



Keeping clients first  
in microfinance

## **Conducting Client Protection Assessments: A Guide**

**February 2010**

## Table of Contents

Acknowledgments.....	i
Forward.....	iii
An Introduction to Client Protection Assessments.....	iv
Purpose of the assessment.....	iv
Using the guide.....	iv
Guide organization.....	iv
Conducting the Assessment.....	v
Chapter 1: The Summary Statement.....	1
Chapter 2: Brief Institutional Background.....	1
Snap-shot in marketplace.....	1
Recent Performance.....	1
Codes of Conduct.....	2
Chapter 3: Key Contextual Factors.....	2
Chapter 4: Principles into Practice.....	5
The Basics about Indicators.....	5
Assessing Quality of Practices: Analysis is the Key.....	5
<i>What is the big picture?</i> .....	5
<i>How consistent is implementation?</i> .....	5
<i>How difficult will it be to change?</i> .....	6
<i>What is strong evidence?</i> .....	6
Report organization.....	6
Principle 1: Prevent over-indebtedness.....	8
Definition.....	8
Getting Started.....	8
Indicators.....	8
Assessing Performance: the Principle.....	12
Principle 2: Transparency.....	13
Definition.....	13
Getting started.....	13
Indicators.....	13
Assessing Performance: The Principle.....	15
Credit Unions: Fair and Forthright Conversion --a Critical Transparency Issue.....	16
Principle: Responsible pricing.....	16
Definition.....	16
Getting started.....	17
Indicators.....	17
Assessing Performance: The Principle.....	20
Principle 3: Appropriate Collections Practices.....	20
Definition.....	20
Getting started.....	20
Indicators.....	20
Assessing Performance: The Principle.....	22
Principle 4: Ethical Staff Behavior.....	22
Definition.....	22
Getting started.....	22
Indicators.....	23
Assessing Performance: The Principle.....	24
Principle 5: Complaints Handling and Resolution.....	25

Definition .....	25
Getting started .....	25
Indicators .....	25
Assessing Performance: The Principle.....	26
Principle 6: Privacy of client data.....	27
Definition .....	27
Getting started .....	27
Indicators.....	27
Assessing Performance: The Principle.....	28

**Tables and Annexes**

- Table 1: Key Institutional Data
- Table 2: Key Contextual Factors
- Table 3: The Five Assessment Categories
- Annex 1: Assessment Checklist

**Client Protection Assessment Guide Companion Resource Tool Kit**

- R1: Organize the Team
- R2: Illustrative Documents List, Publications and Web Resources
- R3: Sample: Confidentiality Agreement
- R4: Interview Guide: By Principle, by Person
- R5: Pilot Initiatives
- R6: Highlights of Good and Weak Practices
- R7: A Note on Client Interviews

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Heather A. Clark  
Senior Fellow Center for Financial Inclusion  
Lead Consultant – Beyond Codes Action Research Project

## Forward

The issue of client protection in microfinance is not a new one. A great number of committed financial institutions recognize how financial services can help people improve their lives, but if offered carelessly or used improperly, financial services—especially credit—can also cause harm. Competition, the desire to achieve profitability, and internal-sales incentives may all play a role in pushing financial institutions into practices that are not consistent with pro-client ideals.

With the increasing focus on interest rates and transparency and the impact of the global financial crisis, practitioners, funders, associations and networks, and governments recognize a strong need for the industry to ensure that providers take steps to protect low-income clients from potentially harmful financial products and to ensure that all clients are treated fairly.

Financial institutions and their associations and networks have developed codes of client protection over the past three to five years. Funders and regulatory authorities are increasingly seeking assurance that microfinance retains its brand as a double bottom line industry. Together they have agreed on the need for an industry-wide code of conduct. There is wide agreement on six principles of client protection in microfinance, and ensuring that these principles are supported by good practices is next level of effort.

Recognizing the work already initiated by MFIs, national associations and networks, and funders, The Center for Financial Inclusion was charged with undertaking an action research project—Beyond Codes—to develop meaningful tools to assess and build on good practices of client protection in microfinance.

Since the beginning of Beyond Codes in mid-2009, financial institutions of different legal charter, size, age and product lines have contributed to the development of this guide. Industry experts formed a steering Committee and guided the project research. Two International Dialogue Groups were held to refine the research protocol and develop meaningful indicators of good practice in microfinance client protection. They reviewed the research findings with a generous dose of experience, tested indicators for rigor and objectivity, and identified practices that are sufficiently universal to cross geographic and institutional boundaries. Their experience about the steps financial institutions need to take to ensure client protection principles are implemented in practice is the core of this guide.

This guide is a work in progress. Suggestions for improvements are welcome. Please send comments or suggestions by email to [comments@smartcampaign.org](mailto:comments@smartcampaign.org) or contact us at The Smart Campaign:

Mailing address:

The Smart Campaign

c/o Center for Financial Inclusion at ACCION International

1401 New York Ave NW, Suite 500, Washington, DC 20002, USA;

Fax: 202.393.5115

Elisabeth Rhyne

Managing Director

Center for Financial Inclusion at ACCION International

## **An Introduction to Client Protection Assessments**

Client protection assessments provide a structured independent view of a financial institution's (FI) client protection practices. The assessment reviews FI practices that support six client or client protection (CP) principles where there is wide agreement within the microfinance industry. The six principles are:

- Avoid over-indebtedness
- Transparency and Responsible Pricing
- Appropriate Collections Practices
- Staff Ethical Behavior
- Complaints Handling and Resolution
- Privacy of Client Data

### **Purpose of the assessment**

Financial institutions (FIs) use the assessment process and the report to answer the following questions:

- How do we implement CP principles?
- How well do we implement CP principles in practice?
- What are our strengths and weaknesses?
- What can we do to improve good practices and address weak ones?

Financial institutions find the process and the report useful. The process builds awareness about practices within the institution and stimulates discussion about the opportunities and challenges, benefits and costs of change. The report provides a snap-shot of FI practices and is helpful for benchmarking progress and planning change. As a result of the assessment, financial institutions developed pilot initiatives to revise systems, and implement programs for the benefit of clients, the financial institution and the industry.

### **Using the guide**

This guide is intended for use by qualified consultants who assess the financial institution's client protection practices. The guide can also be used to accompany other appraisals or assessments, but it is not primarily designed for this purpose. The assessment checklist, found in Annex 1, can be used for this purpose. An inter-active tool can be downloaded at: [www.smartcampaign.org](http://www.smartcampaign.org).

### **Guide organization**

The guide is organized following the structure of an assessment report. The assessment report is a concise document, about 12 pages of text, excluding tables. The report includes six main sections.

1. The summary statement – captures the analyst's judgments about FI performance on each of the six principles. This section is no more than a paragraph.
2. Brief Institutional Background – provides basic information on the FI: age, legal charter, regulatory status, mission, vision, customers and main product lines. Key Institutional Factors provides a brief snap-shot of the FI in the marketplace, recent performance and codes of conduct. Generally, 2 pages.
3. Key Contextual Factors – grounds the institution in its context, analyzing external factors that influence CP practices, laws, regulations, organizational and financial infrastructure, and significant trends. Generally, 1 page.
4. Principles into Practice – is the main body of the report which provides evidence for the assessment of each principle. Generally, about 9-10 pages.
5. Annex 1: Assessment checklist – shows the assessment for each indicator at-a-glance.
6. Annex 2: Pilot Initiatives – recommends pilot projects to improve practices.

The report also includes a brief introduction describing when and where the assessment and debriefing took place, and an annex that shows who the assessment team interviewed.

This guide provides detailed guidance for each section of the assessment:

- Analyzing the context for a supportive client protection environment
- Assessing a principle and the corresponding indicators, or practices
- Key questions that guide an interview to get the relevant information
- Tips that assessors have found helpful
- Examples, illustrations and special topics found in text boxes.

A resource toolkit accompanies this guide. The kit includes templates and examples that will help organize the assessment efficiently. Templates available are noted with a: “**R**”

## Conducting the Assessment

**Time:** The time required to conduct an assessment depends on:

- the complexity of the institution
- the diversity of product offerings
- readily available written information, and
- availability of key staff

The assessment takes about 3-4 days on-site with a team of two consultants.

**Steps:** There are nine steps to a comprehensive assessment:

**Step 1: Focus the assessment** on the financial institution’s client protection practices and systems that support them.

*Tip:* Abundant information is available about many FIs and operating environments. The assessment should be focused and the report should be brief. Avoid straying into other interesting areas of the FI operation or the context.

**Step 2: Identify, select and organize the team.** The assessment team can consist of one analyst or two. Team members are experienced microfinance analysts, well-versed in organizational culture, policies, procedures, products, services and systems.

*Tip:* The assessment calls for judgments about how FI practices measure up to a principle. The analyst will assess practices using five categories from “good” to “weak”. Inexperienced analysts tend to assess more positively than is warranted.

Further information about team selection can be found in the Guide Resource Tool Kit: **R1**

### Step 3: Plan the assessment with the FI

Ask the FI to appoint a point person for the assessment.

- By email, phone or in person, discuss the purpose of the assessment and what it will entail.
- Discuss the confidential nature of the assessment
- Send the FI a draft agenda (as in Step 5 below) and request documents for review.
- Ensure dates fit the schedules of the management team and key interviews.
- Discuss confidentiality of the report and supporting documents

*Tip:* Management support is critical to smooth operations, staff openness and quality information.

Further information: A list of illustrative documents and resources, and a sample confidentiality agreement can be found in the Guide Toolkit, **R2** and **R3**, respectively.

**Step 4: Gather information and read documents before the site visit.** Documents should include as much written information that is readily available for the FI. This will enable the site visit to focus on interviews and clarifying questions.

- Review the FI policies, codes of conduct, planning documents and manuals (See **R2**)

- Visit and interview networks and associations where the FI is a member; review the network and association codes of conduct to which the FI subscribes.
- Review the MIX market website and any publicly available ratings
- Browse the FIs website
- Know the laws and regulations in advance. Review client protection regulations and current discussions in the national context. Information can be found on Central Bank and network websites. (See **R2**)

### **Step 5: Conduct the visit.**

**Day 1:** Hold the initial meeting with the senior management team and key staff who will be interviewed. This is an important first step to ensure coherence and to gain support from management and staff.

- The purpose of the meeting is to introduce the team, explain the principles, and discuss the topics and activities the assessment will cover.
- Use the meeting to discuss any questions or concerns the FI may have about the assessment topics, confidentiality or logistics.
- Note that the final debriefing will cover analysis as well as their ideas about pilot initiatives.

