- Set prices according to clients' willingness and ability to pay for insurance (verified by market studies or surveys).
- Make sure products do not have premiums that are significantly higher than expected payouts.
- Ensure frequency of premium collection is appropriate to clients' cash flows and collection methods are convenient for clients.

Also responsible:



Offer **payments products** that are appropriate for clients.²⁶

- Offer affordable exchange rates to clients.
- Offer the possibility to cancel the payment within a short window of time after sending the payment.
- Consider how linking payments products to other financial products might create benefits for clients.
- Provide different options for receiving payments, such as home delivery and direct deposit into a savings account.

Also responsible:



CPP: Responsible Pricing²⁷

When determining the prices for products, follow the institution's formal, internal pricing procedures for each product. Offer market-based, non-discriminatory pricing.

Also responsible:



CPP: Mechanism for Complaint Resolution

Use the institution's analysis of client complaints to consider whether complaints and client dissatisfaction stem from product design weaknesses. Use the information to make product changes when appropriate.

Also responsible:



²⁵ For more information, see the Smart Campaign's *Smart Microinsurance*: www.smartcampaign.org/tools-a-resources/573.

²⁶ For more information, see the Smart Campaign's *Smart Payments*: Coming soon.

²⁷ For more resources on responsible pricing, see: 1) *Responsible Pricing: The State of the Practice*: www.smartcampaign.org/tools-a-resources/243; 2) *Calculating Transparent Prices Tool* from MicroFinance Transparency: www.smartcampaign.org/tools-a-resources/81.

CPP: Prevention of Over-Indebtedness²⁸

For individual loans, enforce the institution's loan assessment process that requires rigorous evaluation of borrower repayment capacity. (See policy in Executive Management, pg. 10)

Also responsible:



For group loans, enforce the institution's pre-loan process that requires evaluation of borrower repayment capacity and group preparation. (See policy in Executive Management, pg. 10)

Enforce the institution's policy describing how and when to consolidate or reschedule loans for clients who are willing but unable to repay. (See policy in Executive Management, pg. 10)

Facilitate reporting client information to the credit bureau (where a credit bureau is available).

Include all of the above policies regarding loan evaluation, credit bureau reporting, and loan rescheduling/restructuring in a written credit manual.

CPP: Transparency²⁹

Enforce the institution's policy on presenting to clients the total amount that the client pays for the product.³⁰ (See policy in Executive Management, pg. 13)

Also responsible:



Enforce the institution's policy that requires sales and frontline employees to communicate to clients all the prices, terms, and conditions of all financial products, including any possible changes to these over time, prior to signing a contract. (See policy in Executive Management, pg. 14)

Also responsible:



²⁸For in-depth guidance on prevention of client over-indebtedness, see the Smart Campaign's *Avoidance of Over-indebtedness: Guidelines for Financial and Non-financial Evaluation*: www.smartcampaign.org/tools-a-resources/514.

²⁹For more information on pricing transparency, including the information that the financial institution should provide to the client, see 1) *Putting Transparency into Practice, Communicating About Pricing*: www.smartcampaign.org/tools-a-resources/498; 2) *Transparency in Promotions and Sales*: www.smartcampaign.org/tools-a-resources/494. For information on transparency for non-credit products, see the following resources: 1) *Smart Savings*: www.smartcampaign.org/tools-a-resources/286 2) *Smart Microinsurance*: www.smartcampaign.org/tools-a-resources/573 3) *Smart Payments*: Coming soon.

³⁰For help calculating the interest rates, see the [Calculating Transparent Prices tool](#) from MFTransparency.

Enforce the institution's policy to give clients adequate time to review the terms and conditions and have an opportunity to ask questions prior to signing contracts. (See policy in Executive Management, pg. 15). Require that:

- Employees communicate product information and conditions upfront (see pg. 13 for a list of essential information), including debt collection procedures.
- Employees take time to answer all of the client's questions.
- Employees inform clients of how to contact the institution if they have further questions or want to make a complaint.

Also responsible:



Enforce the institution's policy that employees communicate with clients in a way that helps clients make informed decisions about purchasing a product. (See Executive Management, pg. 14). Require that:

- Employees use multiple channels for disclosing information, such as brochures, orientation sessions, meetings, branch postings, websites, etc.
- All written and verbal communication with clients is in the local language and that plain language and terms are used to describe products, prices, terms, and conditions.
- Employees read contracts aloud to illiterate or low-literate clients.
- Employees check client understanding by asking follow-up questions.

Also responsible:



Enforce the institution's policy to provide clients with proof of payments for all products, and provide information on accounts (e.g. loan balance, savings balance) either upon request from clients, or on a regular basis (e.g. account statements). (See policy in Executive Management, pg. 15).

Also responsible:



CPP: Fair and Respectful Treatment of Clients

Enforce the institution's policies on acceptable and unacceptable debt collection practices,³¹ and provide them to employees in writing, in a Code of Conduct, book of employee rules, debt collection, or credit procedures manual. (See policy in Executive Management, pg. 16). The policy should include:

- Precise standard steps to follow in case of repayment delays.
- Different strategies to be used in case of inability to repay and unwillingness to repay.

