



Keeping clients first  
in microfinance

## **Conducting Client Protection Assessments: Resources**

**February 2010**

**Organize the team!**

- There is a lot of information to cover in a relatively short period of time.
- Information to analyze several principles comes from multiple sources. This requires the team to communicate with each other regularly.
- The principles, *avoiding over-indebtedness* and *transparency and responsible pricing* are the most complex to analyze. Responsible pricing requires a prior analysis of transparency, interest rates and fees and financial performance indicators.
- *Ethical behavior* and *appropriate collections practices* should be assigned to the same analyst since many of the source documents and interviews overlap.
- *Complaints handling and resolution* and *privacy of client data* require understanding of how organizational systems work.

Consider the following matrix to organize a 2-person team:

Main Focus	Analyst 1		Analyst 2	
<i>Expertise</i>	<i>Credit Products, Financial Analysis, Industry Overview</i>		<i>Legal/ethics, Systems, Regulations, Human Resources (HR)</i>	
Over-indebtedness	X	Interview & Information Emphasis: <ul style="list-style-type: none"> <li>• Credit</li> <li>• All Products</li> <li>• Marketing &amp; Product Development</li> <li>• Finance</li> <li>• Regulations</li> <li>• Industry Information</li> </ul>		Interview & Information Emphasis: <ul style="list-style-type: none"> <li>• Ethics</li> <li>• Legal</li> <li>• Systems Mgmt (complaints &amp; privacy)</li> <li>• HR &amp; Incentives system</li> <li>• Regulations</li> <li>• Network codes</li> </ul>
Transparency	X			
Responsible Pricing	X		X	
Collections			X	
Ethics			X	
Complaints			X	
Privacy			X	
Context	X			
Codes of Conduct			X	

## Resource 2: Illustrative Documents List

### Documents Available Publicly:

- MIX Market financial and outreach information (last three years)
- Any Ratings or network information available directly or online
- MIX benchmarking data in country. Note some Central Banks, national networks and banking associations report this data regularly.
- Country specific legal and regulatory requirements for financial institutions, including any with respect to pricing, transparency, complaints resolution, financial literacy etc
- Country specific consumer protection laws/practices/codes regarding financial services. Central Banks and regulatory authority websites.

Check the following resources:

- The Microfinance Gateway Regulation and Supervision Resource Center  
<http://www.microfinancegateway.org/p/site/m/template.rc/1.11.48251/1.26.9208/>
- CGAP law library, at [http://www.microfinaneregulationcenter.org/resource\\_centers/reg\\_sup](http://www.microfinaneregulationcenter.org/resource_centers/reg_sup)
- The World Bank and IFC doing business website <http://www.doingbusiness.org/> Provides business regulations and enforcement across 178 countries. Doing Business Law Library is the largest free online collection of business laws and regulations.
- The Inter-American Development Bank's MicroScope on the Microfinance Business Environment.  
<http://www.iadb.org/mif/microscope.cfm>
- For a comparison of remittance pricing, check the World Bank/IFC remittance pricing database at:  
<http://remittanceprices.worldbank.org>

Ensure all ratios and financial performance indicators use standard definitions. Definitions are found at:

- MIX ([www.mixmarket.org](http://www.mixmarket.org))
- SEEP FRAME [www.seepnetwork.org](http://www.seepnetwork.org)
- CGAP Appraisal Guide. <http://www.cgap.org/p/site/c/template.rc/1.9.4394/>

APR (or similar formula) calculators

<http://www.cgap.org/p/site/c/template.rc/1.9.2968/> The Excel worksheet includes a yield calculator.

### Financial Institution's internal documents: \*

#### I. *Obtain beforehand if at all possible:*

- Business plan or strategic plan
- Codes of conduct and/or pro-customer codes (including association and network codes)
- Customer satisfaction survey or market surveys
- Product descriptions (including pricing)
- Credit approval process and credit policies/manual, including any loan restructuring policies
- Staff policies or book of rules

#### II. *Obtain during site visit:*

- Marketing material
- Sample loan contract/template for each different product
- Loan officer incentive policies/sections from staff policies that deal with appropriate conduct
- Complaints process (this can be verbal) and any tracking, how information is used.
- Privacy policy
- Education material and/or curricula (for clients and staff)

\* Note: FIs may have different names for these documents or may present the information in a different format.

**Resource 3: Confidentiality Agreement Example**

In the course of the assessment, the team will ask to review institutional data and documents that may be confidential. Other data and documents are published and available to the public.