A follow up meeting should be held with staff to get an overview of the financial institution, the history and performance. The follow-up meeting helps streamline the interviews which can focus on specific information about practices.

**Day 1-3:** During the visit:

- Meet with at least one member of the board, the chief executive officer (CEO), management team, the credit department, marketing and HR departments, IT staff, internal audit, and front line staff (loan officers, sales representatives --staff who deal with the public on a regular basis). **R4** shows an interview format by principle and person. This is a suggested format, and may vary by FI.
- Visit at least one branch. Interview staff and several clients who have different products.
- Meet with the national network or association.
- Meet with the relevant banking authority and/or client protection agency.

### **Team Management**

- Hold team meetings every day to review progress, determine next steps, identify gaps and ensure team cohesion, while preventing duplication of efforts.
- Communicate daily with the FI point person to discuss progress and request additional information or interviews.
- Hold a meeting with the point person the day before the debriefing when the team's analysis is nearly complete. The purpose is to preview findings, allow for further discussion, and identify additional staff that should attend the debriefing meeting. This meeting can result in an open and more relaxed atmosphere for discussion. **Tip:** The analysis and points raised in the debriefing meeting should not come as a complete surprise to FI management.
- Prepare a PowerPoint presentation for debriefing. All findings should be included, highlighting strengths and areas for improvement. Questions/discussion points should be noted.

**Tip:** Reserve at least ½ day prior to the debriefing for team discussions and presentation preparation.

**Tip:** The presentation should follow the report format; it saves time in report drafting.

### **Step 6: The debriefing with the FI management team**

On the last day, meet with FI management and staff for a discussion of findings and analysis. The debriefing meeting has two purposes:

1. Stimulate active discussion of the findings, encourage questions and allow different perspectives or disagreements to surface;

2. Discuss pilot initiatives, and if possible, come to an agreement on which one (s) the FI will undertake.

*Tip:* The team may suggest pilot initiatives, but should first lead a discussion on strengths and weaknesses. Actively facilitate ideas about new initiatives and keep a running list of ideas that are discussed during the meeting. This is a discussion as well as a presentation. There should be significant overlap between the team's list and FI staff ideas.

*Tip:* The FI may not be able to make a decision on pilot initiatives immediately.

**Step 7: Prepare the draft report for submission to the FI**

- Share the draft report with FI management to confirm the accuracy of information and to follow-up on any details that may be missing.
- Request written feedback on the draft report.
- The final report should contain a statement from the FI about any matter of disagreement

**Step 8: Distributing the Final Report: Confidentially and Disclosure**

- The report is confidential. It is not disclosed or distributed unless and until the FI agrees to disclose it.
- If the FI requests, a confidentiality agreement should be signed by the team. **(R3)**

**Step 9: Identify and Monitor the Pilots:** Follow-up within a week (or on a pre-determined time schedule) about the FI decision to implement pilots. Agree with the FI on a monitoring plan.

## Chapter 1: The Summary Statement

The summary statement captures the analyst's judgments about the financial institution's performance on each of the six client protection principles. The statement assesses performance on each of the principles using five categories from "good" to "weak".

The summary is the first section of the report after the introduction. This section is no more than a paragraph.

See Table 3 in Chapter 4 for an overview of the assessment categories. Assessing performance for each principle is discussed in more detail in Chapter 4.

**Tip:** It is not uncommon for organizations to demonstrate good practices in several areas and weak ones in others.

## Chapter 2: Brief Institutional Background

Introduce the institution with basic information:

- when it was founded and by whom
- legal charter and any significant changes during the organization's history
- regulatory status, license restrictions if any, and the banking authority that regulates and supervises
- vision and mission
- main product products
- main customer base

Include a *brief* snap-shot of the institution in its marketplace, recent performance and codes of conduct.

### Snap-shot in marketplace

- What is the reputation of the FI in the market? Is it an established institution with a loyal customer base? Is it losing or gaining market share? Why?
- Is it a start-up? Growing rapidly, slowly growing? Stable growth?
- What drives the institutional culture?

### Recent Performance

Provide selected financial health and growth indicators for the last 3 years, using Table 1. Use previously published sources of information. Prior year information should be available, and it may be complemented by data collected in the field if it is readily available.

<b>Table 1: Key Data</b>	Most recent year	Last Year	Year Before Last
Active Borrowers			
Savers (voluntary)			
Gross Portfolio Outstanding			
Voluntary Deposits			
PAR > 30 days			
Write-off ratio			
Portfolio Yield			
Total Operating Costs/Average Assets			
ROA			
ROE			

- How does the FI compare to its peers on key factors that are relevant in the environment or performance? **Tip:** These are brief analytical statements, not a comprehensive analysis. For example, if delinquency and over-indebtedness are concerns, note whether the FI has a lower PAR or default rate than others; if high interest rates are concerns, note the pricing ranges of similar competitors and how the FI performs within this range.
- What are the significant issues for the FI? Significant issues may include growing delinquency, increasing costs, decreasing customer base or any recent bad press, or other issues. What is management's plan (in summary) to address these adverse trends?
- What are the positive factors or trends? (E.g. expansion, new products, innovations, growing customer satisfaction, national or international awards, or others.)
- Is the organization known as a leader in the industry in a specific client protection area?  
**Tip:** Review the principles to determine if the institution is recognized for a particular effort, or noteworthy accomplishments when compared to others in the context. Consider notoriety as well.

### Codes of Conduct

- National, regional and international network and association membership: Which network codes has the institution agreed to? Do networks have codes of conduct and do they include the six principles? Are any principles missing?
- Does the FI code of conduct include the six principles? Which ones are missing, if any?
- Are the codes of conduct to which the FI subscribes voluntary or enforceable?
- Judge institutional commitment to the code/s and provide evidence. **Tip:** Answer the question –what makes the code more than a piece of paper? Questions that help are: Why did the FI develop the code? How were the FI leadership and Board involved? How do the Board, management and staff use the code in the normal course of business?

### Chapter 3: Key Contextual Factors

This part of the report puts the institution in its context. An analysis of the context often indicates whether an adequate practice in one context, may present serious vulnerability in another.

Key factors in the national context are:

1. **Laws, regulations, market conduct rules and business norms** govern or influence a financial institution's interactions with customers. Laws, regulation and market conduct rules play a part in understanding CP practices within the organization. The absence of enforced market conduct rules for all FIs, particularly with respect to publishing APR or similar formula, may make it more difficult for one FI alone to implement this practice. This will give the analyst an indication of the level of difficulty or length of time that the FI practice may change. **Tip:** A business norm is the way business is conducted without any rule or law associated with it. Business norms often indicate practices that are considered acceptable or unacceptable in the context.
2. **Financial and organizational infrastructure** supports client protection practices. Financial and organizational infrastructure that support client protection practices, such as credit bureaus or registries, contract enforcement and court procedures for recovering bad debt and government client protection agencies or private client advocacy organizations that provide financial education or offer ombudsman services are the topics of this section.

**Significant trends** may have an effect on the way financial institutions relate to customers and are important for the analysis. Competition, new products or technology, and any recent reports of fraudulent schemes or media and political attention to client protection issues should be noted.

The contextual analysis should answer key questions about how the environment influences FI practices. Noting the absence of such rules or support institutions is an important part of the analysis.

- What are the rules that FIs are expected to follow?
- How thoroughly are the rules monitored and enforced by the authorities? Are there exceptions to the rules or the practice?
- Are agencies, courts, credit registries and credit bureaus effective? Do they reach microfinance clients or the microfinance institutions? Do FIs share information on clients informally? Is this practice reliable?
- What are the significant trends in the market place? Is competition increasing; is the market contracting stable or expanding; are there new institutions entering the market or current operations exiting the market; are new products gaining popularity that may not be well understood by customers.
- What are the significant trends regarding client protection in the media and political arena?

Assess which factors positively or negatively influence client protection in the context. Use a simple coding system such as:

- ★ very supportive of client protection practices
- + positively influence client protection practices
- 0 no effect or influence
- negatively influence client protection practices

Use Table 2 to highlight the most important findings regarding the context and how these factors influence the FI client protection practices.

Common key contextual factors are listed in Table 2. However, be open to other factors that are important in the context.

**Tip:** There are many resources available on the internet for this information. National networks and associations can also provide this information prior to the on-site assessment. (See **R2**.)

<b>Table 2: Assessing Key Factors in the Context</b>	<b>Yes</b>	<b>No</b>	<b>*</b>	<b>+</b>	<b>o</b>	<b>-</b>	<b>Comment: How does this affect client protection practices?</b>	<b>Check (✓) A top issue?</b>
<b>Rules on pricing transparency exist</b>								
They are monitored & enforced								
There is an established pricing formula that <i>must</i> be followed by all FI								
The formula must be published in marketing materials								
The formula must be included in client contracts								
Do these guidelines enable clients to easily understand the full price they pay for or earn from the product?								
FIs are required to publish annual audited financial statements								
<b>Institutions supporting client protection are present &amp; active</b>								
A client protection agency dedicated to financial services, including microfinance, exists								
They are active and accessible to MF clients								
They enforce pricing transparency rules								
They handle complaints and resolution								
They promote financial education								
Other:								
Participation in a credit registry or credit bureau is mandatory								
Data is extensive, useful and current								
There is national legal framework regarding acceptable collateral								
Laws regarding collateral are enforceable								
Court proceedings for bad debt recovery are efficient and reasonable								
<b>Trends: Increasing ↑ Decreasing ↓ Staying the same ↔</b>	<b>↑</b>	<b>↓</b>	<b>↔</b>					
Level of awareness about client protection								
Level of competition within the industry								
Trends in delinquency and default in the industry								
Reports of fraud, aggressive collections practices, debt protests, etc								
Negative press, political campaigns, etc.								
Other:								

## Chapter 4: Principles into Practice

*The main purpose of the assessment is to judge how well the organization's practices support the principle.* The analyst uses evidence provided by the FI to answer four questions:

- Do the institution's staff and management view the principle as important?
- What practices does the FI use to support the principle?
- How well are the CP principles implemented? Are the practices strong, adequate or weak?
- What can the FI reasonably consider to improve strengths and address weaknesses?

Table 3 provides general guidance for assessing each principle. This chapter also provides detailed guidance about how to judge the FI practices, or implementation of each principle.