Also responsible:



³¹ For more information on collections, see the Smart Campaign's *Collections Guidelines for Financial Service Providers*: www.smartcampaign.org/tools-a-resources/496.

- Actions and behaviors considered to violate the borrower's rights.³²
- In the case of group loans, actions group members are expected to take and are prohibited from taking when group members are delinquent.

Enforce the institution's policy on acceptable collateral. (See policy in Executive Management, pg. 17)

Also responsible:



Enforce the institution's policy that clients must be informed of the main aspects of the Code of Conduct, particularly those related to clients' rights and how they can make complaints to the institution. (See policy in Executive Management, pg. 16). This information should be presented in a format that clients, including illiterate clients, can understand (e.g. posters, illustrations).

CPP: Privacy of Client Data

Ensure frontline employees obtain written consent from clients to use information or photos or to share their personal data with any external audience, including credit bureaus, insurance agents, collections companies, etc. Ensure that this consent form is included in the product contract.

Also responsible:



Ensure clients are instructed on their responsibilities for keeping data private, such as storing any records in a secure location and not sharing personal identification codes. Ensure group leaders are trained to safeguard group member information, including saving balances, dates of loan disbursement, and information on repayment problems.

Also responsible:



CPP: Mechanism for Complaint Resolution

Use the institution's analysis of client complaints to consider whether complaints and client dissatisfaction stem from product design weaknesses. Use the information to make product changes when appropriate.

Also responsible:



³² The following behaviors should never be permitted: use of abusive language, use of physical force, limiting client's physical freedom, shouting at the client, entering the client's home uninvited, publicly humiliating the client, violating the client's right to privacy, discriminating based on ethnicity, gender, sexual orientation, religious belief, political opinions, disability; participating in corruption, kickbacks, theft; participating in sexual or moral harassment.

CPP: Prevention of Over-Indebtedness³³

Develop and execute employee training on credit procedures (follow the Product Management guidelines, p. 22).³⁴ Ensure junior loan officers receive adequate field mentoring from senior employee. Ensure supervisors coach loan officers to maintain an acceptable quality of repayment capacity analysis.

Also responsible:



Assist in the development and execution of productivity targets and employee incentives that are reasonable compared to the industry benchmark (parameters and proportion of fixed/variable remuneration). Ensure:

Also responsible:



- The incentive structure rewards the quality of the portfolio at least as highly as growth.
- The FI does not issue bonuses/incentives unless PAR is under control (i.e., PAR30 <10 percent).
- The incentive structure does not incentivize the over-selling or mis-selling of products (e.g. incentivizing portfolio growth over portfolio quality), or overly aggressive collections practices due to a “zero delinquency” policy or an incentive scheme based on very short delays (for example, judging loan officer’s PAR on the basis of PAR 1).
- Productivity targets and incentive schemes are differentiated among employees and are adjusted according to the market potential, infrastructure, and other factors.
- Productivity targets and incentive schemes are periodically reviewed for changing market conditions and Risk Management investigates cases where risk is higher related to the incentive scheme and productivity targets.

Include all of the above policies regarding loan evaluation, credit bureau reporting, and loan rescheduling/restructuring in a written credit manual. Ensure that the manual is distributed to all employees.

Also responsible:



³³ For in-depth guidance on prevention of client over-indebtedness, see the Smart Campaign’s *Avoidance of Over-indebtedness: Guidelines for Financial and Non-financial Evaluation*: www.smartcampaign.org/tools-a-resources/514.

³⁴ For an example of a rigorous analysis methodology, see *Banco Solidário Loan Officer Training Manual*: www.smartcampaign.org/tools-a-resources/252.

CPP: Transparency³⁵

Include all institutional policies on communicating with clients, providing clients with full and accurate information, and ensuring client understanding, in a manual that is easy for employee to understand. Follow the institution's guidelines for providing all necessary product information to clients. (See policy in Product Management, pg. 22).

Also responsible:



Develop and execute training for frontline employees on effective communication with clients.

- Ensure employees are trained to disclose key information prior to transaction (refer to list in Executive Management, pg. 13). Include practical examples and techniques for verifying clients understand key elements.
- Train frontline employees to communicate with different groups of clients, from different market segments, in a way that will help the clients make informed decisions about purchasing a product.
- Train frontline employees to help clients make informed decisions about products.

Also responsible:



CPP: Fair and Ethical Treatment of Clients

Establish a Code of Conduct that spells out organizational values and the standards of professional conduct expected of all employees.³⁶

- Review the Code for updates at least every three years.
- Provide employees with opportunities to offer amendments or changes to the Code and submit them to the Board for consideration.

Also responsible:



Establish a non-discrimination policy, including a policy on the treatment of people with disabilities, which applies to employees and clients.³⁷ Recruit employees without discrimination based on ethnicity, gender, disability, political affiliation, or sexual orientation, among others.

