

SMART ASSESSMENT GENERIC REPORT

MacroDreams Bank

August 2010

www.smartcampaign.org



Keeping clients first
in microfinance

Ms. CEO
President
MacroDreams Bank Microfinance Organization
Capital City, Country

Dear Ms. CEO

This report represents the results of the Smart Assessment for MacroDreams Bank. The report contains a diagnostic of the way MacroDreams Bank translates the Client Protection Principles into practice.

Each broad principle includes several specific supporting indicators which form the basis of the analysis. The body of the report identifies both strong practices and practices that may present vulnerabilities within MacroDreams Bank. In a few exceptional cases, it identifies particularly outstanding practices that can serve as models for others. It also presents suggestions developed through joint discussion between MacroDreams Bank staff and the Smart team for pilot efforts MacroDreams Bank may wish to undertake to improve implementation of the client protection principles.

We are very grateful to you and the staff of MacroDreams Bank for your open and enthusiastic participation in this project. As a team we have learned a great deal from the institution's experience. We appreciate the warmth and hospitality that was extended to us in every way.

Sincerely,
The Smart Assessment Team

Date

Summary

This report contains the results of the Smart Assessment of MacroDreams Bank, which took place on [date]. It incorporates and updates the preliminary report delivered to the management team on the last day of the assessment. Annex 1 lists suggested initiatives on client protection (“Smart Pilots”) that staff proposed on the basis of the assessment. Annex 2 shows a list of all of the staff who were interviewed for this process. Annex 3 displays graphs designed to be a visual representation of the indicators used to analyze each principle.

The assessment is generally favorable. MacroDreams Bank has some areas of significant strength (preventing overindebtedness, collections and data privacy), some areas of good practice that nevertheless can be strengthened (transparency, responsible pricing and staff ethics) and one area that has not yet been developed (complaints). The Smart Assessment team found that the institution had strong practices for **preventing overindebtedness**, in particular: a) the variety of products available on flexible terms that suit business and household needs, b) the tracking of trends in delinquency and default rates and c) the procedures for assessing client and household repayment capacity. On **transparent pricing**, MacroDreams Bank demonstrates adequate practices, such as oral communication on different aspects of pricing during promotion and evaluation stages and a welcome letter with brief overview of loan terms and client training initiatives. Interest rate disclosure follows truth in lending laws. MacroDreams Bank has **responsible prices** when compared with the national context; its rates are comparable to other institutions of similar size and client base in the country, at x% EIR. **Collections Practices** are strong. They are clearly outlined in the collections manual which has guidelines for what constitutes appropriate behavior and what does not. The team was particularly impressed with MacroDreams Bank’s policies and procedures for collections and regards these as model practices. Regarding **ethical staff behavior**, the institution has adopted two codes of conduct. However, it recognizes a need to create a stronger institutional culture that links more tightly the identity of the staff with the institution’s values and reputation. The institution recognizes that an area of opportunity is creating a **mechanism for redress of client grievances**. Finally, the institution is very cognizant of the importance of preserving and securing the **privacy of client data**, and at the same time informing clients of how that data will be used.

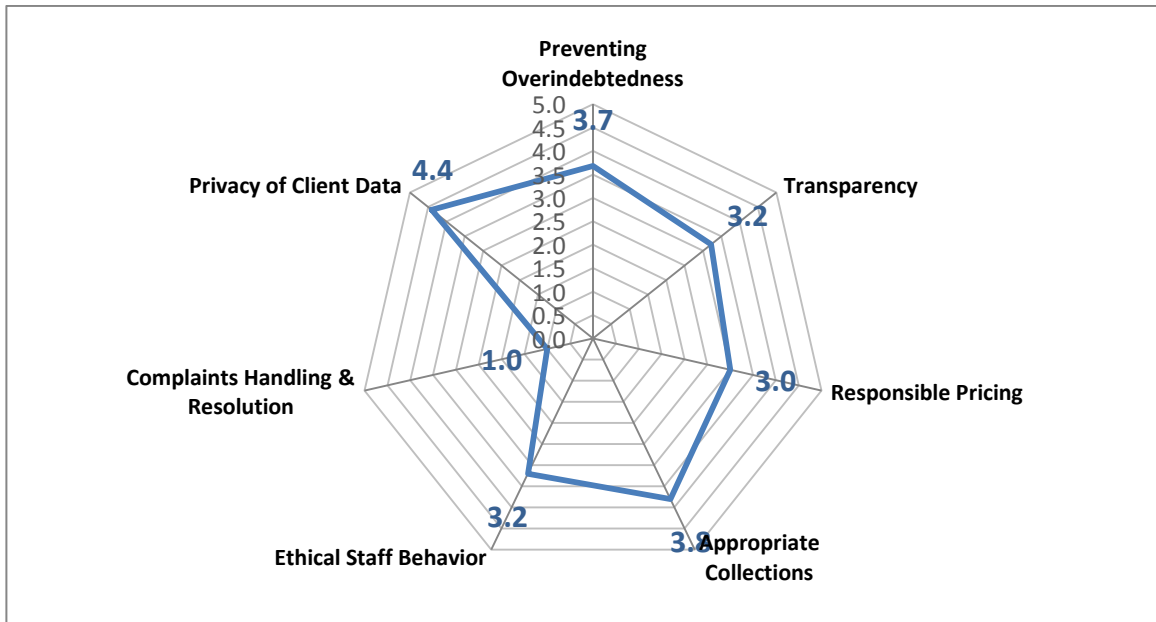


Figure 1

Part I. CONTEXT

1. Background on the Institution

MacroDreams Bank was started in June 2001, by Martha Jones initially by the name of Microcredit Organization (NGO) and was registered with the Central Bank in December of 2002. By 2015, given the appropriate permits from the Central Bank and the capital requirements, MacroDreams Bank, plans to become a Bank in order to accept deposits from the public.

Mission: “To provide financial services to previously excluded members of society through commercial sources of funding, for starting and improving business and improving quality of life for low income households in Country.”