### The Basics about Indicators

- The indicators are descriptions of good practices or actions that support implementation of the principle.
- There are five to eight indicators for assessing each principle.
- There are one to two *key indicators* for each principle. The key indicator serves as the threshold for the assessment "adequate". (See, Table 3.)
- If the FI does not meet all parts of the key indicator, the analyst should assess the implementation of the principle below "adequate". The assessment of the overall principle must be "not yet adequate" or "weak" depending on the quality of other practices.

*Tip:* Avoid thinking of the indicators as an equally weighted scoring system. Good performance on several other indicators does not make up for weak performance on the key indicator!

### Assessing Quality of Practices: Analysis is the Key

#### *What is the big picture?*

A solid assessment of a principle will rely on looking at all of the indicators together.

#### **The Big Picture**

The big picture means looking for interactions between indicators – not simply adding up the indicators. For example, inadequate loan evaluations, rigid products, high volume targets, incentives that reward growth over quality, and high competition in a saturated market can drive borrower over-indebtedness systemically.

#### *How consistent is implementation?*

How well the FI implements a principle depends on the consistency of a practice.

Is the practice consistently practiced within the organization? Answers to these questions help determine consistency:

- Is there a system or procedure with someone in charge of quality control?
- How does the FI hold staff accountable for following the system?
- Is the system monitored by a specific person, or department, such as internal control or internal audit departments or the credit department manager, or an ethics committee?
- What happens when the system or procedure is ignored?
- How regularly is the system reviewed and revised?

***How difficult will it be to change?***

A high degree of difficulty will require the organization to change current systems or established practices. The internal incentives are not supportive. A low degree of difficulty will require an institution to add on to a current system.

**High degree of difficulty:** For example, the FI relies solely on the amount of a co-signer guarantee to underwrite a loan. For change, the loan appraisal system will have to be re-designed, require staff training or a new MIS. These changes can be significant and costly for the institution. This is an example of internal incentives that are not supportive of change.

**Low degree of difficulty:** For example, the organization regularly meets with the customer before signing contracts, using a checklist for important information. It is not difficult to add a question that asks if the customer knows how to provide feedback or to complain if things go wrong, and provide the customer with this information. This is an example of a minor improvement that can be accomplished in the short term.

***What is strong evidence?***

The strongest evidence is backed by routine systems that are regularly followed or policies that are enforced. Strong evidence is complemented by what people say.

**Strong Evidence:** For example, the key indicator for the principle --prevent over-indebtedness-- is checking whether a borrower can afford and repay the loan without undue stress. The evidence is in the credit policy and manual, the loan application and analysis, the routine use of a credit bureau, an interview with a loan officer about the loan appraisal process, the PAR and default rates, and the internal audit reports.

**Weak evidence** is what people say in the absence of any written policy, standard system or observable procedure. It is not weak because it is verbal; it is weak because it depends on perceptions. For example, interviews may take place with 20 staff members out of 3,000 or 5 clients out of 50,000. Visits may include 2 branches out of 50.

- Verbal evidence does provide valuable insight into the way an organization operates. **Tip:** Don't ignore it; just recognize it for what it is.
- Strong verbal evidence includes "legends" and "legendary behavior." These organizational stories are part of the institution's culture and values. **Tip:** Pay attention to "legends".

**Report organization**

"Principles into Practice" forms the main body of the report. Each principle will take about 1-2 pages in the report, depending on the FI practices and the complexity of the principle.

The report discusses each principle separately. The format includes:

1. A short definition of the principle and the indicators (practices) used to analyze the principle. (Refer to Annex 2)
2. Summary statement of the FI implementation of the principle in 2-3 sentences.
  - How well does the FI implement the principle? Good practice, adequately, or with weaknesses that could use some attention? Use the five assessment categories in Table 3 (below).
  - Provide a brief statement of evidence used to make the judgment.
3. Provide an analysis of each of the practices that support the principle.

<b>Table 3: The Five Assessment Categories</b>					
	<b>Good Practice</b>	<b>Mostly Good: better than adequate</b>	<b>Adequate Practice</b>	<b>Not Yet Adequate: weak areas</b>	<b>Weak Practice</b>
<b>General Guidelines</b>	<b>The organization meets the principle well</b>	<b>For the most part, the FI meets the principle well</b>	<b>The FI meets the minimum practice for the principle</b>	<b>The FI does not fully meet the minimum practice</b>	<b>Practices are absent or there are weaknesses and vulnerabilities</b>
	Practices demonstrate that a strong effort is being made and the right incentives are in place.	Practices generally demonstrate that a consistent effort is being made and the right incentives are in place. There may be room for improvement.	The principle is addressed, and practices generally meet the letter of the law.	The principle is not fully addressed; practices are mixed.	Some practices may counter implementation of the principle. Achievement is not a goal or implementation is in the planning stage.
<b>Key Indicator (s) for each principle</b>	Fully met. The FI has strong practices supporting the <i>key indicator</i> ; the practices are organization-wide.	Fully met. The <i>key indicator</i> is met well; practices are organization-wide.	Fully met. The <i>key indicator</i> for the principle is met well; practices are organization-wide.	The <i>key indicator</i> for the principle is only partially addressed or is not consistently practiced.	The <i>key indicator</i> for the principle is not addressed, there are major weaknesses or the practice is flawed.
<b>Other Indicators for each principle</b>	Fully met. The FI meets each of the indicators well and can demonstrate that the practice is adhered to organization-wide.	Mostly met. Some room for improvement. Changes are minor and could be made in a short time. Practices are consistently applied, internal incentives and systems support the principle	Mostly met. Some practices may be improved. Changes may require effort but are likely in the mid-term. Practices are consistently applied, internal incentives support the principle.	Mixed performance. Practices may be materially weak; or implementation is inconsistent. Internal incentives and systems do not support change.	There may be a low level of awareness about the principle. Organizational culture does not value a practice, or incentives may serve as barriers to improve practices. Commitment on paper not backed by action.
<b>Strengths and Weaknesses</b>	Very strong practices and continually improving. Effort is dedicated to monitoring practices, learning and revising. No apparentness weaknesses.	There are few weaknesses. Current systems support change in the short-term.	Practices do not have any major weaknesses. There are more strengths than weaknesses. Practices may not be strong enough to counter future deterioration in market conditions or within the institution.	There are greater or more weaknesses than strengths. Current systems require improvement, which may require focused effort for change.	Practices are weak. Vulnerabilities exist in several areas. Considerable effort may be required to make improvements. Achievement may not be a priority.

***Principle 1: Prevent over-indebtedness*****Definition**

A financial institution measures up to 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.

**Getting Started**

This is a complex principle that requires information from different sources.

The evidence is found in written information: credit policies and manuals, product descriptions, loan applications, financial indicators—PAR and write-off ratios, productivity targets and incentive systems, and internal audit reports. Information is verified and complemented by interviews with loan officers, credit managers and internal audit to see how consistently and regularly procedures are followed.

<b>People</b>	<b>Paper</b>	<b>Process</b>
CEO or GM	Credit Policy or Manual	Document review
Board Members	Loan Analysis Procedures	Observation
Credit Department	Product Descriptions	Interviews
Loan Officers/Branch Mgmt	Loan Applications	
Credit Committee	PAR and Write-off ratios	
HR Dept	Training curriculum	
Internal Audit	Productivity Targets	
MIS or IT Department	Incentive System & Formula	

**Indicators**

The indicators focus on five aspects of how the organization avoids over-indebtedness and actively seeks to prevent it:

- the level of awareness and monitoring of over-indebtedness
- products
- loan approval policies and procedures
- staff incentives
- compliance

There are two **key indicators** highlighted below. The two indicators must be fully met for an assessment of “adequate” or above for this principle.

Management regularly monitors levels of borrower over-indebtedness and uses that information to improve products, policies and procedures. Key questions:

- Where does management obtain data on borrower over-indebtedness? How and how often does the monitoring take place?
- Does the FI have a definition of over-indebtedness? Does the FI know how many of its borrowers are over-indebted?
- Are credit products and sales practices reviewed for their potential to cause over-indebtedness or repayment stress? What information is regularly reviewed, and how often?
- Can the FI regularly provide information on portfolio quality (PAR and write-off) by credit product? What are the trends?
- What other information is collected on credit product performance? For example, increasing calls of guarantees, client exits due to repayment difficulties, decreasing savings due to borrower's concern that they may be seized for loan repayment.

- How often has management communicated to staff that over-lending or over-indebtedness might be a problem? How often has staff communicated to management about the same?
- Are discussions held about over-selling or mis-selling products? (e.g. loans too large, selling products that may be more expensive than others on offer, lending to people who can not afford to repay)
- What discussions about over-indebtedness have been held at the Board level?
- Has the organization ever modified a product, policy or procedure based on its potential to lead clients into over-indebtedness? (e.g. adjusted lending procedures, designed new products, reviewed incentive programs, changed operations or began training programs)

The financial institution offers multiple loan products or flexible ones that address different business and family needs.

- Do loan products suit the cash flow of the business or household and the circumstances of the borrower? (e.g. loan term, size, price, the nature and amount of the guarantee, installment payment intervals and amounts, and pre-payment policies/penalties)
- Review all product descriptions for terms, pricing, conditions and penalties.
- How did the FI design the loan products?
- Does the FI test loan products with the market before offering them on a wide scale?
- Does the product allow roll-over of principal?

**Tip:** Ask loan officers if borrowers complain about not being able to meet payments and whether the trends are increasing. Some organizations may have a complaints department or client surveys. These departments should have important information on this topic.

**Tip:** Ask a loan officer to recall her first defaulting client. What did she do? Who did she think was responsible? What happened? Here you may find legends for this principle.

### Guidance on interpreting findings

**Multiple or flexible products:** FIs that offer multiple products (or flexible ones) generally give more thought to serving borrowers well with debt. The “one-size-fits-all” approach to lending is based on the capacity of the institution to deliver not the suitability of the product for the borrower.

- Borrowers get into trouble servicing debt when the loan size is too big or too small, installment periods or amounts don’t fit income streams, or a debt cannot be paid off when cash is available.
- Principal roll-overs and excessive penalties that increase the price – can make debt service difficult. Guarantees can also be excessive – property worth much more than the loan offered as collateral, for example.