Also responsible:



³⁵ For more information on pricing transparency, including the information that the financial institution should provide to the client, see 1) *Putting Transparency into Practice, Communicating About Pricing*: www.smartcampaign.org/tools-a-resources/498; 2) *Transparency in Promotions and Sales*: www.smartcampaign.org/tools-a-resources/494. For information on transparency for non-credit products, see the following resources: 1) *Smart Savings*: www.smartcampaign.org/tools-a-resources/286 2) *Smart Microinsurance*: www.smartcampaign.org/tools-a-resources/573 3) *Smart Payments*: Coming soon.

³⁶ For more information on the process of creating or improving an institutional Code of Ethics, see the Smart Campaign's *How to Develop and Institutional Code of Ethics*: www.smartcampaign.org/tools-a-resources/2/84. Also see *Client Protection and Ethics Codes: Examples for Getting Started*: www.smartcampaign.org/tools-a-resources/44.

³⁷ For more information on non-discrimination, see the Smart Campaign's *Responsible Treatment of Clients: Practicing Non-discrimination*: www.smartcampaign.org/tools-a-resources/548.

Assume primary responsibility for developing an employee-training curriculum on the Code of Conduct. Ensure that the training is relevant to “real life” situations that employees will face in their work, and that it includes instruction on how violations will be sanctioned. Discuss with new staff about the situations where the compliance with the Code of Conduct might be a challenge.³⁸

Also responsible:



Ensure that all employees receive a copy of the Code of Conduct, receive practical training on how to apply the Code to their work, and agree to uphold the Code through a formal signature.

Test employee knowledge and understanding of the Code of Conduct, or provide refresher training on the Code, on a regular basis.

Establish and execute efficient and fair procedures and sanctions to deal with violations of the Code of Conduct and non-discrimination policy, and to protect employees who report violations by other employees (“whistleblowing”), and other ethical concerns. Follow up on cases of employee violations to ensure that sanctions are applied. In the event of misconduct, inform staff of the case and sanctions that were taken, and allow employees to ask questions about the case.

Train all employees involved in the collections process (loan officers, collections staff, and branch managers) on appropriate collection practices. In particular, provide collections staff with training on acceptable debt collections practices and loan recovery procedures.

Also responsible:



During the employee recruitment process, perform a background check that focuses on identifying previous misconduct, to avoid hiring employees who are more likely to violate the institution’s Code of Conduct.

Compensate employees at a level that constitutes a living wage,³⁹ and do not rely

³⁸ For examples of employee training on ethics, see: 1) *Smart Note: Ethical Employee Behavior at ASKI*: www.smartcampaign.org/tools-a-resources/471; 2) *Illustrations and Activities for Training Loan Officers on Customers' Rights and Responsibilities*: www.smartcampaign.org/tools-a-resources/501; 3) *Code of Conduct E-Learning Module*: www.smartcampaign.org/tools-a-resources/502.

³⁹ A living wage is a wage sufficient to provide minimally satisfactory living conditions for the employee in the location where s/he works.

heavily on incentive schemes, such as bonus pay.⁴⁰ Under-compensation and high bonus can incentivize fraud, mistreatment of clients, inappropriate loan sizes, and other unethical behavior.

Ensure that performance evaluation procedures and employee incentives incorporate the values and standards spelled out in the Code. Use the institution's incentive system to reward ethical behavior and good customer service—especially for those employees who are in direct contact with clients.

Also responsible:



During the institution's annual evaluation, review and discuss whether employee incentives are aligned with the institutions corporate values and business ethics.

Also responsible:



CPP: Mechanism for Complaint Resolution

Assist in the development and dissemination of a training manual that includes policies on how to inform clients about the institution's complaint mechanism, and how to handle complaints.

Also responsible:



Train employees on how to:

- Use the complaints mechanism.
- Talk to clients about their right to ask questions and make complaints.
- Direct clients to use the institution's complaints mechanism.
- Handle the most common complaints and when to refer complaints to the employees in charge of complaints.

CPP: Privacy of Client Data

Participate in the design of the manual/handbook and employee training curriculum on the institution's data-handling policies and procedures.

Also responsible:



Provide training to employees on the importance of data privacy and how to protect the confidentiality, security, accuracy, and integrity of clients' personal and financial information. The training should

Also responsible:



⁴⁰Incentives that represent more than 100 percent of an employee's base salary should be reviewed for unintended consequences such as incentivizing employees to mistreat clients in order to improve their loan portfolio.

instruct employees to inform clients of their responsibilities for keeping data private, such as storing any records in a secure location and not sharing personal identification codes. It should also instruct employees on how to train group leaders to safeguard group member information, including saving balances, dates of loan disbursement, and information on repayment problems.

Ensure that the employee book of rules and Code of Conduct penalize misuse or misappropriation of client data, including revealing data to third parties without client consent.

Also responsible:



CPPs: Prevention of Over-Indebtedness and Transparency⁴¹

Ensure marketing materials respect any existing consumer protection legislation on advertising and transparent communication of prices.

Also responsible:



Ensure marketing materials do not oversell the benefits of credit or make guarantees/offers that may change based on the individual client (e.g. “You are pre-approved for a loan”).