Vision: “MacroDreams Bank sees itself as one of the leading financial institutions serving low income clients in Country.”

2. Key Contextual Factors

Determining Interest Rates on Cost Basis and communicating the same in contracts: The Central Bank of the Country requires all banks and other financial institutions to set interest rates after taking into account relevant factors such as cost of funds, margin, risk premium etc. Interest rates, risk gradation and rationale for charging different interest rates to different categories of borrowers also requires approval from Board of Directors.

Financial service providers are required to disclose interest rates in loan application forms and provide information on loan terms and conditions, and the fees and time required for processing of loan applications. They also need to disclose loan details on their websites or publish them in relevant newspapers. However, there are no requirements for publishing interest rates in marketing materials.

Over-indebtedness: There is a growing concern with over-indebtedness among MFIs and the banking sector. Many MFIs view over-indebtedness as a serious threat to households, financial institutions and the market. Within this context, some financial institutions' practices are known to boost client over-indebtedness, while others have responded with restraint. Many responsible MFIs have introduced stricter loan appraisal techniques, established loan limits, and re-doubled efforts to analyze household debt levels. Lack of client understanding about the danger of excessive debt is a prevailing factor in the environment.

Credit Bureaus. Institutions are required by law to submit client data monthly to one of two credit bureaus in the country, Credit Bureau 1 and Credit Bureau 2. Credit Bureau 1 is a private company that charges \$1 dollar per consultation. Credit Bureau 2 is a project of the National Banks Association and does not charge its members for bureau consultation; however they charge non-members \$3 dollars per consultation. Institutions are required to procure client consent for sharing their delinquent information with Credit Bureaus.

Data Security Law: The country has a solid data security framework. All institutions are legally required to maintain a high confidentiality information reserve. Any client related private information cannot be sold or shared with third parties for marketing purposes. All institutions are required to update client data according to client preferences.

Mobile phone usage: Given the high degree of mobile phone usage even in rural areas of the country, technological innovations like mobile phone banking and electronic money are changing the microfinance landscape. More banks are now providing mobile banking services like Mobile Money for payments and transfers. . Mobile phone use might be concerning in the area of data privacy and security because the country's mobile and internet grid are not all that developed, they could be vulnerable to abuse by computer hackers.

3. Key Institutional Factors

MacroDreams Bank is a well known MFI with a reputation within the micro-credit industry and banking authorities. The organization has a established brand and a loyal customer base. Senior management strongly believes in the value of building a loyal client base through honest and transparent services. MacroDreams Bank

MacroDreams Bank MacroDreams Bank prides itself for being a community bank that maintains good relations with its customers

Financial Performance:

Projections indicate that MacroDreams Bank's client outreach is driven by its Group Loan Product (40% of client outreach by FY 2010) while Star Credit Product (Individual Loan) will be the main portfolio growth driver (60% of portfolio outstanding by FY 2010). As of December, 2009, MacroDreams Bank had 22,000 active clients with an outstanding loan portfolio of around US\$60 million. MacroDreams Bank is expecting to reach a client base of approximately 100,000 by year 2013-14, with a country-wide presence.

Since the beginning of 2009, delinquency has been a concern for MacroDreams Bank's management team. As of December 2009, PAR (>30 days) was close to 5% mainly because MacroDreams Bank operates in a region which suffered greatly from the global financial crisis.

MacroDreams Bank

Particulars	December-09	December-08	December-07	December-06
Active Loans	22,000	18,000	9,000	4,500
Gross Portfolio Outstanding USD (\$)	60,000,000	42,000,000	28,000,000	18,000,000
PAR 30 (%)	5%	3.2%	2.5%	1.9%
Write-off ratio (%)	0.50%	0.18%	1.0%	N/A
Operating expense/ Average Portfolio	40%	33%	42%	50%
AROA	5%	6%	0%	0%
ROA	6%	7%	0%	0%
AROE	10%	12%	0%	0%
ROE	12%	18%	0%	0%

bAROA: adjusted return on assets, ROA: return on assets, AROE: adjusted return on equity. ROE: return on equity.

Exchange Rate as of Date : 1\$ Dollar = X (Currency)

MacroDreams Bank's board of directors comprises of five members. The majority of the members have sound experience of working in the financial sector. The board is supported by the following committees :

- a. Audit Committee
- b. Credit Committee
- c. Human Resources Committee
- d. Management Committee
- e. Good Governance Committee

Each committee is chaired by an individual board member and staffed by a multidisciplinary team of senior and mid-level staff from MacroDreams Bank.

4. Codes

MacroDreams Bank is a member of International Network, Regional Network, and National Network. IN 2004, National Network established a code of business ethics which all member institutions had to sign and incorporate into their lending guidelines. All the Client Protection Principles are included in this Code of Business Ethics, because National Network has endorsed the Smart Campaign.

Institution's Board, after heated debate, decided to adopt a Code of Ethics which regulates staff behavior in terms of transparent communication with client, ethical, acceptable and unacceptable behavior in any interaction with client (both during sale and collection practices), as well as regulations on client's data privacy. The institution's staff has received the Code well, because they now know what standards their supervisors will be held accountable to. However they are uneasy about enforcement.

Part II. Principle by Principle Assessment

Principle 1. Preventing Over-indebtedness

A financial institution fulfills this principle by carefully establishing the borrower's ability to afford the loan and repay it. Borrowers should be able to handle debt service payments without sacrificing their basic quality of life.