**Use care with “one-size-fits all” and multi-product lending institutions: it’s rarely a simple answer.**

A “one-size-fits-all” product can suit the financing requirements of the majority of the customer base, and it can be assessed positively. For example, if the majority of borrowers are financing quick moving inventory, a small, short term loan with immediate installment payments may be suitable. An FI can also get into trouble promoting indebtedness if multiple loan products are directed at the same borrower. To determine whether the menu of products presents a “red flag” or serves borrowers well with debt: Look at how an institution evaluates repayment capacity and establishes debt thresholds.

The loan approval process requires evaluation of borrower repayment capacity and loan affordability. Loan approval does not rely solely on guarantees (whether peer guarantees, co-signers or collateral) as a substitute for good capacity analysis.

- How does the FI assess repayment capacity? What guidance is in the credit manual?
- Are assessments of repayment capacity based on current household income/business performance? Do they include a cushion to allow clients to absorb future shocks?
- How are loan officers trained to assess repayment capacity?

- If the FI has group lending products, how are groups trained to assess repayment capacity?
- Are assessments of borrower repayment capacity during the loan application process generally thought to be conservative or optimistic by decision makers?
- Is a guarantee required? (e.g. peer guarantees, co-signers, collateral, post dated checks, automatic salary deductions) What weighs most in the decision to approve the loan –capacity assessment or the guarantee?
- Are loans approved without any assessment of repayment capacity?

### Assessing Performance

Determining if this key indicator is met well is straight forward. The analyst looks at how the FI uses guarantees and assesses repayment capacity. When guarantees substitute for good repayment capacity analysis, the FI cannot meet an assessment of adequate.

<b>Meeting Adequate</b>		
<i>Review the credit manual:</i>	Yes	No
• Is there explicit guidance about assessing repayment capacity?		
• Does repayment capacity analysis include income streams, liquid assets, and some allowance for future income that may be less than current income?		
• Does the analysis used include a cushion to allow clients to absorb future shocks or pay for emergencies?		
Are loan officers trained to assess repayment capacity?		
Are groups trained to assess repayment capacity?		
Are the assessments considered conservative by decision makers?		
Is the guarantee the <b>only</b> factor that matters for loan approval?		

To meet “adequate” all answers, but the last should be “yes”. The last item should be checked “no”.

**What about group guarantees as the sole means to assess borrower repayment capacity?** The analyst should know how the group assesses repayment capacity. The group may assess character as well as how many groups one borrower joins. Group members generally know each other well, and know about members’ income streams and the financial health of the family. Many FIs train groups in repayment capacity analysis. The analyst can assess group guarantees positively, if they are not the **sole** means used for loan approval.

Credit approval policies give explicit guidance regarding borrower debt thresholds and acceptable levels of debt from other sources.

- Does the credit manual include a formula for acceptable borrower debt thresholds (such as a percentage of disposable income)?
- How did the FI determine the debt threshold? Why does the threshold appear reasonable?
- Does the credit manual provide guidance on the amount of debt from other sources? How does the FI check debt from other sources? If debt from other sources is unknown, is there an allowance for “other source debt” in the formula?

**What threshold is considered acceptable?** The analyst is not expected to determine what an acceptable debt threshold should be. The analyst should determine why the FI established the threshold is an acceptable one. Many FIs calculate a potential client’s disposable income, but this amount is often generous. The calculation often assumes that a client’s disposable income will continue to be the same that it was in past. Formulae that allow for fluctuations in income or cushions for absorbing shocks, particularly in economic downturns, would be assessed more highly on this indicator.

**Debt Thresholds are Tricky: Three Examples of looking at the big picture**

FI “A” has an established debt threshold of 80% of the borrowers’ disposable income (after routine household and business expenses). This threshold does not include an allowance for other debts the borrower may have. The threshold appears too high.

FI “B” uses the same threshold, but the analysis includes other debts. However, there is no credit bureau available and informal information sharing among FIs is deemed unreliable.

FI “C” uses a threshold of 40% of disposable income. The threshold was revised at a lower level because, there is no credit bureau, no reliable information sharing, and even though the FI could verify the current levels of income, the business income was likely to decrease due to the expected economic downturn.

- 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.
- Does the credit policy require a check with the credit registry or credit bureau, if one exists?
  - Does the credit policy require a check with the FI internal data base?
  - If no credit bureau or registry is consulted, how does the institution gain knowledge about multiple loans from other sources?
  - What information sharing agreements does the FI have with other institutions?
  - Does an informal network exist among loan officers or branch managers from other organizations?
  - How reliable, accurate and up-to-date is the information from the Credit Bureau, FI internal data base, information sharing agreements, and within informal networks?

- Productivity targets and incentive systems value portfolio quality at least as highly as other factors, such as disbursement or customer growth. Growth is rewarded only if portfolio quality is high.

*Understand the formula.* Get an example of the calculation. **Caution:** Without a calculation it is often impossible to determine if portfolio quality is valued at least as highly as other factors.

- What factors go into determining the incentive payment?
- What are the percentages for each factor?
- What are the penalties for low portfolio quality?
- What are the incentives for high portfolio quality?
- How high can the PAR be before the bonus is cut or eliminated?

*Review the incentive system with the HR department.*

- When was the incentive system designed? When was the system adjusted last?
- How often are productivity targets and incentives reviewed? What information informs the review and analysis?
- Who is responsible for the quality of the loan? Look for joint responsibility between the sales force and the decision-makers.
- What percentage of the salary is dependent on the bonus?

*If there is no incentive system, then how productivity targets are set becomes very important.*

- How are productivity targets set? Is portfolio quality considered within the productivity targets?
- Do targets promote growth or quality, or balance both?
- Do loan officers have difficulty meeting targets? Which ones?
- What happens when productivity targets are not met?

**Tip:** Many incentive systems and productivity targets were designed during a period of growth, or favorable economic conditions. They may require review in light of current market conditions.

**Guidance:**

Determining if this key indicator is met well relies on a good understanding of the incentive formula.

<b>Meeting Adequate</b>		
Review the incentive formula and productivity targets:	Yes	No
• Does the formula include a factor for portfolio quality?		
• Is the factor for portfolio quality weighted at least as high as growth?		
• Is the factor for portfolio quality weighted higher?		
• Is an acceptable level of portfolio quality used as an “entry pass” for a bonus?		
• Are there penalties (or discounts) for low portfolio quality?		
• Are there incentives for high portfolio quality?		
• The productivity targets and incentive system is regularly reviewed for changing market conditions.		

To meet “adequate” the first two answers, should be “yes”. A “yes” answer to the other items confirms the assessment.

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.

*Interview the internal audit department:*

1. Are loan applications and decision making process reviewed for compliance with the procedures?
2. How does internal audit check procedures with respect to preventing over-indebtedness? Does internal audit visit borrower households? What do they check?
3. How often do these reviews take place?

**Assessing Performance: the Principle**

1. Each of indicators must be taken into account when interpreting findings.
2. Two *key indicators* must be fully met for an assessment of “adequate” or above.
3. Ensure interactions among indicators are appropriately assessed.
4. Take note of the following red flags when performance is assessed:
  - No one in the organization but the loan officers and collections agents recognizes that over-lending is a potential problem.
  - Systems cannot regularly state the PAR by product and loan officer.
  - A loan decision making process that does not assess borrower repayment capacity
  - Reliance on guarantees as a substitute for assessing borrower repayment capacity
  - A loan approval process that does not hold both the loan officer and the decision makers responsible for the quality of the loan.
  - An incentive system that promotes growth over quality.
  - An incentive system that no one can clearly explain.
  - An incentive system that is not regularly reviewed and revised.
  - A one-size-fits-all credit product regardless of the nature of the borrower’s economic activity and cash flow.
  - Group lending methodologies that require continual borrowing, often at higher amounts, to retain group membership and access.
  - Re-financing debt for borrowers who experience repayment difficulties.
  - A context where clients are known to borrow from several organizations.
  - No means of reliable information sharing among lending institutions.
  - Political concern and client or media reports of client over-indebtedness and aggressive collections practices.

## Principle 2: Transparency

### Definition

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

### Getting started

The evidence is found in written, video or audio information, advertisements and promotional material; loan contracts; information given to the customer before, during and after the sale; product descriptions, including terms and pricing information; formula or guidelines provided by banking authorities for product pricing; and requirements on publishing financial statements.

Written information is complemented by interviews with all staff that interact face-to-face with customers. Observing customer/front line staff interactions, orientation/educational sessions or conversations between staff and customers provide valuable insights for assessing this principle.

Observing new staff orientation sessions, interviews with new staff or staff trainers, or examining the curriculum will provide information to analyze several indicators.

People	Paper	Process
Marketing Dept New Account Officers, Tellers Loan Officers Internal Audit	Advertisements, video and audio materials Loan contracts Product Descriptions Product Prices Statements of account balances/receipts Training Curricula	Document review APR calculations Observation Exercises Interviews

### Indicators

The analysis focuses on two aspects of how the organization ensures transparency: 1) transparency in pricing and terms and 2) clarity of communications with customers.

There are **two key indicators** for this principle highlighted below.

Prices, terms and conditions of all financial products are fully disclosed to the customer 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.

Assessing Performance: Meeting Adequate		
Does information provided to the customer <i>prior to sale</i> include:	Yes	No
Interest rates on savings, and how calculated		
Fees for account maintenance		
Minimum balances required		
Terms and fees for transaction accounts		
Penalties for withdrawal of savings before maturity date		
Interest rate on loans, and how calculated		
Requirements and fees related to linked products:		
• Mandatory savings: amount, payment period, access, can it be blocked or seized?		
• Compulsory insurance, terms, benefits and fees		
Penalties and fees for late payments and when they start		
Any conditions and fees for early repayment		

Information about whether any of these conditions can change overtime		
All 3 <sup>rd</sup> party fees: Common examples include transaction fees or service fees for handling payments or disbursement fees, or exchange rate conversions, ATM and mobile banking fees.		

An answer “yes” should be in all boxes in the table (above) for an assessment of “adequate” or above.

Staff is trained to communicate effectively with all customers, 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, materials in local languages).

- How is staff trained to communicate product pricing, terms and conditions with clients?
- How often does staff receive communications from management or supervisors about transparency and how to communicate with customers?
- Does the FI have a customer “rights and responsibilities” code? Does staff use it when communicating with customers?
- Are products and sales practices reviewed for their potential to confuse or mislead customers? For hidden fees or over complexity? What information is regularly reviewed, and how often?
- How and how often does the FI seek feedback from customers? Has the organization changed the way it presents product pricing in response to customer feedback?
- What communications techniques are used with customers with low financial literacy?
- Are written contracts in the language that the customer understands?
- Ask loan officers and new account officers what are the most common questions customers have about the product of service (loans, savings, insurance, remittances, ATMs, mobile banking)
- How has the FI addressed these common questions in customer orientation or product information?