Also responsible:



Ensure marketing materials do not include deceptive pricing information that is likely to change depending on the characteristics of the individual client. In particular:

- Do not make incorrect or deceptive price comparisons with other institutions or with the institutions own “regular” prices.
- Do not advertise a product or service as “free” if the client will bear any associated cost.

CPP: Privacy of Client Data

Follow institutional policy with regards to:

- Sharing client information with other institutions for marketing purposes (See policy in Executive Management, pg. 18).
- Obtaining written client consent for use of information or photos in promotions, marketing material and other public information (see page X).

Also responsible:



CPP: Mechanism for Complaint Resolution

All marketing materials should include the institution’s contact information and instructions on how to ask a question or make a complaint.⁴²

Also responsible:



⁴¹For more information on transparency, including the information that the financial institution should provide to the client, see 1) *Putting Transparency into Practice, Communicating About Pricing*: www.smartcampaign.org/tools-a-resources/498; 2) *Transparency in Promotions and Sales*: www.smartcampaign.org/tools-a-resources/494.

⁴²For an example of how complaints information can be displayed, see the Smart Campaign’s *Essential Documents for New Clients, Sample Complaints Handout* (page 9): www.smartcampaign.org/tools-a-resources/507.

Operational Area: Sales Force and Frontline Employees



CPP: Appropriate Product Design and Delivery

Consider client needs and characteristics to offer clients the most appropriate product or service.

During client orientation sessions, make clients aware of the range of products offered, and their characteristics, so that clients can select the products and services that are appropriate to their needs and means.

Do not use aggressive sales techniques. Provide clients with information about products, but do not exaggerate the benefits of the products, or pressure clients to buy them.

CPP: Prevention of over-Indebtedness

Follow the institution's guidelines for evaluating a client repayment capacity. See policy Executive Management, pg. 11).

Follow the institution's guidelines for checking any available credit information on the client (e.g., credit registry, information from competitors). See policy Executive Management, pg. 10).

Follow the institution's guidelines for rescheduling/consolidating loans. See policy Executive Management, pg. 12).

CPP: Transparency⁴³

Communicate to clients all the prices, terms, and conditions of all financial products, including any possible changes to these over time, prior to signing a contract. (See policy Executive Management, pg. 13).

Also responsible:



Give clients adequate time to review the terms and conditions, and an opportunity to ask questions and receive additional information prior to signing contracts. (See policy,

⁴³ For more information on how to be transparent with clients, see the Smart Campaign tool, "Transparency in promotions and sales," in particular, *Section I, General Transparency Guidelines for Treatment of Potential Clients*: www.smartcampaign.org/tools-a-resources/494.

Executive Management, pg. 15). This includes:

- Communicating product information and conditions upfront (see pg. 13 for a list of essential information), including debt collection procedures.
- Taking time to answer all of the client's questions.
- Informing clients of how to contact the institution if they have further questions or want to make a complaint.

Communicate with clients in a way that helps clients make informed decisions about purchasing a product. (See policy in Executive Management, pg. 14). This includes:

- Using multiple channels for disclosing information, such as brochures, orientation sessions, meetings, branch postings, websites, etc.
- Using the local language in written and verbal communication with clients and using plain language and terms to describe products, prices, terms, and conditions.
- Reading contracts aloud to illiterate or low-literate clients.
- Checking client understanding by asking follow-up questions.

Also responsible:



Do not oversell the benefits of the institution's products or pressure clients into accepting a product if they do not yet fully understand it.

Also responsible:



According to institutional policy, provide clients with proof of payments for all products, and provide information on accounts (e.g. loan balance, savings balance) either upon request from clients, or on a regular basis (e.g. account statements). (See policy in Executive Management, pg. 15).

Do not force clients to sign the guarantee conditions of a loan on any other contract related to loan.

CPP: Fair and Respectful Treatment of Clients

Also responsible:



Review and understand the institution's Code of Conduct and any other rules pertaining to employee behavior and the treatment of clients. (See policy in Human Resources, pg. 26).

Follow the institution's policy to inform of the main aspects of the Code of Conduct, particularly those related to clients' rights and how they can make complaints to the institution. (See policy in Human Resources, pg. 27)

Maintain respectful treatment of clients even in difficult situations (e.g., client misconduct, client delinquency).

Report misconduct by other employees, including fraud, abusive or discriminatory behavior toward clients, theft, etc.

Follow the institution's guidelines for acceptable and unacceptable debt collection practices. (See policy in Executive Management, pg. 16).

Follow the institution's policy on non-discrimination (See policy in Human Resources, pg. 27). Treat clients without discrimination. Do not treat clients differently and less favorably because of characteristics that are not related to their ability and willingness to meet the requirements of the financial institution. Client selection and treatment should not involve discrimination on the basis of personal characteristics or personal affiliations.⁴⁴

CPP: Privacy of Client Data

Review and understand the institution's data privacy policies and procedures (See policy in Executive Management, pg. 18).