1. All documents, data and other information provided to the team by the financial institution are considered confidential.
2. Members of the assessment team will not circulate or share this data, information, documentation or draft reports outside the assessment team, which includes the report reviewer.
3. The team will prepare a de-briefing presentation and a report for the institution based on the findings of the assessment. The draft report and the presentation will be shared with the appointed reviewer. The reviewer is held to the same confidentiality standards.
4. The analysis, presentation, and report are confidential until such time that the financial institution provides written authorization agreeing to disclose them.
5. In case the organization does not agree to disclose the report, the report and all findings therein, will be used only in composite reports that include averages or a general assessment of the standard of practice. The composite report will not include any data or information that is recognizable by institution or country.
6. In no case will any supporting documentation be circulated or disseminated outside the team, regardless of the financial institution's agreement to disclose the report. This includes supporting documentation that is published or unpublished, confidential or not confidential.

Signed: \_\_\_\_\_ (team member)

Date: \_\_\_\_\_

Signed: \_\_\_\_\_ (team member)

Date: \_\_\_\_\_

Summary Guide	People	Paper
Preventing Over-Indebtedness	Board CEO or GM Credit Department Loan Officers/Branch Mgmt Credit Committee HR Dept Internal Audit	<ul style="list-style-type: none"> <li>• Credit Policy or Manual</li> <li>• Product Descriptions</li> <li>• Loan Applications</li> <li>• Loan Analysis Procedures</li> <li>• Credit Committee Notes</li> <li>• PAR and Write-off ratios</li> <li>• Training curriculum</li> <li>• Productivity Targets</li> <li>• Incentive System &amp; Formula</li> </ul>
Transparency	Board CEO or GM Marketing Dept New Account Officers, Tellers Loan Officers Internal Audit	<ul style="list-style-type: none"> <li>• Advertisements</li> <li>• Loan contracts</li> <li>• Product Descriptions</li> <li>• Product Prices</li> <li>• System for providing account balances/receipts</li> <li>• Training Curricula</li> </ul>
Responsible Pricing	Board CEO or GM Finance Dept Decision Makers	<ul style="list-style-type: none"> <li>• Product Information</li> <li>• Financial Ratios</li> <li>• Industry Benchmarking</li> <li>• Information from assessment of Transparency</li> </ul>
Appropriate Collections	Loan Officers Collections Agents Legal Department Internal Audit	<ul style="list-style-type: none"> <li>• Code of Ethics</li> <li>• Credit Manual</li> <li>• Training Curricula</li> <li>• Loan Contracts</li> </ul>
Staff Ethics	CEO or GM Board HR Dept Staff Ethics Committees Complaints Dept Internal Audit	<ul style="list-style-type: none"> <li>• Code of Ethics or Staff Rules</li> <li>• Anti-corruption Policy</li> <li>• Training Curricula</li> <li>• Incentive Policies</li> <li>• Performance Review Formats</li> </ul>
Complaints Handling & Resolution	Staff Designated to Handle Complaints Customer Service Dept Internal Audit	<ul style="list-style-type: none"> <li>• Complaints Policy</li> <li>• Complaints in-take, resolution and monitoring system</li> <li>• Customer Satisfaction Surveys</li> </ul>
Privacy	IT Dept Marketing Dept Internal Audit	<ul style="list-style-type: none"> <li>• Privacy Policy</li> <li>• Credit Bureau Requirements</li> <li>• Client consent forms</li> </ul>

### Interview Guide

Please adapt the questions to your own interview style. The questions below are content oriented and will need to be adjusted for a more conversational style.

The FI may be organized differently than the suggested interview guide. If the person you are speaking to does not manage the information you request, ask who else has valuable views on this topic.

### Suggested interview questions for the Board and GM or CEO

#### *For Principle: Avoiding Over-Indebtedness*

- Where and how often does the FI obtain data on client over-indebtedness?
- How often has management communicated to staff that over-lending or over-indebtedness might be a problem? Does staff communicate concern about this issue?
- What discussions about over-indebtedness have been held at the Board level?

***For Principle: Transparency***

- How often has management communicated to staff about transparency and communications with customers?
- Has there ever been any discussion with management that customers may not understand the information provided to them about the products?
- What board level discussions have been held about transparency and communications with customers?

***For Principle: Responsible Pricing***

- What board level discussions have been held about responsible pricing?
- Are share-holders prepared to invest a portion of profit to increase value to customers? What has been done? (e.g. lowering interest rates or adding or improving products and services)

***For Principle: Ethical Staff Behavior***

- How has management created a corporate culture which values and rewards high standards of ethical behavior and customer service?
- How was the code of ethics developed?
- Do complaints about client mistreatment reach senior management?