**Assessing Performance - Meeting Adequate:** The FI should be able to demonstrate that:

- All front line staff are trained to clearly communicate with all customers about all prices and terms of the products, and customer rights and responsibilities
- Product information and contracts are in the local languages and communicated verbally.
- Good practices include the extra effort an FI makes to ensure that clients understand prices, terms and conditions of products, such as customer orientation sessions, education campaigns or financial literacy programs.

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, video and audio materials, etc.

- What methods does the FI use to provide information about prices, terms and conditions of the product to the customer?
- Are the products clearly described in the material? What does the material leave out? Is there any evidence that the information has the potential to confuse customers or mislead them? Does the information promise anything that the product cannot deliver?

The financial institution follows truth-in-lending laws and required APR or effective interest rate calculation formulae. In the absence of industry-wide requirements, information is provided that shows the total amount that the customer pays for the product.

- Obtain the pricing formula the FI uses for all products. What does the formula include and what does it leave out?
- Obtain the official pricing formula used for calculation of the APR in the country. If there is no standard official formula, use an APR calculator. (See the Resource section for an APR calculator.)
- Using the most popular credit products offered by the FI, compare the quoted rate with the APR. Are products with no-opt-out (such as mandatory savings and insurance) included in the pricing formula? Are 3<sup>rd</sup> party fees included in the formula?

<b>Meeting Adequate</b>		
Review standard loan contracts. Does the contract include:	Yes	No
• The interest rate quoted by the FI matches the industry APR (or similar formula)		
• Linked products with no opt out are included in the pricing formula		
• 3 <sup>rd</sup> party fees are fully disclosed to the customer prior to sale		
• If there is no industry-wide pricing formula, the information given to the customer clearly shows all fees and amounts associated with the product.		

For an assessment of “adequate” the analyst should answer “yes” to each of the items above.

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.

**Tip:** *Read the loan contracts.* Is there any evidence that the contract has the potential to confuse or mislead the customer? Is the contract in plain language? Is any fine print minimized?

<b>Meeting Adequate</b>		
Review standard loan contracts. Does the contract include:	Yes	No
• The APR or interest rate following the formula required by the authorities		
• An amortization schedule:		
Lists number of installment payments and indicates the date that they are due		
Clearly separates principal, interest and fees by amount for each payment.		
• Requirements and fees related to linked products		
• Late payment fees and timing, other penalties		
• Information about whether any of these conditions can change overtime		
• Fees and conditions for early repayment of the loan		
• Fees, amounts, conditions in case of default (e.g. when a guarantee is called, savings blocked or seized, court fees, etc.)		
Debt collection practices (e.g. group guarantee, collateral, communications, visits, court proceedings) are discussed with the borrower before the contract is signed.		

For an assessment of “adequate” the analyst should answer “yes” to each of the items above.

Customers are given adequate time to review the terms and conditions of the product and have an opportunity to ask questions and receive information prior to signing contracts.

- Who reviews contracts with customers before signing?
- Is there time to ask questions?
- Is there time to “think it over” before the contract is signed? Is there a “cooling off” period when a customer can cancel a contract with no penalty?

Customers regularly receive clear and accurate information regarding their accounts (e.g., account statements, receipts, and balance inquiries)

- How can the customer check the balance of the account? What information does the customer receive and how often?
- Are balances recorded regularly and readily available to the customer?
- Are balances investigated for discrepancies in a timely manner?

**Assessing Performance: The Principle**

1. Each of indicators must be taken into account when interpreting findings
2. Two *key indicators* must be fully met for an assessment of “adequate” or above.

3. Ensure interactions among indicators are appropriately assessed.
4. Take note of the following red flags when performance is assessed:

Surveys reveal or customers complain about:	Check all that apply
Not knowing when their installment payment is due	
Late fees are charged in excess of what they expected	
Late fees are charged earlier than expected	
The loan amount applied for is not the same amount as received.	
The loan amount in the contract is not the same amount as received	
They regret having made such a quick decision.	
The interest rate is higher than the one expected	
Savings has been blocked or seized to pay a late installment	
A charge for repaying the loan early which they did not know about.	
They did not understand their responsibility for delinquent members of the group	
Fees charged to the account for making a deposit, withdraw, receiving a transfer or account balance inquires.	
They did not know the interest rate would change during the contract period.	
The exchange rate is not the same as the one quoted.	
They do not know what their unpaid loan balance is.	
They do not know how much is in their savings or transaction account.	
Expectations of a lower interest rate or larger amount on a repeat loan were not met	
No one has complained	
Surveys do not detect any problems	

If any of the items are checked in the table above, review how well the organization transparently communicates with customers. These are signs that improvements are needed in what is communicated and the way it is communicated to customers.

**Credit Unions: Fair and Forthright Conversion --a Critical Transparency Issue**

Protecting the membership during a credit union conversion requires all members to be informed and guaranteed voting rights in the by-laws. Indicators of good practice are:

- a. An established notification process and voting standards in the by-laws.
- b. A clause in the by-laws that stipulates that at least 30% of the members must vote on such a conversion and the motion passing with 75% voting in favor
- c. A policy that all existing members are informed about the opportunity and the right to become shareholders.
- d. A policy that any remaining net capital of the credit union will be donated to another cooperative or development agency for the purpose of education on cooperatives or help in starting new cooperatives.

Review the by-laws and policies to see if all of these provisions are included. Indicate where they fall below the good practice standard.

***Principle: Responsible pricing***

**Definition**

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

**Getting started**

This principle can be assessed from written documentation, financial information and industry level benchmarking data from similar competitors.

- Consider a short meeting to discuss what responsible pricing means to the FI and within the context.
- Complete the assessment of “Transparency” before assessing Responsible Pricing. The information is necessary for the analysis of this principle.

People	Paper	Process
<ul style="list-style-type: none"> <li>• Finance Dept</li> <li>• Decision Makers (Sr. Management and the Board)</li> </ul>	Product Information Financial Ratios Industry Benchmarking Information from assessment of Transparent Pricing	Financial Calculations Interviews Meeting about Responsible Pricing

**Indicators**

The analyst reviews the organization’s commitment to a mutually beneficial relationship in two areas: 1) the efficiency, profitability and competitiveness of the institution in its context, and 2) how benefits of institutional growth are passed on to customers.

There is one **key indicator** for this principle highlighted below. *Note:* Consistent practice with an assessment of “adequate” or above for Transparency is a **pre-condition** for assessing implementation of responsible pricing as “adequate”.

- Prices are not subsidized, are market oriented and competitive within the country context.

Responsible pricing is different from “low prices” or reliance on subsidies. Commercial enterprises are concerned that their customers benefit from their products, otherwise, their customer base decreases with the perceived decrease in the value of the services. Over reliance on subsidies distorts the market and leads to organizational vulnerability.

To assess this indicator, follow two steps:

**Step 1:** Examine profitability ratios adjusted for subsidies.

Ratio	Positive or Negative?
AROA	
AROE	
FSS	

The FI is assessed positively for a positive AROA, AROE or financial self-sufficiency ratio above 100%.

**Step 2:** Use industry information, to identify the range of prices. Position the FI within the range.

**Example:** In a lending operation, portfolio yield can be used as one proxy for effective interest rates.

- Use the most recent data to calculate the median portfolio yield for the industry. Use network or association data, or data from the banking authorities.
- Calculate the FI portfolio yield.
- Assess the position. This example shows that the FI is positioned in mid-range, with 14 organizations posting a higher portfolio yield, and 17 organizations posting a lower portfolio yield.

EXAMPLE:				
Median Portfolio yield	Number of FIs	Yield Range	This FI	Number of FIs above and below the median
35.7%	31	10.2% - 59.1%	36.5%	14 > 17 <

- Compare AROA or FSS data for the range of institutions in the sample. In this example, of the 17 organizations posting a lower portfolio yield, 5 posted a negative AROA, as well as financial self-sufficiency ratios less than 100%.

The analysis reveals that the FI effective interest rates are mid-range. When organizations that are not profitable without subsidies are removed from the analysis, the organization's yield falls below the median, indicating that by industry benchmarks in the context, the prices are reasonable.

The financial institution does not charge customers for its own inefficiency, as demonstrated by a comparison of efficiency and profitability ratios of similar competitors.

Continue the analysis (above) by adding two steps.

**Step 3:** Compare data for organizations offering similar lending products in similar markets. Compare average loan size to portfolio yield and efficiency ratios. The theory is that smaller average loans are more costly to administer than larger loans, and rural vs. urban areas are more costly operations. A higher portfolio yield can be justified as responsible to cover costs of smaller loan sizes or more difficult operating environments.

Use benchmarking information with similar organizations in similar contexts and peer groups.

**Example:** This example shows a comparison among five FIs that offer the same product and the largest loan sizes in the market. Each FI has the same NBFIL legal charter, works with a similar customer base and uses similar loan delivery technologies:

EXAMPLE:	FI 1	FI 2	FI 3	<i>This FI</i>	FI 4
Average loan amount	370	320	300	<b>300</b>	390
Adjusted return on equity	13,0%	23,2%	42,2%	<b>22,7%</b>	13,4%
Yield on portfolio	20,4%	28,3%	30,1%	<b>19,2%</b>	19,0%
Operational efficiency	15,6%	23,4%	22,1%	<b>14,6%</b>	15,2%

Segmenting the industry by average loan size, of the five organizations with the highest average loan sizes in the market, "This FI" portfolio yield is one of the lowest. Efficiency ratios are favorable, indicating that clients do not pay for "This FI" inefficiency. AROE indicates profitability in the mid-range, indicating prices are not subsidized and reasonable returns are generated.

**Step 4:** Answer the following summary question on interest rates and pricing policy:

- Does the FI use technical criteria to evaluate interest rate and pricing policy?

The FI is assessed positively when interest rates cover costs --including a reasonable return-- the organization is managed in an efficient way and uses technical criteria to evaluate pricing policy.

**Caution:** make sure that the comparison is for organizations in similar peer groups --- age, legal charter-- and those that offer similar products in similar markets (for example, average loan sizes or those that work in similar urban or rural areas). It is not "responsible" to select a sample that tips the bias in favor of the FI. **Caution:** Consider yield gap analysis to ensure a lower portfolio yield is not a reflection of significant delinquency or other factors.