Also responsible:



Prior to loan disbursement or account opening, read the privacy portion of the contract to the client and ask for their approval. (See policy Executive Management, pg. 18).

- Obtain the client's consent before sharing their information with a credit bureau, insurance agents, collections companies, and others.
- Obtain the client's written consent before sharing client photos with anyone outside the institution.

Instruct clients on their responsibilities for keeping data private, such as storing any records in a secure location and not sharing personal identification codes. Train group leaders to safeguard group member's information, including saving balances, dates of loan

Also responsible:



⁴⁴ For more information on non-discrimination, see the Smart Campaign's *Responsible Treatment of Clients: Practicing Non-discrimination*: www.smartcampaign.org/tools-a-resources/548.

disbursement, and information on repayment problems. (See policy in Executive Management, pg. 18).

Follow the institution's policy on holding group meetings in locations that allow discussions among group members to remain private, whether the locations are chosen by the group or the institution. (See policy in Executive Management, pg. 18).

CPP: Mechanism for Complaint Resolution

Learn how to handle client questions and complaints. Specifically, understand how to:

- Use the complaints mechanism.
- Talk to clients about their right to ask questions and make complaints.
- Direct clients to use the institution's complaints mechanism.
- Handle the most common complaints and when to refer complaints to the employees in charge of complaints.

Also responsible:



Do not punish clients for asking questions or making complaints.

CPP: Prevention of Over-Indebtedness

Institute a policy describing how and when to consolidate or reschedule loans for clients who are willing but unable to repay. Describe specific cases under which clients can be granted rescheduling or refinancing, and considerations for clients who have demonstrated good history of repayment.

Also responsible:



CPP: Responsible Pricing⁴⁵

Establish formal, internal pricing procedures for each product.

- Offer market-based, non-discriminatory pricing.
- Ensure that efficiency ratios are aligned with peers.⁴⁶
- Calculate interest according to the exact date of payment.
- If credit/life insurance and/or savings are compulsory, take these into account in the EIR calculation.⁴⁷

Also responsible:



CPP: Fair and Respectful Treatment of Clients

Provide input into the institution's policy describing acceptable collateral. Institute a policy describing acceptable collateral. The policy should include:

- Guidelines for how collateral is registered and valued.
- Guidelines to ensure that clients receive a fair price for their confiscated assets.
- Guidelines that ensure procedures for confiscation respect clients' rights and follow local laws.
- Guidelines for the safe storage of client collateral, if kept on the institution's premises.

Also responsible:



⁴⁵ For more resources on Responsible Pricing, see: 1) *Responsible Pricing: The State of the Practice*: www.smartcampaign.org/tools-a-resources/243; 2) *Calculating Transparent Prices Tool* from MFTransparency: www.smartcampaign.org/tools-a-resources/81.

⁴⁶ Peer groups are defined as financial institutions of similar size, with similar delivery models and channels, targeting the same types of clients, in the same country. At least five institutions are needed to comprise a peer group. In case of no in-country peer group, the regional peer group should be used.

⁴⁷ For help calculating the interest rates, see the [Calculating Transparent Prices tool](#) from MFTransparency.



CPP: Prevention of Over-Indebtedness

Regularly monitor the risk and level of client over-indebtedness.

- Require regular reporting (at least annually) on the level and risk of client over-indebtedness and multiple borrowing. These reports should present information on:
 - Non-performing loans and loan write-offs.
 - Multiple borrowing within the institution and between institutions.
 - Credit bureau information analyzed at the aggregate level in order to inform decisions about product mix, geographical expansion, and targeting of specific populations.
- Scrutinize institutional policies to look for those that may contribute to over-indebtedness, such as zero tolerance for delinquency, and employee incentive schemes that prioritize growth and productivity over portfolio quality.
- Scrutinize institutional weaknesses to look for those that may contribute to over-indebtedness, such as inexperienced or undertrained loan officers.
- Using the institution's definition of "high risk" in the local market, increase monitoring if the institution is high risk (See policy in Executive Management, pg. 11).

Also responsible:



Check whether credit employees/loan officers correctly follow the institution's procedures for evaluating client capacity. (See policy in Executive Management, pg. 11)

- Verify loan files.
- Conduct business/household visits and client interviews on a representative sample of clients each year.
- Interview drop out clients to investigate reasons for leaving the institution (e.g. inappropriate products, employee behavior, difficulties meeting loan obligations).
- Using client visits and loan files, verify that employees comply with institutional policies on rescheduling/refinancing loans, client debt exposure limits, and multiple-borrowing limits.

Also responsible:



Using the credit bureau (if available), conduct a regular credit check on the whole client database (e.g. check 25 percent of the database each month, completing a check of 100 percent of the database quarterly) in order to identify the level of cross-indebtedness, and the potential pattern of clients that borrow from other sources immediately after contracting a loan with the institution.

When requested, provide Executive Management with specific reports on over-indebtedness. Analysis and reporting should be independent of the business department.

Check whether employees correctly follow the institution's policy on collateral/guarantees through checking client files. (See policy in Product Management, pg. 24).

For each of the checks above, conduct more frequent checks on new employees.