**Suggested interview questions for the credit department and loan officers**

***For Principle: Avoiding Over-Indebtedness***

- 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?
- 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, incentive systems that push growth without regard to quality)
- What has management done to address the potential for over-lending?
- Are assessments of repayment capacity based on current household income/business performance? Do they include a cushion to allow clients to absorb future shocks?
- If no credit bureau or registry is consulted, how does the institution gain knowledge about multiple loans from other sources?
- How are loan officers expected to assess repayment capacity? How do the guarantees weigh in the approval process?
- Are assessments of borrower repayment capacity during the loan application process generally thought to be conservative or optimistic by decision makers?
- How are borrower groups trained to assess repayment capacity?
- Who is responsible for the quality of the loan? Is there joint responsibility between the sales force and the decision-makers?
- What are the penalties for low portfolio quality?
- What are the incentives for high portfolio quality?
- 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? (e.g. 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 is this information used to revise products?
- Has the organization ever modified a product based on its potential to lead clients into over-indebtedness?
- What do borrowers complain about? Are these trends increasing or decreasing? Why?
- Recall your first defaulting client. What did you do? Who did you think was responsible? What happened? Here you may find legends for this principle.

***For Principle: Transparency***

- 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?
- What do you do when you know the customer doesn't understand the product terms or price?
- How was the marketing material tested for client understanding? What was revised based on this research?
- When is the client informed of 3rd party fees and fees for linked products with no-opt out?
- How and when are debt collection practices revealed to the borrower?

***For Principle: Appropriate Collections Practices:***

- What is appropriate and what is not? What is illegal? What is unethical?
- 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?

If there is no specific code of ethics for collections agents, interviews with collections staff should cover the following topics:

- Does the institution have a clear and detailed written procedure in the credit manual or other operational guide that all collections agents are expected to follow?
- Does the manual provide specific step-by-step procedures and time frames for late payment recovery and how to proceed when borrowers are in default?
- Are the sanctions for inappropriate behavior, and rewards for appropriate behavior clearly defined?

**Suggested interview questions for the HR Department**

***For Principle: Avoiding Over-Indebtedness***

- When was the incentive system designed? When was the system last adjusted?
- How often are productivity targets and incentives reviewed? What information informs the review and analysis?

*Review the incentive system with the HR department.*

Understand the formula. What factors go into determining a bonus? Get an example.

- 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?
- What percentage of the salary is dependent on the bonus?

If there is no incentive system:

- How are productivity targets set? Do loan officers have difficulty meeting them?
- Is portfolio quality considered within the productivity targets? How is portfolio quality weighted?

***For Principle: Transparency***

How is staff trained to communicate product pricing, terms and conditions with clients?

***For Principle: Appropriate Collections Practices***

- How are collections agents 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?
- How does the incentive system promote appropriate behavior?

***For Principle: Ethical Staff Behavior***

- 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?
- Is there a mechanism in place to report staff ethical violations?
- Is there an Ethics Committee that reviews violations?
- Do staff performance reviews include a section on ethics?
- Does the incentive system specifically reward ethical behavior?

**Suggested interview questions for the Product Development and Marketing Department:**

***For Principle: Transparency***

- 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?
- Has the organization changed the way it presents product pricing in response to customer feedback, ethical concerns or market conduct rules?
- How was the marketing material tested for client understanding? What was revised based on this research?

Obtain the pricing formula for all products.

- How are prices calculated? What does the FI formula include and what does it leave out? Are products with no-opt-out (such as mandatory savings and insurance) included in the pricing formula?
- Are there additional 3<sup>rd</sup> party fees a customer must pay?

***For Principle: Responsible Pricing***

Has the organization invested in developing new products based on customer feedback or adjusted products to better suit customer financial needs?

**Suggested interview questions for the Internal Audit Department:**

***For Principle: Avoiding Over-Indebtedness***

- Are loan applications and decision making processes reviewed for compliance with the procedures?
- How does internal audit check procedures with respect to preventing over-indebtedness? Are household interviews included in their terms of reference?
- How often do these reviews and interviews take place?

***For Principle: Appropriate Collections Practices***

- 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?
- Is there evidence that management acts on their findings?

***For Principle: Ethical Staff Behavior***

- Do you use your audit and customer complaints to find instances of unethical behavior and fraud?
- Does the internal audit department monitor violations, their review and resolution?

***For Principle: Complaints Handling and Resolution***

Does the department check that complaints are resolved satisfactorily?

***For Principle: Privacy of Client Data***

Does the department check that systems are secure and protected from unauthorized use?