Indicator ¹	Weight	Score
1. Management regularly monitors levels of borrower over-indebtedness and uses that information to improve products, policies and procedures.	.08	2.0
2. The financial institution offers multiple loan products or flexible ones that address different business and family needs	.08	2.0
3. The loan approval process requires evaluation of borrower repayment capacity & loan affordability. Loan approval does not rely solely on guarantees (whether peer guarantees, co-signers or collateral) as a substitute for good capacity analysis.	.3	4.0
4. Credit approval policies give explicit guidance regarding borrower debt thresholds and acceptable levels of debt from other sources.	.08	4.0
5. When available, the financial institution checks a Credit Registry or Credit Bureau for borrower current debt levels and repayment history. When not available, the financial institution maintains and checks internal records and consults with competitors for same.	.08	5.0
6. Productivity targets and incentive systems value portfolio quality at least as highly as other factors, such as disbursement or client growth. Growth is rewarded only if portfolio quality is high.	.3	4.0
7. Internal audits check household debt exposure, lending practices that violate procedures including unauthorized re-financing, multiple borrowers or co-signers per household and other practices that could increase indebtedness.	.08	3.0
Score		3.7

Summary

MacroDreams Bank demonstrates a solid commitment to this principle and its indicators. Its strong practices in implementing this principle, include: verification of client credit history/family and guarantors with credit bureaus; loan policies emphasizing strongly both capacity and willingness to pay, with clear debt thresholds; and emphasis on monthly PAR targets in loan officer incentives. Some of the adequate to weak practices include: insufficient quality control checks and verification by internal auditors; and fixed loan size, terms and conditions.

Areas of Strength

- MacroDreams Bank considers over-indebtedness a credit risk and makes concentrated efforts to avoid lending to highly indebted clients. Information on client over-indebtedness is obtained every six months from country's Credit Bureaus. Management's messages on the client and institutional risks involved in overindebtedness appear to have penetrated the front line staff. MacroDreams Bank has recently tightened loan appraisal procedures and debt thresholds.
- In response to the current market conditions, MacroDreams Bank has strengthened loan disbursement procedures to limit client debt exposure,

¹ Indicators highlighted in green are the Key Indicators. A financial institution that does not have an acceptable practice score in a Key Indicator does not meet the acceptable standards for the principle.

- MacroDreams Bank has re-doubled efforts to promote financial education, with an emphasis on the importance of building a good credit history.
- Credit approval policies require checking Credit Bureau 1 and Credit Bureau 2 for borrower repayment histories and current debt levels, and assessment of repayment capacity and loan affordability,
- Loan officers are accountable for quality of the loan. If loan officers do not meet a monthly PAR target, their bonus payments, which account for 30% of total salary, gets cut altogether. The credit committee (decision making body for loan approval), is also held accountable for the quality of loan. Branch offices must also meet criteria for PAR in order to qualify for end of year bonuses.
- The loan approval process does not rely solely on guarantees as a substitute for sound risk management, although guarantees are used.
- Loan officers are trained to conduct sound business analysis (cash flow, income projections) as part of the loan application procedure, followed by field visits to a client's place of business. When relevant, the client is required to officially confirm income (salary confirmation, business agreements with partners, etc). This information is also verified with the Guarantor.
- New loan officers are required to shadow their senior counterparts and managers during loan appraisals.
- MacroDreams Bank checks guarantors and spouse credit history with the two credit bureaus. Besides, loan officers contact client's neighbors, business partners, friends and family to further assess their character, business stability and trustworthiness.
- The internal audit team reports directly to the Board of Directors. Internal audit checks household debt exposures and verifies whether lending practices violate policy.
- In response to difficulties during the 2009 global financial crisis, MacroDreams Bank has refrained from re-negotiating delinquent loans. Though the institution feels that it may need to re-schedule loans given the recent increase in PAR.
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Areas of Risk or Potential Improvement

- MacroDreams Bank only has two credit products: Group Loan Product and Star Credit Portfolio. The loan size is fixed and there is relatively no flexibility in terms and conditions of loan products.
- The audit team is relatively small in comparison to the MacroDreams Bank's branch network and hence internal audit is conducted only once a year.

Principle 2a. Transparent Pricing

A financial institution fulfills this principle by ensuring that complete information is made available to the client in clear language that is not misleading and that the client is able to understand.

Indicator	Weight	Score
1. Prices, terms and conditions of all financial products are fully disclosed to the client prior to sale, including interest charges, insurance premiums, minimum balances , all fees, penalties, linked products, 3rd party fees, and whether those can change over time.	.3	4.0
2. Staff are trained to communicate effectively with all clients, ensuring that they understand the product, the terms of the contract, their rights and obligations. Communications techniques address literacy limitations (e.g., reading contracts out loud,	.3	3.0

materials in local languages).		
3. Multiple channels for disclosing clear and accurate information about the product are used, such as brochures, orientation sessions, meetings, posting information in the branch, websites, etc.	.08	2.0
4. The financial institution follows truth-in-lending laws and required APR or effective interest rate calculation formulae. In the absence of industry-wide requirements, information is provided that shows the total amount that the client pays for the product.	.08	5.0
5. Loan contracts show an amortization schedule that separates principal, interest, fees; define the amount, number and due dates of installment payments and include fees and conditions for early repayment, late payments and default. Debt collections practices are revealed to the borrower prior to the time of sale.	.08	3.0
6. Clients are given adequate time to review the terms and conditions of the product and have an opportunity to ask questions and receive information prior to signing contracts.	.08	3.0
7. Clients regularly receive clear and accurate information regarding their accounts (e.g., account statements, receipts, balance inquiries).	.08	2.0
Score		3.2

Summary

MacroDreams Bank demonstrates adequate practices in support of this principle, but a number of relatively simple specific improvements could be made to improve practice. Strong practice includes interest rate disclosure comparable to other institutions of similar size and client base in the country in EIR format. Adequate practices include oral communication on different aspects of pricing during promotion and evaluation stage, and welcome letter with brief overview of loan terms and client training initiatives. Weak practices: at point of disbursement loan contracts are not effectively communicated in local language; there is no control mechanism to check whether clients understand loan terms and conditions; and amortization schedules and marketing materials do not distinguish between principal and interest amounts.