CPP: Transparency

Check that clients understand loan terms and conditions. Interview a sample of clients, including delinquent clients and drop-out clients.

Check that employee methods for explaining product terms and conditions to clients are effective and information is accurate. Check that clients are given sufficient time to review and understand information. (See policy in Executive Management, pg. 13).

Check that employees follow institutional policy on providing clients with documentation (loan agreement, "Key Fact" document, copies of any signed documentation, etc.). (See policy guidance in Executive Management, pg. 13).

Check that employees inform clients of their right to complain and how to make complaints. (See policy in Executive Management, pg. 19).
For each of the checks above, conduct more frequent checks on new employees.

CPP: Fair and Respectful Treatment of Clients

Check that employees abide by a Code of Conduct that spells out organizational values and the standards of professional conduct expected of all employees.⁴⁸ (See policy in Human Resources, pg. 26).

⁴⁸ For more information on the process of creating or improving an institutional Code of Conduct, see the Smart Campaign's *How to Develop and Institutional Code of Ethics*: www.smartcampaign.org/tools-a-resources/2/84. Also see *Client Protection and Ethics Codes: Examples for Getting Started*: www.smartcampaign.org/tools-a-resources/44.

Check that Human Resources performs employee background checks designed to identify previous instances of misconduct by the potential employee. (See policy in Human Resources, pg. 27).

Check that employees abide by the institution's collections guidelines. (See policy in Executive Management, pg. 13).

Check that employees abide by the institution's non-discrimination policy that applies to employees and clients.⁴⁹ (See policy in Human Resources, pg. 27).

Check that employees abide by the institution's collateral policy. (See policy in Executive Management, pg. 17).

Check that employees apply the institution's rescheduling policies in a consistent and fair way. (See policy in Executive Management, pg. 16).

Visit clients to check the following regarding employee treatment of clients:

- Clients are not abused, disrespected, or mistreated in any way.
 - Employees do not solicit bribes, kickbacks, or favors of any kind.
 - Employees respect acceptable and unacceptable debt collection practices.⁵⁰
-

Check that clients understand their rights, including the right to respectful treatment from employees, and the right to complain. Select a sample of clients to check understanding through client visits.

CPP: Privacy of Client Data

Check that office level employees apply the institution's policies and procedures on the use, storage, sharing, and transfer of client information. (See policy in Executive Management, pg. 18). In particular, check that:

- Employees obtain written consent from clients to use information or photos or to share their personal data with any external audience, including credit bureaus, insurance agents, collections companies, etc.

⁴⁹ For more information on non-discrimination, see the Smart Campaign's *Responsible Treatment of Clients: Practicing Non-discrimination*: www.smartcampaign.org/tools-a-resources/548.

⁵⁰ For more information on collections, see the Smart Campaign's *Collections Guidelines for Financial Service Providers*: <http://www.smartcampaign.org/tools-a-resources/496>.

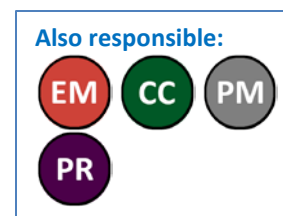
- Employees instruct clients on their responsibilities for keeping data private, such as storing any records in a secure location and not sharing personal identification codes.
- Employees understand how to advise clients about legal requirements for collecting, sharing, and using information.
- Employees understand how to safely share information with third-party providers such as credit bureaus, marketing companies, data processing companies, collections agencies, etc.
- Employees understand how to ensure third parties follow appropriate data privacy procedures.
- Employees understand how to treat data when clients have voluntarily waived their right to data privacy.
- Employees understand what to do in the event of a privacy breach or complaint.

Check that physical records and documents are stored in a location secure from arson or theft, with restricted access only to selected persons.

Check that client records are kept up to date. Select a sample of clients and compare current information with the information on file at the institution.

CPP: Mechanism for Complaint Resolution

Check that the institution's complaints mechanism is actively used by clients (e.g. check number of complaints per month, use of various mechanisms for making complaints, etc.).



Check that employees dedicated to the complaints mechanism follow institutional procedures for collecting, recording, analyzing, and reporting client questions and complaints (See policy in Executive Management, pg. 19):

- Check that frontline employees understand how to explain the mechanism to clients.
- Check that frontline employees understand how to answer frequently asked questions and complaints.
- Check that frontline employees accurately and regularly report complaints information to the concerned department or the appropriate managers.
- Check that clients receive a timely response to their issues, within a month of complaint submission, or earlier based on institutional policy.

Check that clients understand how to use the institution's complaints mechanism (e.g. ask clients if they have been informed how to use it, whether they have used it, etc.)

Check that client complaints are resolved satisfactorily (e.g. survey a sample of clients registered in the complaints system).

Use complaints data to identify and investigate cases of employee fraud, mistreatment of clients, or other unethical behavior identified by clients or other employees.

Evaluate overall trends in client complaints to identify any systemic problems that go beyond individual grievances. Follow up on these problems with further checks.