The remaining indicators focus on how benefits of institutional growth are passed on to customers. The indicators are:

The institution earns a reasonable rate of return to support operations and grow, while allowing the customer to do the same.

**Checks and Balances:** Responsible pricing includes the notion that more expensive products are not sold to customers who could benefit from other products that are available at a lower price. The incentive system and the product line are key factors for analyzing this indicator. If an organization has only one product with one price, this indicator does not apply. When a variety of products exist, with different terms and prices, the incentives play a key role in determining which products are sold.

**Example:** The incentive system rewards portfolio size and return. A shorter term loan is available and suits the customer's retail financing needs to purchase inventory that will be sold within 3 months. The borrower intends to repay the loan in full at this time. The loan officer incentive system promotes selling a larger loan, over a longer period. The portfolio size increases, the loan is more expensive to the borrower, and a pre-payment penalty requires the borrower to repay 5% of the outstanding principal.

If more expensive products are sold to customers because of the incentive system or other institutional priorities the organization is assessed negatively for this indicator.

**Responsible pricing covers other products** such as: insurance, savings, transaction accounts and remittances.

- Insurance products should be examined for timeliness and barriers to submitting reasonable claims.
- Savings and transaction accounts, and transfers and remittances should be examined for account maintenance fees, fees for minimum balances and account transactions, and exchange rates on remittances. For a comparison of remittance pricing, check the World Bank/IFC remittance pricing database at: <http://remittanceprices.worldbank.org>

The financial institution invests a portion of its profits to increase value to customers, such as lowering interest rates or adding or improving products and services.

- How does the FI invest in increasing value to customers?
- Have loan prices been lowered based on a technical analysis?
- Are deposits accounts compensated? Competitive? For example, have fees for minimum balances or transfers been adjusted downwards?
- Has the organization invested in developing new products or adjusted products to better suit customer financial needs?

Pre-payment penalties or account closure fees and other penalties are not excessive. For example, they would not prevent a customer from changing to another product or provider, or unreasonably compound debt.

Pre-payment penalties are examined when assessing responsible pricing. Excessive ones prevent a customer from seeking a better deal elsewhere or through a different product that may become available.

*Pre-payment penalties* should be examined based on:

- What is reasonable considering the organization's cost of opening new accounts and loan origination, which are often higher than account maintenance; and
- Comparisons in the context.
- An organization that charges pre-payment penalties is not necessarily assessed negatively. If these fees make up a large percentage of the organizations income, there is a "red flag" as the loan terms do not consistently appear to meet borrowers' financial needs.

*Account closure, fees and other penalties:*

- What are the account closure fees, if any? Are they reasonable? Are savings accounts assessed fees for inactive accounts?
- Fees that compound debt. Examine the procedures and fees for loans in default. How does the FI avoid increasing debt levels of borrowers who are already indebted beyond their capacity to repay? Is

there a time when interest accrual is curtailed? How much do fees and penalties add to the debt burden? Is it clear to the borrower when mandatory savings can be used to pay the last installment?

**Assessing Performance: The Principle**

- At a minimum, responsible pricing is consistently and adequately practiced transparency. The hypothesis: when a customer understands the full price, terms and conditions of a product, even though that product may be more expensive, there is perceived value, unless the customer has no other choice. This would argue for responsible pricing being seen more often in competitive environments where choices are available.
- *Revisit the analysis of Transparency.* How was the FIs performance assessed on consistently practicing transparency? If transparency was assessed below adequate, the assessment of responsible pricing must reflect this. An adequate assessment on ensuring transparency is the “entry pass” for an adequate assessment of responsible pricing.
- *Review findings for the FI performance on efficiency,* the key indicator. The FI is assessed positively when: 1) interest rates cover costs --including a reasonable return; 2) the organization is managed in an efficient way; and 3) uses technical criteria to evaluate pricing policy.
- *Review findings for FI use of profits to increase value to customers.* The FI is assessed positively when there is evidence of investment in new products and services, and/or lowering prices, or increasing returns to customers (e.g. increasing interest rates on deposits or lowering account fees).

**Principle 3: Appropriate Collections Practices**

**Definition**

A financial institution measures up to this principle by treating customers with dignity even when they fail to meet their contractual commitments.

**Getting started**

This principal is straight-forward. Matching written policy and procedures with organization-wide practice is the most challenging aspect of analyzing this principle.

People	Paper	Process
<ul style="list-style-type: none"> <li>• Credit Dept or Collections Dept Management</li> <li>• Loan Officers</li> <li>• Collections Agents</li> <li>• Legal Department</li> <li>• Internal Audit</li> </ul>	<ul style="list-style-type: none"> <li>Code of Ethics</li> <li>Credit Manual</li> <li>Training Curricula</li> <li>Loan Contracts</li> </ul>	<ul style="list-style-type: none"> <li>Group Exercise</li> <li>Document review</li> <li>Interviews</li> </ul>

**Indicators**

The analyst reviews: 1) codes of ethics for collections agents, 2) policies and procedures for collections staff, and 3) borrower interactions. Look for: standard procedures, clear, detailed steps and time frames; ethical knowledge and practice among collections agents; and monitoring and enforcement of violations.

There is one *key indicator* highlighted below.

Acceptable and unacceptable debt collection practices are clearly spelled out in a code of ethics, book of staff rules or debt collection manual.

- What behavior does the code forbid? (e.g. abusive language or threats, harassing borrowers at their place of work or worship, or at unreasonable times of the day or night. forcible entry to borrowers' dwellings, seizing property without court order or in violation of the law, etc)
  - Are debt collection practices and procedures clearly outlined in a staff book of rules or credit procedure manual?
  - Are specific step-by-step procedures and time frames outlined for late payment recovery?
  - Are there specific step-by-step procedures and time frames about how to proceed when borrowers are in default?
  - Does the organization have a zero tolerance for delinquency policy? How does the policy affect collections ethics?
- 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.
- How are collections staff trained? Does the training include examples of appropriate practices and ones that are not? Does it include examples of techniques used by the most effective collections staff?
  - If the FI uses 3<sup>rd</sup> part collections agents is there an agreement that they will follow the same codes of ethical practice as the institution? Is the agreement written or an understanding?
- Staff is informed in advance of penalties for non-compliance with collections policies and violations are sanctioned.
- Are the sanctions for inappropriate behavior, and rewards for appropriate behavior clearly defined?
  - How does the organization monitor collections staff behavior and how regularly?
  - Does the internal audit department investigate appropriate collections practices in the normal course of their audits?
  - How does the incentive system promote appropriate behavior?
- The institution uses a policy on acceptable pledges of collateral, including not accepting collateral that will deprive borrowers of their basic survival capacity.
- What is the policy regarding acceptable pledges of collateral?
  - Are there any legal conventions about accepting or seizing collateral that would deprive a borrower of survival capacity? Does the organization follow them or have its own policy?
  - Are collections agents supported by the legal department?
  - Can the organization legally seize pledged collateral, or must it rely on court proceedings to settle claims from the sale of assets?
  - Do the institution and the borrower negotiate reasonable repayment plans prior to beginning procedures to confiscate assets that are pledged as collateral?
- Re-scheduling policies prevent automatic debt extensions and re-scheduling procedures follow written protocol.
- What is the re-scheduling policy? Does the policy prevent automatic extensions?
  - Are there special circumstances when an extension is permitted?
  - Does the credit manual provide specific rules against re-financing loans at higher amounts when clients experience repayment difficulty?
  - How often does the FI re-schedule debt?
  - Who approves any rescheduling? Is a new decision making session required with the branch manager, or loan officer's supervisor?
  - What are the procedural steps for re-scheduling a debt? For example, specific conditions under which a loan can be renegotiated; clear steps to follow to renegotiate the loan; a meeting required in the branch office or official place of business? Is a new contract is signed?

**Tips:** Debt collection practices test the institution's commitment to treating customers with respect and dignity. Appropriate debt collection practices do not mean loan forgiveness or laxity about punctual repayment.

- Few people like to talk about debt collection, even though it is a routine action in the normal course of a lender’s business. There are others who do like to talk about debt collection practices; find them. They may be experienced loan officers, designated debt collection officers and the legal department.
- Define “appropriate” early. Ask loan officers/collections agents: What is appropriate? What is considered inappropriate? What is illegal? What collections techniques are used by the most effective and experienced staff? What do they do first when approaching a delinquent client? What is never done and why?
- Get an idea of what incentives the court system provides. For example, quick efficient, reliable court proceedings for debt collection may provide incentives for the organization to have a standard, legalistic approach to debt collections; the absence of one may provide an incentive to work with delinquent/defaulting borrowers to prudently re-schedule debt, or provide an incentive to resort to ad hoc practices that may violate the organization’s ethical code.
- It is helpful to analyze Principle 4: Ethical Staff Behavior before assessing this one.

**Assessing Performance: The Principle**

<b>Meeting Adequate</b>		
Review the code of conduct or staff rule book	Yes	No
• Are acceptable and unacceptable debt collections practices clearly spelled out?		
• Does the code forbid unacceptable practices?		
• Are debt collection practices and procedures clearly outlined?		
• Are specific step-by-step procedures and time frames outlined for late payment recovery and when borrowers are in default?		
• Are 3 <sup>rd</sup> party collections agents expected to follow the same codes of conduct?		
• Are the sanctions for inappropriate behavior, and rewards for appropriate behavior clearly defined and communicated to staff?		
Are collection agents trained in appropriate practices?		
Does the internal audit department investigate appropriate collections practices?		
Does the FI have a policy on acceptable pledges of collateral, including not accepting collateral that will deprive borrowers of their basic survival capacity?		
Does the policy prevent automatic extensions?		

For an assessment of “adequate” the analyst should be able to answer “yes” to each of the items above.

***Principle 4: Ethical Staff Behavior***

**Definition**

A financial institution measures up to this principle by creating a corporate culture that values high ethical standards among staff and ensuring safeguards are in place to prevent, detect and correct corruption or customer mistreatment.

**Getting started**

Concrete evidence is available to assess this principle. Matching written policy and procedures with organization-wide practice is the most challenging aspect of analysis.