Areas of Strength

- Product pricing is determined by management after considering interest rates of other MFIs however; management ensures that its EIRs (Effective Interest Rates) are displayed in all branches as designated by law.
- Management emphasizes training loan officers to effectively communicate product attributes to clients especially price. Basic training is provided at time of recruitment.
- Loan terms and conditions are disclosed to the clients through loan contract and a welcome letter- a summary of loan terms and conditions in clear and simple language.
- The current sales pitch briefly covers pricing, terms, conditions. The loan Officer explains interest rate, collection fees and repayment installments.
- Contractual obligations like pricing, terms, risk and consequences of not meeting contractual obligations are discussed briefly however engagement with clients on these aspects is subject to Corporate Social Responsibility.
- Clients with good credit history have access to fast track renewals and provisions for procuring higher loan amounts in second and third loan cycles.
- Accounting statements of clients are updated by MacroDreams Bank, however clients have some difficulties in providing information on their accounting balances.

Areas of Risk or Potential Improvement

- Although credit manuals emphasize communicating product pricing and terms and conditions to clients during marketing and disbursement, in practice loan officers and customer service representatives were not found to be communicating loan prices to clients at these times. Loan officers reported that they prefer to spend less time with clients in order to maximize their efficiency, leading them to skip quickly through the contract and urge clients to “sign fast”. In practice, customers are not encouraged to ask questions prior to signing contracts.
- Given their relatively low education levels, clients have difficulty understanding welcome letters. Welcome letters provided in local language would increase client comprehension.
- As the training department is currently evolving, training systems and processes need strengthening both at recruitment and with subsequent refresher and follow ups.

Principle 2b: Responsible Pricing

A financial institution fulfills this principle by offering quality services for the price, demonstrating its competitiveness in the marketplace, and favoring a long-term beneficial relationship with the client over short-term profit maximization. Consistent practice of transparent pricing is a pre-condition to adequate implementation of this principle.

Indicator	Weight	Score
1. Prices are not subsidized, are market oriented and competitive within the country context.	.15	4.0
2. The financial institution does not charge clients for its own inefficiency, as demonstrated by a comparison of efficiency and profitability ratios of similar competitors.	.4	3.0
3. The institution earns a reasonable rate of return to support operations and grow, while allowing the client to do the same.	.15	3.0
4. The financial institution invests a portion of its profits to increase value to clients, such as lowering interest rates or adding or improving products and services.	.15	2.0
5. Pre-payment penalties or account closure fees and other penalties are not excessive. For example, they would not prevent a client from changing to another product or provider, or unreasonably compound debt.	.15	3.0
Score		3.0

Summary

MacroDreams Bank demonstrates responsible pricing within the context of Country Name. The institution’s rate of return for the first couple of years was close to zero, however as the institution is reaping benefits of growth and higher profitability margins, there are some benefits for existing clients which translate into an improvement of customer service. Other institutions in Country Name are more profitable than MacroDreams Bank. There is a concern at MacroDreams Bank to offer more responsible lines of credit to their clients; however they want to do it without jeopardizing their credit model.

Areas of Strength

- Interest rates and prices are competitive at the national context. Management expresses commitment to reducing interest rates to match its cost structure in future.

- The institution charges a 1% fee (1% of the total installment) for every installment that is pre-paid.
- The institution's prices are not subsidized. It does not receive any form of government aid, grants or low interest loans.
- The institution's ROE is currently at 12%; the national average is 24%.

Principle 3: Appropriate Collections Practices

A financial institution fulfills this principle by treating clients with dignity even when they fail to meet their contractual commitments.

Indicator	Weight	Score
1. Acceptable and unacceptable debt collection practices are clearly spelled out in a code of ethics, book of staff rules or debt collection manual.	.4	5.0
2. Collections staff receive training in acceptable debt collections practices and loan recovery procedures. In-house and 3rd party collections staff are expected to follow the same practices.	.15	3.0
3. Staff is informed in advance of penalties for non-compliance with collections policies and violations are sanctioned.	.15	3.0
4. The institution uses a policy on acceptable pledges of collateral, including not accepting collateral that will deprive borrowers of their basic survival capacity.	.15	4.0
5. Re-scheduling policies prevent automatic debt extensions and re-scheduling procedures follow written protocol.	.15	2.0
Score		3.8

Summary

MacroDreams Bank demonstrates strong practices in support of this principle. Its clearly defined procedures and practices for debt collections are outstanding, such as its clear policy of not accepting life-depriving livelihood assets as collateral. Adequate practices relate to violation of sanctions for unethical behavior while weak practices include lack of restructuring policies.

Areas of Strength

- MacroDreams Bank has a clear recovery policy and a manual that describes step by step procedure for handling delinquent clients beginning with one day late payment. The recovery policy clearly defines acceptable and unacceptable behavior. For example, it prohibits abusive language and intimidating behavior, while it deems as acceptable the contacting of a client's friends, family and neighbors.
- MacroDreams Bank Collections practices and procedures are adequately monitored by the internal audit department to detect violations. Also, the complaints handling mechanism provides a ready avenue for client complaints on collections.
- MacroDreams Bank's policy prohibits using collateral that deprive borrowers of their basic survival capacity. In Country, property based collateral claims are rarely executed due to a cultural norms and cumbersome property sales procedures.

Areas of Risk or Potential Improvement

- Elementary training is provided on recoveries. however as the training department is still evolving the programs are not very comprehensive.

Principle 4: Ethical Staff Behavior

A financial institution fulfills this principle by creating a corporate culture that values high ethical standards among staff and implementing safeguards to prevent, detect and correct corruption or client mistreatment.