CPPs: Transparency⁵¹ and Responsible Pricing

Ensure marketing and communications policies and procedures respect any existing consumer protection legislation on advertising and transparent communication of prices.

Also responsible:



Ensure marketing materials do not oversell the benefits of credit or make guarantees/offers that may change based on the individual client (e.g. “You are pre-approved for a loan”).

Also responsible:



Ensure marketing materials do not include deceptive pricing information that is likely to change depending on the characteristics of the individual client. In particular:

Also responsible:



- Do not make incorrect or deceptive price comparisons with other institutions or with the institution’s own “regular” prices.
- Do not advertise a product or service as “free” if the client will bear any associated cost.

For all products, present to clients the total amount that the client pays for the product, regardless of local regulations (including in the absence of industry-wide requirements).⁵²

Also responsible:



CPP: Fair and Respectful Treatment of Clients

Provide input into the institution’s policy describing acceptable collateral. The policy should include:

Also responsible:



- Guidelines for how collateral is registered and valued.
- Guidelines to ensure that clients receive a fair price for their confiscated assets.
- Guidelines that ensure procedures for confiscation respect clients’ rights and follow local laws.

⁵¹ For more information on pricing transparency, including the information that the financial institution should provide to the client, see 1) *Putting Transparency into Practice, Communicating About Pricing*: www.smartcampaign.org/tools-a-resources/498; 2) *Transparency in Promotions and Sales*: www.smartcampaign.org/tools-a-resources/494. For information on transparency for non-credit products, see the following resources: 1) Smart Savings: www.smartcampaign.org/tools-a-resources/286; 2) Smart Microinsurance: www.smartcampaign.org/tools-a-resources/573; 3) Smart Payments: Coming soon.

⁵² For help calculating the interest rates, see the [Calculating Transparent Prices tool](#) from MFTransparency.

- Guidelines for the safe storage of client collateral, if kept on the institution's premises.

Provide input into the institution's Code of Conduct, to ensure that it respects the legal rights of both employees and clients.

Also responsible:



Provide input into the development of the institution's policy on non-discrimination toward clients and employees, to ensure that it respects the legal rights of both employees and clients.⁵³

Also responsible:



Provide input into the development of efficient and fair procedures to deal with violations of the Code of Conduct and the non-discrimination policy, to protect employees who report violations by other employees ("whistleblowing"), and other ethical concerns.

Also responsible:



Assist management to set employee compensation at levels that constitutes a living wage,⁵⁴ and do not rely heavily on incentive schemes, such as bonus pay.⁵⁵ Under-compensation and high bonus pay can incentivize fraud, mistreatment of clients, inappropriate loan sizes, and other unethical behavior.

Also responsible:



CPP: Privacy of Client Data

Ensure the written client consent form for use of information or photos in promotions, marketing material, and other public information is in line with any consumer protection regulation.

Also responsible:



Ensure that client contracts include a data privacy clause and require written consent from clients to use information or photos or to share their personal data with any external audience, including credit bureaus, insurance agents, collections companies, etc.

Also responsible:



⁵³ For more information on non-discrimination, see the Smart Campaign's *Responsible Treatment of Clients: Practicing Non-discrimination*: www.smartcampaign.org/tools-a-resources/548.

⁵⁴ A living wage is a wage sufficient to provide minimally satisfactory living conditions for the employee in the location where s/he works.

⁵⁵ Incentives that represent more than 100 percent of an employee's base salary should be reviewed for unintended consequences such as incentivizing employees to mistreat clients in order to improve their loan portfolio.

Provide input on any other client data privacy agreements, including any documents that require client signatures.⁵⁶

Ensure that the institution's privacy policy covers current employees, as well as those who leave the organization.

Ensure that the institution's ICT policies and procedures respect any applicable laws or regulations on privacy and security of client data. Ensure that the institution's ICT system will enable the institution to respect these laws and regulations.

Also responsible:



CPP: Mechanism for Complaint Resolution

Provide input on how the institution should handle client complaints, particularly how to handle alleged employee misconduct and how to apply local law when necessary.

Also responsible:



⁵⁶ For more information on data privacy, see the Smart Campaign's *Essential Documents for New Clients, Data Privacy Agreement* (page 10): www.smartcampaign.org/tools-a-resources/507.

CPP: Appropriate Product Design and Delivery

Provide a platform for the collection and analysis of client level data and market research information (See information needs of Executive Management, pg. 9).

Also responsible:



Provide a platform and capabilities for reporting client-level information to the product development team, the Board of Directors, and other executive managers. (See information needs of Executive Management, pg. 9).

CPP: Prevention of Over-Indebtedness⁵⁷

Provide a platform for monitoring of portfolio quality by different parameters, such as product type, loan cycle, region, etc.

Also responsible:



Provide a platform for credit employees to enter client loan and personal information into an institution-wide database in which clients have unique identifying numbers.

Provide a platform for credit employees to quickly and easily check internal client records for client repayment history, current loans, and other credit information.

Provide a platform for the institution to draw information from and contribute to a credit information sharing system (if applicable). The platform should facilitate regular reporting on the risks of client's over-indebtedness (See information needs of Executive Management, pg. 10).