<b>People</b>	<b>Paper</b>	<b>Process</b>
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CEO Board Ethics Committee Human Resource Dept Staff Ethics Committees Complaints Dept Internal Audit	Code of Ethics Staff Rules Anti-corruption Policy Training Curricula Incentive Policies Performance Review Formats	Document review Interviews
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**Indicators**

The key to assessing this principle is to look for: 1) a clear ethics code and rules that govern staff interactions with clients, 2) systems that support and reward ethics, and 3) a monitoring system that detects ethical violations and sanctions them.

The organization's corporate culture values and rewards high standards of ethical behavior and customer service

- How has management created a corporate culture which values and rewards high standards of ethical behavior and customer service?
- What kind of behavior is rewarded in the organization? Who is rewarded for what? Do ethics count?
- Is there an Ethics Committee that rewards ethics and reviews violations? Does the Board have an ethics committee?
- Is there a mechanism in place to report staff ethical violations? Do complaints about client mistreatment reach senior management?

**Assessing Performance**

The assessment of this key indicator relies on judgment about the culture of ethics within the organization and how well organizational systems respond.

To meet adequate, the analyst must be able to demonstrate that:

- Management and the board demonstrate a high level of awareness about ethical behavior and communicate its importance regularly with staff.
- Systems are in place and used to train staff in business ethics, monitor behavior, reward ethics and sanction violations.
- Good practices include training staff to respond to ethical dilemmas tailored for their positions.

A written code of business ethics spells out organizational values and the standards of professional conduct expected of all staff.

The code of ethics has been reviewed and approved by the Board and is included in staff rule books or administrative policies.

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.

These indicators call for concrete supporting evidence. Interviews with internal audit and human resources will provide insights into how routinely systems support organizational culture.

**Meeting Adequate**

Review the documents and check the following:	Yes	No
Is there a written Code of Ethics?		
Has it been officially approved by the Board?		
Does all staff have to sign the Code?		
Are staff certified and re-certified in the Code?		
Is the Code of Ethics included in the Staff Book of Rules?		
Does the Staff Book of Rules include provisions on acceptable and unacceptable behavior?		
Are reprimands and actions that can result in employment termination clearly stated?		

Is there a written anti-corruption policy?		
Does it discuss topics that prohibit staff from conducting business for private gain?		
Does it include topics such as fraud, bribes, kickbacks, favors, gifts, abuse of authority, coercion, sexual harassment, conflicts of interest (real and perceived), nepotism, favoritism, unauthorized use of information?		
Does the anti-corruption policy explicitly consider interactions with customers regarding the topics above?		

An answer “no” to any of these questions identifies weaknesses.

- HR procedures pay attention to ethics, such as assessing new employees for compatibility with organizational values.
- Staff receives orientation and refresher courses on the practicalities of following codes of conduct.
- Managers and supervisors review ethical behavior, professional conduct and the quality of interaction with customers as part of staff performance evaluations.
  - How are new recruits tested for compatibility with organizational values?
  - Does the staff training program have a dedicated curriculum on ethics?
  - Are job-specific ethical dilemmas included in staff training programs?
  - Do staff performance reviews include ethics?
  - Does the incentive system specifically reward ethical behavior?
- The organization has a robust internal audit and fraud control system that detects customer mistreatment, such as soliciting kickbacks and favors or using coercion.
  - Is there evidence that internal audit and the customer complaints mechanism are used to find instances of unethical behavior and fraud?
  - Does the internal audit department monitor violations, their review and resolution?

**Staff interviews are helpful for assessing this principle.** Ask staff:

- What do you think your organization is known for among your peers and with your customers?
- When you consider your organization’s reputation, what counts? How do you think your organization’s reputation compares to others?
- What does your supervisor expect of you? (Not, what kind of ethical behavior does your supervisor expect of you?) Does the response to the question include an example of ethical behavior in the top two or three answers?
- Listen to as many staff members as possible, detecting why it’s important for them to behave in a certain way. Listen for consistent statements of values in all staff interviews. It’s the repetition that counts. Then answer: “The most repeated staff value is: \_\_\_\_\_.”

**Assessing Performance: The Principle**

Judge findings by ensuring “meeting adequate” for the key indicator is complete, and by comparing the organization’s practices to good practice as follows:

- A code is considered good practice when senior management, the Board and staff committees on ethics are involved in the design and approval of the code, the code is distributed to all staff, and regularly monitored for compliance.
- A code of ethics (or staff rule book) is considered good practice if it details the elements of the code, identifies actions that constitute violations, and identifies the corresponding sanctions.
- A requirement for all staff to sign the code and be re-certified annually is considered good practice.
- A process in place that encourages staff to be vigilant about violations of the code, provides information about how to report violations, and requires unbiased and timely review of violations is considered good practice.
- An internal audit processes that looks for ethical violations combined with an internal mechanism that resolves problems is considered good practice.

- A training program in job specific ethical dilemmas based on real cases is considered a high standard.

**Tip:** These indicators focus on ethical behavior, not customer service. Customer service includes being friendly, efficient, professional and responsive to clients; having a clean, safe place for customers to transact business. Ethics is about values and behavior – like being fair, honest, respectful, respecting confidentiality – as well as not lying, cheating, stealing, verbally or physically abusing, asking for favors, harassing, or threatening clients.

### ***Principle 5: Complaints Handling and Resolution***

#### **Definition**

A financial institution measures up to this principle by having a mechanism for collecting, responding in a timely manner, and resolving problems for customers.

#### **Getting started**

Concrete evidence is available from a few sources. Each indicator can be assessed using written documents, interviews, or systems demonstrations.

<b>People</b>	<b>Paper</b>	<b>Process</b>
Staff Designated to Handle Complaints Customer Service Dept Internal Audit	Complaints Policy Complaints monitoring system Customer Surveys	Observation Document review Interviews

#### **Indicators**

The key to analyzing this principle is to understand the complaints process from beginning to end.

There is one **key indicator** highlighted below.

- A written policy requires customer complaints to be taken seriously, fully investigated and resolved in a timely manner without bias.
  - Is there a written policy? Does it describe the importance of customer complaints, steps for complaint investigation review and decision making, time frames for resolution?
- A mechanism to handle customer complaints is in place, has dedicated staff resources, and is actively used. (Suggestion boxes alone are generally not adequate.)
  - What channels are available? (For example, hotlines, call centers, customer service staff located in the branch, supervisory visits, etc.)
  - How does a complaint go from the customer to the appropriate person? Is the process smooth or cumbersome? Standardized or ad hoc? Formal or informal?
  - Who is responsible for ensuring complaints are received, reviewed and resolved?
  - What evidence is available that shows customers use the mechanism?
  - How long does it take to resolve a complaint?
- Customers are informed of their right to complain and know how to submit a complaint to the appropriate person.
  - How and when are customers informed about the channels to submit complaints?
  - How does staff ensure that the customer knows that complaints will be heard?
  - Does the FI ask customers if they know how to complain? (For example on customer satisfaction surveys, or regular visits or during orientation sessions or group meetings, etc)

- Staff is trained to handle complaints and refer them to the appropriate person for investigation and resolution.
  - How is staff trained to handle and refer complaints?
  - What training does front-line staff receive about referring complaints for resolution?
  - Does staff know how to refer complaints? Are they expected to resolve them on their own?
- Internal audit or other monitoring systems check that complaints are resolved satisfactorily.
  - Is there a complaints tracking system? Does it clearly show problem resolution?
  - Who checks that complaints are resolved? How often is complaint resolution checked?
- Complaints information is used to improve products, sales techniques and other interactions with customers.
  - How is information used to manage risk and improve operations?

**Assessing Performance: The Principle**

<b>Meeting Adequate</b>	<b>Yes</b>	<b>No</b>
• There is a formal complaints mechanism (other than suggestion boxes)		
• The mechanism is easily accessible to customers		
• Customers are informed of their right to complain		
• Customers know how to submit a complaint to the appropriate person		
• The mechanism is actively used by customers		
• Staff resources are dedicated to complaints handling and resolution		
• Staff is trained to handle complaints and refer them to the appropriate person for investigation and resolution		
• The resolution of complaints is done in an unbiased and timely manner		

For an assessment of “adequate” the analyst should answer “yes” to each of the items above.

**Good Practices:**

- A written policy requires customer complaints to be taken seriously, investigated and resolved in a timely manner.
- Various channels exist for customer feedback and complaints receipt.
- The organization tracks and uses the information it receives about complaints and client feedback to review and improve products, sales techniques and other interactions with customers
- Internal audit or other monitoring systems check that complaints are resolved satisfactorily.
- Specialized personnel are designated to handle customer complaints and problem solving.
- Customers have the opportunity to seek independent third party recourse in the event that they cannot resolve the problem with a financial institution, such as an ombudsman or mediator with the power to make binding decisions. (A high standard practice, which depends on the context)

**Tips:**

- Unless there is abundant evidence that customers regularly and actively use suggestion boxes, they are not considered adequate practice.
- Customer satisfaction surveys are important supporting documentation for assessing this principle, but a survey is not the same thing as a complaints handling and resolution system.
- Complaints handling and resolution can have a dramatic effect on improving business, customer satisfaction and the organization’s image. Savvy organizations use the system to keep in touch with their customers, resolve problems and prevent complaints from involving the media or politics.
- If there are no complaints, this is a sign that the system is not functioning well or not well understood by customers. It can also indicate that all clients are happy, or clients don’t know how to complain, or things never go wrong. In many contexts customers do not feel empowered to complain and have no expectation that their complaint will be resolved. If there are no complaints, know why.

**Principle 6: Privacy of client data****Definition**

A financial institution measures up to 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.

**Getting started**

Concrete evidence is available from a few sources. Each indicator can be assessed from written documentation, interviews, or demonstrations of systems.

People	Paper	Process
IT Dept Marketing Dept Internal Audit Front line staff (tellers, loan officers and others who have access to account information)	Privacy Policy Credit Bureau Requirements Client consent forms	Document review Observation Interviews

**Indicators**

The analyst reviews: 1) how the FI protects customer personal and financial information; 2) when and how customers are informed about how their personal and financial information is used; and 3) does the FI ask for permission to use information or obtain written consent.

There is one **key indicator** highlighted below.