Indicator	Weight	Score
1. The organization's corporate culture values and rewards high standards of ethical behavior and client service.	.3	5.0
2. A written code of business ethics spells out organizational values and the standards of professional conduct expected of all staff.	.1	4.0
3. The code of ethics has been reviewed and approved by the Board and is included in staff rule books or administrative policies.	.1	4.0
4. Staff rules include specific provisions on what is considered acceptable and unacceptable behavior. Provisions describe reprimands and actions that can result in termination of employment.	.1	4.0
5. HR procedures pay attention to ethics, such as assessing new employees for compatibility with organizational values.	.1	1.0
6. Staff receives orientation and refresher courses on the practicalities of following codes of conduct.	.1	2.0
7. Managers and supervisors review ethical behavior, professional conduct and the quality of interaction with clients as part of staff performance evaluations.	.1	1.0
8. The organization has a robust internal audit and fraud control system that detects client mistreatment, such as soliciting kickbacks and favors or using coercion.	.1	1.0
Score		3.2

Summary

MacroDreams Bank demonstrates some strong practices in this area, while at the same time showing important gaps resulting in a combined score of adequate. It starts off strong with corporate culture and its code of ethics, but is weaker in regard to implementing these values and standards throughout all facets of the organization. Strong practice includes high ethical standards valued by senior management and anti corruption norms practiced by the institution. However, there is a lack of awareness by staff of the Code of Ethics and no training is offered on the Codes. Management intends to develop a strategy for to integrate the institution's three Codes prior to launching a communications initiative about a unified Code. Improvements could be made in integrating ethics into the processes for staff recruitment, orientation, and performance evaluation. In general there is a need to create a stronger institutional culture that links more tightly the identity of the staff with the institution's values and reputation.

Areas of Strength

- Senior management has strong values and prioritizes ethical staff behavior, espousing a zero tolerance policy for fraud.
- Stealing from the institution or false reporting of information are both reasons for termination of an employee's contract and the institution has terminated employees in the past as an exemplary measure.
- Ethical staff treatment begins with institution's treatment of staff. Staff is paid competitive salaries, offered health insurance, training opportunities and given priority for internal advancement.

- The institution has strong practices for handling suspected Code of Conduct violations. (The suspected infraction is presented before the disciplinary committee and confirmed the case is forwarded to the Honor Committee, which is responsible for the final judgment and penalties.)
- The organization’s fundamental values of team work and customer satisfaction promote a culture wherein abusive behavior is sanctioned and high ethical standards are promoted and rewarded.

Areas of Risk or Potential Improvement

- Due to competition from other MFIs, retention of loan officers remains a problem. High turnover hampers the development of the institution’s relationship with clients.
- Currently MacroDreams Bank does not have a training module on its Code of Conduct however, in the next few months it is planning on introducing a training manual which will focus solely on core values, mission and Code of Conduct.
- The audit process is more educational than punitive, in order to protect the monitoring officers from backlash. This however, results in a lack of formal follow up on the problems identified by the monitoring officers or consistent consequences for those demonstrating inappropriate or unethical behavior towards clients.

Principle 5: Mechanisms for Redress of Grievances

A financial institution fulfills this principle by having a mechanism for hearing from clients regarding problems, responding in a timely manner to resolve problems and using information on complaints to improve operations.

Indicators:

Indicator	Weight	Score
1. A written policy requires client complaints to be taken seriously, fully investigated and resolved in a timely manner without bias.	.12	1.0
2. A mechanism to handle client complaints is in place, has dedicated staff resources, and is actively used. (Suggestion boxes alone are generally not adequate.)	.4	1.0
3. Clients are informed of their right to complain and know how to submit a complaint to the appropriate person.	.12	1.0
4. Staff is trained to handle complaints and refer them to the appropriate person for investigation and resolution.	.12	1.0
5. Internal audit or other monitoring systems check that complaints are resolved satisfactorily.	.12	1.0
6. Complaints information is used to improve products, sales techniques and other interactions with clients.	.12	1.0
Score		1.0

Summary

MacroDreams Bank does not have a satisfactory mechanism for the receipt of client complaints. The basic practice includes suggestion boxes in the branches and a helpline number. However, few clients are aware of their right to complain, and staff are not clear about who responsible for client complaint

handling. Lack of policies, procedures and people to manage and resolve complaints deprives the institution from valuable learning experiences to improve product features and services.

Areas of Risk or Potential Improvement MacroDreams Bank

- MacroDreams Bank currently does not have a clear complaint handling policy. Although there are suggestion boxes at each branch office and a helpline number provided to clients on their disbursement kits, these are not actively used.
- Clients are not aware of their right to complain and do not understand the best way to register complaints. MacroDreams Bank has made limited efforts to build awareness about client feedback mechanisms.
- Theoretically, client complaints are handled by the Marketing Department, though the staff is not trained to document or handle client complaints. In practice, clients generally share their complaints verbally with loan officers who resolve or report them to the branch manager informally. Verbal complaints are not recorded by field staff. There is no protocol that requires or encourages employees to address verbal complaints in a standardized way.
- The internal audit department is not tasked with auditing client complaints.
- In the absence of an effective client feedback mechanism MacroDreams Bank is presently missing the opportunity of improving product and process features through feedback obtained through client complaints.

Principle 6: Privacy of Client Data

A financial institution fulfills this principle by respecting the privacy of client data, ensuring the integrity and security of their information, and seeking their permission to share information with outside parties prior to doing so.

Indicator	Weight	Score
1. A written privacy policy governs the gathering, processing, use and distribution of client information.	.15	4.0
2. Systems, including secure IT systems, are in place and staff trained to protect the confidentiality, security, accuracy and integrity of clients' personal and financial information.	.15	5.0
3. Clients know how their information will be used. Staff explains how data will be used and seeks permission for use.	.4	5.0
4. Written client consent is required for use of information in promotions, marketing material and other public information. clients are asked to express their written agreement for sharing personal information with any external audience, including credit bureaus.	.15	4.0
5. The organization offers information, orientation or educational sessions to clients on how to safeguard information, access codes or PIN numbers.	.15	3.0
Score		4.4

Summary:

MacroDreams Bank demonstrates good practice in this area. The bank adheres to the provisions of the Data Security Law of Country and has adequate systems and processes in place to ensure accuracy and protection of client information. The bank needs a formal policy which governs the gathering, processing, use and distribution of client information.