Provide a platform to monitor employee/loan officer incentive calculations.

CPP: Fair and Respectful Treatment of Clients

Provide a platform for the institution to produce regular reports on rescheduled loans, in order to help monitor whether employees are following the institution's policies on loan rescheduling (See policy in Executive Management, pg. 16).

Also responsible:



⁵⁷ For in-depth guidance on prevention of client over-indebtedness, see the Smart Campaign's *Avoidance of Over-indebtedness: Guidelines for Financial and Non-financial Evaluation*: www.smartcampaign.org/tools-a-resources/514.

Provide input into the training for employees on the importance of data privacy and how to protect the confidentiality, security, accuracy, and integrity of clients' personal and financial information. The training should instruct employees to inform clients of their responsibilities for keeping data private, such as storing any records in a secure location and not sharing personal identification codes. It should also instruct employees on how to train group leaders to safeguard group member information, including savings balances, dates of loan disbursement, and information on repayment problems.

CPP: Privacy of Client Data

Participate in the design of an institutional policy on privacy and security of client data, to ensure that the institution's ICT capabilities are in alignment with the ICT functions required by the policy. (See policy in Executive Management, pg. 18).

Also responsible:



Ensure that the institution's ICT policies and procedures respect any applicable laws or regulations on privacy and security of client data. Ensure that the institution's ICT system will enable the institution to respect these laws and regulations.

Participate in the design of the manual/handbook and employee training curriculum on the institution's data-handling policies and procedures, to ensure that employees are trained in the correct use of the institution's ICT systems.

Also responsible:



Ensure that ICT systems have different password protection systems that are changed periodically with different access levels according to the position of the employee accessing the data.

Also responsible:



CPP: Mechanism for Complaint Resolution

Provide necessary technology for the smooth functioning of the complaints system (e.g. phone lines, answering service, text messaging capabilities, email address, etc.).

Provide a platform for the collection, storage, and analysis of client complaints. The platform should be able to track the number of type of complaints received, and should allow management to analyze complaints information easily.



CPP: Mechanism for Complaint Resolution

Develop a policy for managing client complaints. The policy should:

- Ensure clients' rights, including the right to:
 - complain to the institution
 - receive a quick response to the complaint
 - complain anonymously
 - complain without negative consequences
- Establish a mechanism for resolving client complaints, including:
 - an organizational position in charge of overseeing complaints resolution
 - procedures for collecting, tracking, and responding to complaints
 - a timeline for responding to and resolving complaints
 - a process for handling serious complaints (e.g. alleged abuse, fraud)
 - a process for providing responses directly to clients who complain

Also responsible:



Accept client questions and complaints on an ongoing basis, using a mechanism or mechanisms that are accessible and free for clients.⁵⁹ Check that the mechanism is actively used by clients.

Also responsible:



Establish a clear reporting system to ensure that complaints from the field (e.g. branches, point of sale) reach employees that handle complaints.

Also responsible:



Ensure that clients receive a timely response to their questions and complaints. Complex problems should be resolved within a month, and less complex issues should be resolved more quickly.

⁵⁸ If the institution does not have a separate operational area devoted to handling client complaints/customer service, the functions listed in this section may be divided between Executive Management, Human Resources, and Sales/Frontline Employees.

⁵⁹ Such mechanisms may include: in person meetings with customer service employees; a phone hotline; SMS (text), E-mail; suggestion box; and regular complaints forums.

Develop and disseminate a training manual that includes policies on how employees should inform clients about the institution's complaint mechanism, and how to handle complaints.

Also responsible:



Train employees on the following on how to:

- Use the complaints mechanism.
Talk to clients about their right to ask questions and make complaints.
- Direct clients to use the institution's complaints mechanism.
- Handle the most common complaints and when to refer complaints to the employees in charge of complaints.

Evaluate overall trends in client complaints to identify any systemic problems that go beyond individual grievances.

- Use complaints data to correct mistakes, omissions, and activities that may be harmful to the client (e.g., recurring complaints about "hidden" fees, multiple complaints about a particular branch office).
- Use complaints to guide operational improvements related to the institution's interactions with its clients, including changes to products and services.

Also responsible:



Ensure that complaints information (e.g. hotline number) is included on all marketing materials, product documents (e.g. loan agreement), and other materials provided to clients.⁶⁰

Also responsible:



Ensure that the institution has the necessary technology in place to manage the complaints mechanism (e.g. designated phone line, database for recording and analyzing complaints).

Also responsible:



⁶⁰For example complaints information brochures, see the Smart Campaign's: 1) *Complaints Handling Brochure for Clients*: www.smartcampaign.org/tools-a-resources/103; and 2) *Essential Documents for New Clients, Sample Complaints Handout* (page 9): www.smartcampaign.org/tools-a-resources/507.

The Smart Campaign is a global campaign committed to embedding client protection practices into the institutional culture and operations of the microfinance industry. It seeks to unite microfinance leaders around a common goal: to keep clients as the driving force of the industry.

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