- A written privacy policy governs the gathering, processing, use and distribution of client information.
  - Is there a written policy? Does it state what client information the FI collects and which information the FI shares with outside organizations?
  - What information does the FI share with outside parties? Which outside parties?
  - Is there clear guidance on information sharing with relatives, spouses and employers?
- Systems, including secure IT systems, are in place and staff trained to protect the confidentiality, security, accuracy and integrity of customers' personal and financial information.
  - Are systems protected from unauthorized use?
  - Who sees or can change client information?
  - How is staff trained to protect client data?
  - Does the internal audit department regularly review security of customer files and electronic systems that contain their information?
- Customers know how their information will be used. Staff explains how data will be used and seeks permission for use.
  - How are customers informed about FI information sharing practices?
  - When does staff explain how the information will be used and by whom?
  - Does staff ask the customer for permission to share information? Is it a verbal explanation or does the FI use a written consent form?
- Written customer consent is required for use of information in promotions, marketing material and other public information. Customers are asked to express their written agreement for sharing personal information with any external audience, including credit bureaus.
  - Does the organization use customer stories, photos or testimonials for marketing or promotions?
  - Does the FI send customer personal or business stories to networks, funders, investors or others?
  - Do customers know when their information will be used in these ways?

- Do they have to sign a consent form?
- The organization offers information, orientation or educational sessions to clients on how to safeguard information, access codes or PIN numbers.
- Does the FI provide orientation or advice to customers on ways to protect their accounts from authorized use or theft?

### Assessing Performance: The Principle

Customers have the right to expect that their personal and financial information will not be revealed to those who are not authorized to see it.

Meeting Adequate	Yes	No
• Are customers informed about the FI information sharing practices?		
• Does the FI always inform customers about how their information will be used before the customer submits it?		
• Does the FI seek customer permission (written or verbal) prior to sharing information with outside parties?		
• Does the FI secure client information from unauthorized use?		

For an assessment of “adequate” the analyst should answer “yes” to each of the items above.

- Securing client information from unauthorized use is a fundamental protection and is required for an assessment of adequate. Look for discretion in sharing information. For example: Does the FI share the entire file on the client with insurance companies or does the FI use discretion, sharing only necessary information to secure the policy?
- Informing customers about how their information will be used and seeking permission for use. These are two minimum practices to meet adequate. Permission can be verbal or written, but it must be routinely sought. Look for a standard system, or a checklist used by front line staff (tellers, new account officers, loan officers).
- Seeking client written consent before sharing information is a good practice.
- Helping clients review and correct their information is a good practice.
- Making an extra effort to help customers safeguard their information outside the institution is a good practice.

**What about groups** where all members know account balances, disbursement times and savings are often kept in a joint account? The information should be kept within the group. Look for evidence that group training covers the importance of security and privacy of individual group members.

**What about credit bureaus, where data sharing is mandatory?** Laws and regulations regarding customer data sharing in credit bureaus differ by country. In some countries, financial institutions are required to share customer data with the bureau or registry. However, the FI must seek consent from the customer before submitting data. In other countries, no customer consent is required for submitting client data to credit bureaus or registries. However, the FI must obtain written customer consent to access the data.

**Instructions:** Check the box to the left to indicate that you had enough information to analyze this indicator well. Check the boxes at the right to show how the practices that support the principle are assessed. (\*) notes a Key Indicator

<b>Prevent over-indebtedness.</b> A financial institution measures up to 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.	Good	Mostly Good	Adequate	Not Yet Adequate	Weak	Comment
<input type="checkbox"/> Management regularly monitors levels of borrower over-indebtedness and uses that information to improve products, policies and procedures.						
<input type="checkbox"/> The financial institution offers multiple loan products or flexible ones that address different business and family needs.						
<input type="checkbox"/> (*) 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.						
<input type="checkbox"/> Credit approval policies give explicit guidance regarding borrower debt thresholds and acceptable levels of debt from other sources.						
<input type="checkbox"/> 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.						
<input type="checkbox"/> (*) Productivity targets and incentive systems value portfolio quality at least as highly as other factors, such as disbursement or customer growth. Growth is rewarded only if portfolio quality is high.						
<input type="checkbox"/> 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.						

Overall Assessment of Practices:  Good  Mostly Good  Adequate  Not Yet Adequate  Weak

<b>Transparency.</b> A financial institution measures up to this principle by ensuring that complete information is made available to customers in clear language that is not misleading and that the customer is able to understand.	Good	Mostly Good	Adequate	Not Yet Adequate	Weak	Comment
<input type="checkbox"/> (*) Prices, terms and conditions of all financial products are fully disclosed to the customer 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.						
<input type="checkbox"/> (*) Staff is trained to communicate effectively with all customers, 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, materials in local languages).						
<input type="checkbox"/> 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.						
<input type="checkbox"/> The financial institution follows truth-in-lending laws and required APR or effective interest rate calculation formulae. In the absence of industry-wide requirements, information is provided that shows the total amount that the customer pays for the product.						
<input type="checkbox"/> 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.						
<input type="checkbox"/> Customers are given adequate time to review the terms and conditions of the product and have an opportunity to ask questions and receive information prior to signing contracts.						
<input type="checkbox"/> Customers regularly receive clear and accurate information regarding their accounts (e.g., account statements, receipts, and balance inquiries).						

Overall Assessment of Practices:  Good  Mostly Good  Adequate  Not Yet Adequate  Weak

<b>Responsible Pricing.</b> A financial institution can measure up to this principle by offering quality services for the price, demonstrating its competitiveness in the marketplace, and favoring a long-term beneficial relationship with the customer over short-term profit maximization. Consistent practice of transparent pricing is a pre-condition to adequate implementation of this principle.	Good	Mostly Good	Adequate	Not Yet Adequate	Weak	Comment
<input type="checkbox"/> Prices are not subsidized, are market oriented and competitive within the country context.						
<input type="checkbox"/> (*) The financial institution does not charge customers for its own inefficiency, as demonstrated by a comparison of efficiency and profitability ratios of similar competitors.						
<input type="checkbox"/> The institution earns a reasonable rate of return to support operations and grow, while allowing the customer to do the same.						
<input type="checkbox"/> The financial institution invests a portion of its profits to increase value to customers, such as lowering interest rates or adding or improving products and services.						
<input type="checkbox"/> Pre-payment penalties or account closure fees and other penalties are not excessive. For example, they would not prevent a customer from changing to another product or provider, or unreasonably compound debt.						

Overall Assessment of Practices:  Good  Mostly Good  Adequate  Not Yet Adequate  Weak

<b>Appropriate Collections Practices.</b> A financial institution measures up to this principle by treating customers with dignity even when they fail to meet their contractual commitments.	Good	Mostly Good	Adequate	Not Yet Adequate	Weak	Comment
<input type="checkbox"/> (*) Acceptable and unacceptable debt collection practices are clearly spelled out in a code of ethics, book of staff rules or debt collection manual.						
<input type="checkbox"/> 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.						
<input type="checkbox"/> Staff is informed in advance of penalties for non-compliance with collections policies and violations are sanctioned.						
<input type="checkbox"/> The institution uses a policy on acceptable pledges of collateral, including not accepting collateral that will deprive borrowers of their basic survival capacity.						
<input type="checkbox"/> Re-scheduling policies prevent automatic debt extensions and re-scheduling procedures follow written protocol.						

Overall Assessment of Practices:  Good  Mostly Good  Adequate  Not Yet Adequate  Weak

<b><i>Ethical Staff Behavior</i></b> A financial institution measures up to this principle by creating a corporate culture that values high ethical standards among staff and ensuring safeguards are in place to prevent, detect and correct corruption or customer mistreatment.	Good	Mostly Good	Adequate	Not Yet Adequate	Weak	Comment
<input type="checkbox"/> (*) The organization's corporate culture values and rewards high standards of ethical behavior and customer service.						
<input type="checkbox"/> A written code of business ethics spells out organizational values and the standards of professional conduct expected of all staff.						
<input type="checkbox"/> The code of ethics has been reviewed and approved by the Board and is included in staff rule books or administrative policies.						
<input type="checkbox"/> 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.						
<input type="checkbox"/> HR procedures pay attention to ethics, such as assessing new employees for compatibility with organizational values.						
<input type="checkbox"/> Staff receives orientation and refresher courses on the practicalities of following codes of conduct.						
<input type="checkbox"/> Managers and supervisors review ethical behavior, professional conduct and the quality of interaction with customers as part of staff performance evaluations.						
<input type="checkbox"/> The organization has a robust internal audit and fraud control system that detects customer mistreatment, such as soliciting kickbacks and favors or using coercion.						

Overall Assessment of Practices:       Good     Mostly Good     Adequate       Not Yet Adequate     Weak

<b><i>Complaints Handling and Resolution.</i></b> A financial institution measures up to this principle by having a mechanism for collecting, responding in a timely manner, and resolving problems for customers.	Good	Mostly Good	Adequate	Not Yet Adequate	Weak	Comment
<input type="checkbox"/> A written policy requires customer complaints to be taken seriously, fully investigated and resolved in a timely manner without bias.						
<input type="checkbox"/> (*) A mechanism to handle customer complaints is in place, has dedicated staff resources, and is actively used. (Suggestion boxes alone are generally not adequate.)						
<input type="checkbox"/> Customers are informed of their right to complain and know how to submit a complaint to the appropriate person.						
<input type="checkbox"/> Staff is trained to handle complaints and refer them to the appropriate person for investigation and resolution.						
<input type="checkbox"/> Internal audit or other monitoring systems check that complaints are resolved satisfactorily.						
<input type="checkbox"/> Complaints information is used to improve products, sales techniques and other interactions with customers.						

Overall Assessment of Practices:     Good     Mostly Good     Adequate     Not Yet Adequate     Weak

<b><i>Privacy of client data.</i></b> A financial institution measures up to this principle by respecting the privacy of customer data, ensuring the integrity and security of their information, and seeking their permission to share information with outside parties prior to doing so.	Good	Mostly Good	Adequate	Not Yet Adequate	Weak	Comment
<input type="checkbox"/> A written privacy policy governs the gathering, processing, use and distribution of client information.						
<input type="checkbox"/> Systems, including secure IT systems, are in place and staff trained to protect the confidentiality, security, accuracy and integrity of customers' personal and financial information.						
<input type="checkbox"/> (*) Customers know how their information will be used. Staff explains how data will be used and seeks permission for use.						
<input type="checkbox"/> Written customer consent is required for use of information in promotions, marketing material and other public information. Customers are asked to express their written agreement for sharing personal information with any external audience, including credit bureaus.						
<input type="checkbox"/> The organization offers information, orientation or educational sessions to clients on how to safeguard information, access codes or PIN numbers.						

Overall Assessment of Practices:     Good     Mostly Good     Adequate     Not Yet Adequate     Weak