Areas of Strength MacroDreams BankMacroDreams Bank

- The bank adheres to the Data Secrecy Law of Country. Legal provisions are discussed during staff orientation trainings. A client confidentiality clause is included in the staff code of conduct and also the personnel manual, with corresponding sanctions for violations.
- Data feeding is a specialized function of the bookkeeper, and client information is accessible selectively to bank staff. Each branch staff is provided with his/her own username and password.
- Disclosure of any client related information to banks and credit bureaus requires prior approval of the Branch Manager and the Internal Audit Department.
- The Internal Audit Department monitors the integrity and security of the MIS system.
- As a policy the bank informs clients on how information about them will be used and procures their written agreement when featuring them in marketing materials.
- The internal audit department randomly checks the data in the Bank's MIS on a month on month basis and verifies borrowers daily.
- Payments of the borrowers are checked against their payment receipts. If there is overpayment, the amount is credited to the customer's account.
- In areas where clients use ATM and mobile phone banking, the bank staff educates the clients on ways to protect their passwords for both the ATM and mobile phone banking.

Areas of Risk or Potential Improvement

- A weakness in the current MIS strategy is that bookkeepers carry back-up data bases to their homes for security.

Annex 1 –Pilot initiatives the institution would like to promote, based on suggestions from staff:

1. Creating a new mechanism for redress of client grievances
2. Creating a department of customer service within the marketing department.
3. Creation of a suite of marketing materials that promote the institution and its products, have contact information for Customer Service and call center and at the same time display the terms, conditions and requirements for products as well as prices in APR form for clients to cross reference with other credit vendors.

Annex 2 – List of Interviewees

Headquarters Staff

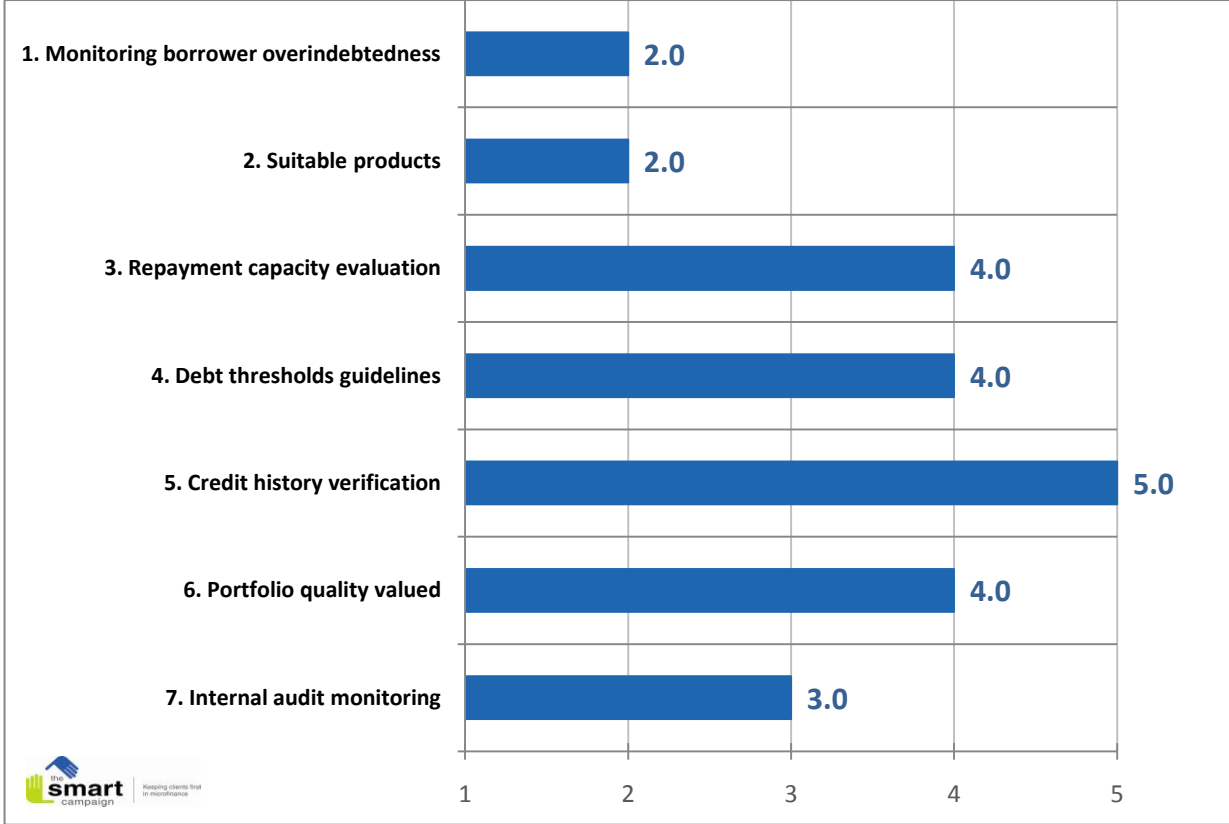
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	Legal Counsel	@MacroDreams.org
	Director of Security	@MacroDreams.org
	CFO	@MacroDreams.org
	Director of IT	@MacroDreams.org
	Director of Marketing	@MacroDreams.org
	Director of Operations/ COO	@MacroDreams.org
	Commercial Manager	@MacroDreams.org
	Director of Audit Department	@MacroDreams.org
	Director of Strategic Planning	@MacroDreams.org
	Director of Human Resources	@MacroDreams.org

Branch Office Staff

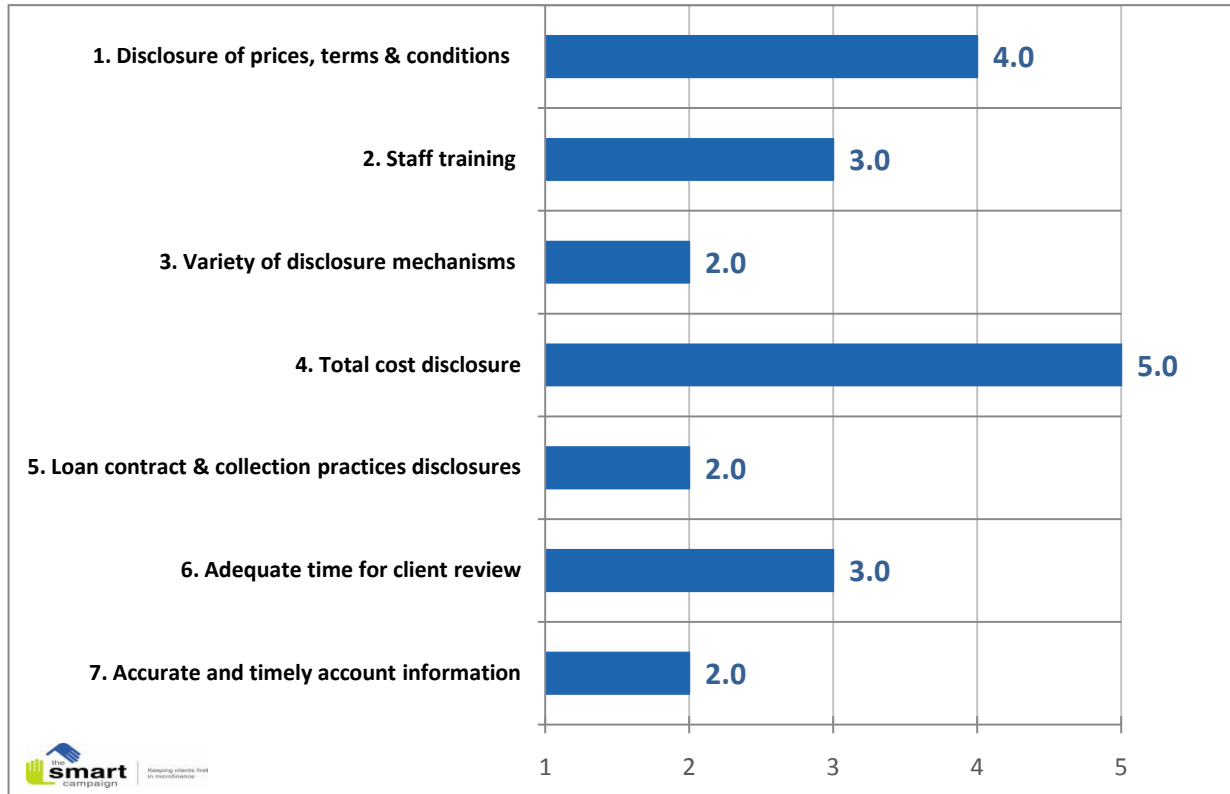
	Urban Branch Director	@MacroDreams.org
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	Rural Branch Director	@MacroDreams.org
	Rural Loan Officer	@MacroDreams.org

Annex 3 – The following graphs are a visual representation of the Score that MacroDreams Bank has received in each of the six principles.

Principle 1: Avoidance of Over-Indebtedness.



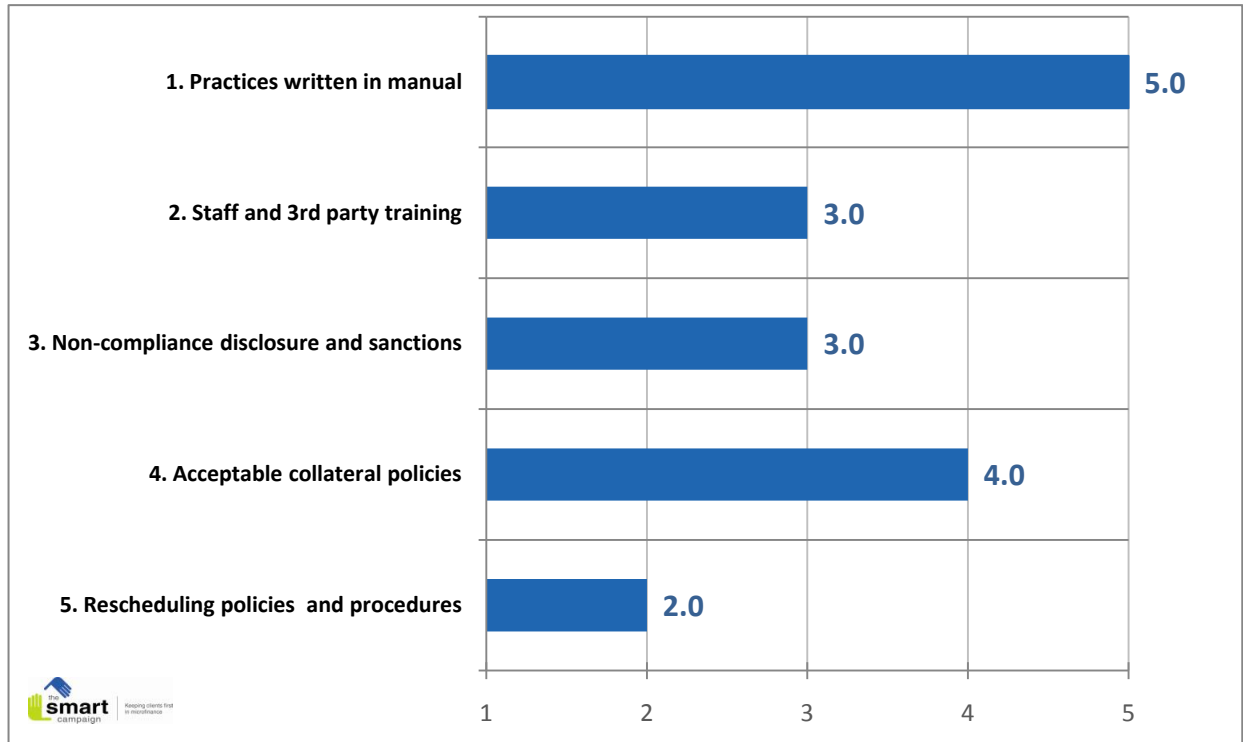
Principle 2a: Transparent Pricing.



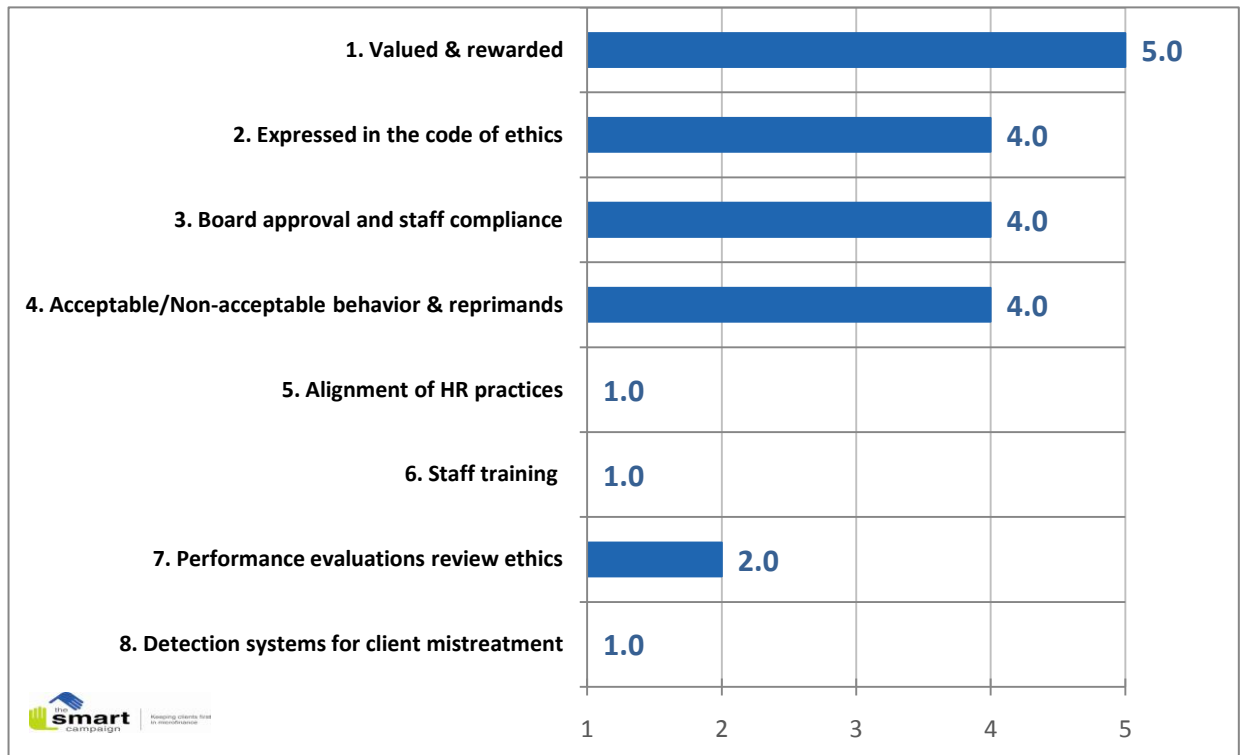
Principle 2b: Responsible Pricing.



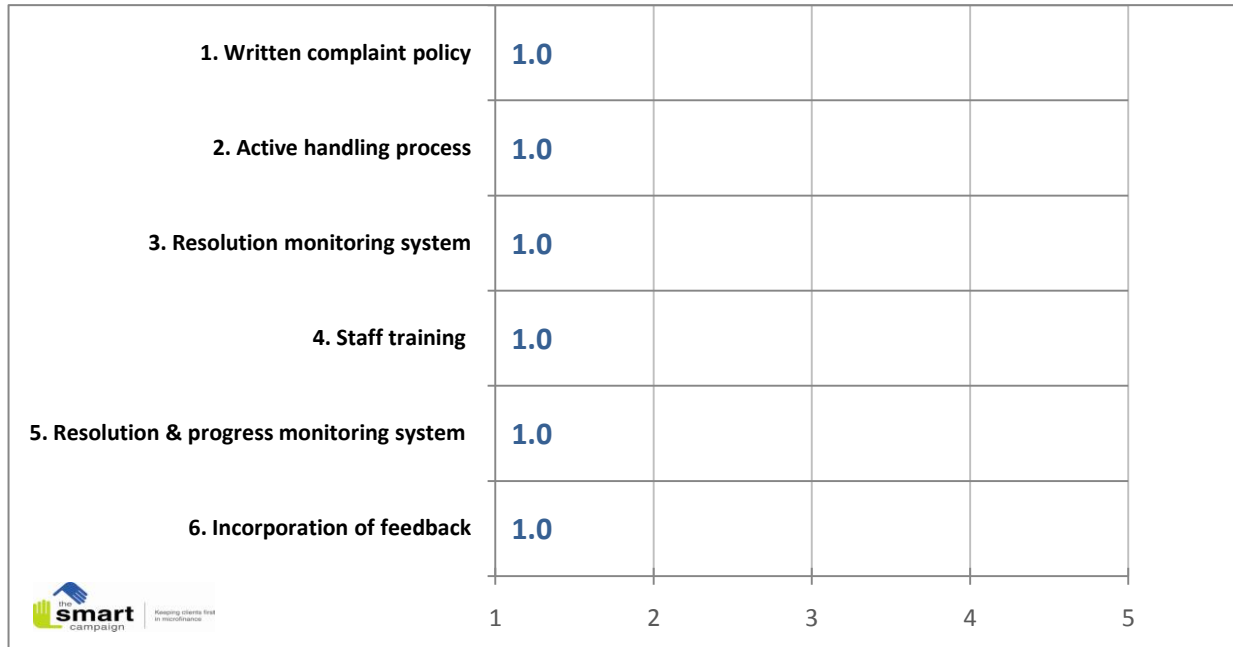
Principle 3: Appropriate Collections Practices.



Principle 4: Ethical Staff Behavior.



Principle 5: Mechanisms for Redress of Grievances.



Principle 6: Privacy of Client Data.