**Suggested interview questions for the Finance Department:**

***For Principle: Transparency***

- Are audited financial statements submitted to the authorities? Where are they published?
- What are the requirements for APR (or similar) formula?

Obtain the pricing formula for all products. How are prices calculated?

- What does the FI formula include and what does it leave out? Are products with no-opt-out (such as mandatory savings and insurance) included in the pricing formula?
- Are there additional 3<sup>rd</sup> party fees a customer must pay?

***For Principle: Responsible Pricing***

- Does the FI use technical criteria to evaluate interest rate and pricing policy? How often does the Board ask for this review?
- Have prices ever been lowered based on a technical analysis?
- Has the organization invested in developing new products based on customer feedback or adjusted products to better suit customer financial needs?

**Suggested interview questions for the Legal Department:**

***For Principle: Appropriate Collections Practices***

- Are collections agents supported by the legal department?
- 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?
- Can the organization legally seize pledged collateral, or must it rely on court proceedings to settle claims from the sale of assets?
- Is the court claims process effective, speedy and balanced between borrower and creditor? How does the court claims process influence the FI collection practices?

***For Principle: Complaints Handling and Resolution***

- Do 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?
- How does the legal department get involved in complaints resolution?

***For Principle: Privacy of Client Data***

- Is there a written privacy policy? How does it protect the client's information?
- What are the legal conventions in the country that the FI must follow?

**Suggested interview questions for the complaints department or customer service department or persons responsible:**

***For Principle: Complaints Handling and Resolution***

- What is the complaints mechanism?
- Do clients use it? How and when are clients informed about complaints mechanisms?
- What are the most frequent complaints?
- Is staff trained to handle complaints and refer them to the appropriate person for investigation and resolution?
- How is the information tracked?
- How are decisions made and complaints resolved? Give an example of an easy complaint to resolve and one that is difficult one.
- What is done with the information? Is it used to improve products, sales techniques and other interactions with customers? Give example.

**Suggested interview questions for the IT department:**

***For Principle: Privacy of Client Data***

- How does the system protect customers from unauthorized use of their data?
- How is information reported to the credit bureau?
- Who helps the customer correct data, if there are errors?

**Suggested interview questions for all staff, management and Board:**

***For Principle: Ethical Staff Behavior***

- Who in the organization is rewarded and for what?
- What do you think your organization is known for among your peers and with your customers?
- When you consider an organization's reputation, what counts? How do you think your organization's reputation compares to others?
- What does senior management (or your boss or your board) expect of you? (Not, what kind of ethical behavior does your boss expect of you?) Does the response to the question include an example of ethical behavior in the top two or three answers?

## **Pilot Initiatives**

### **The pilot initiative:**

- Centers on implementing consumer protection practices.
- Serves as the institution's contribution to knowledge in the field.
- Is selected by an MFI as follow-up to the assessment

The pilot initiative is directed by the institution, tailored to the institution's priorities and monitored for results. Pilots can relate to any of the principles or inform a very specific area of the institution's risk management. They can be selected to shore up strengths or address weaknesses. The pilot can be something the institution has been planning, but not yet put into practice, or is just beginning to implement, or a new idea.

Pilots are expected to be monitored monthly for a period between 6-9 months. Some pilots that have progressed enough to establish a business case will be selected for on-site review.

### **Monitoring format**

#### **1. Pilot Description**

Institution:

Point Person:

Pilot Initiative: (and what principle and specific practice it addresses)

Rationale for selection:

Expected Results:

Expected Business Case: (Scenario: see Annex; and the specific business case for the pilot.)

How the pilot will be implemented (who, when, how)

#### **2. Progress (to date)**

Short description of progress:

Costs: Level of Effort: (staff time, costs)

Effects on customers:

Effects on institution:

Unanticipated consequences:

Challenges:

Comments on the business case:

Other comments:

### **Annex: Business Case Scenarios**

**“Win-win Scenario”:** This is generally a short-term cost and benefit stream where consumer protection efforts contribute to financial return. Most initiatives in this area are related to risk management and customer service. They will have up-front costs, but also short-term benefits to the institution and the customer. A few examples include: use of sound risk management techniques loan underwriting that includes analysis of the borrower’s ability to afford the loan and capacity to repay it; ensuring customers understand prices and terms of products prior to sale, complaints handling and resolution system which improves business practice/ products and helps identify risks; preventing unauthorized use of accounts, or ensuring customers know how their data will be used, seeking their consent for use of data; staff training on security and privacy policies.

**“Trade-off Scenario”:** This scenario has two features: 1) either a trade-off for the “1st mover” when others do not follow sound practices; or 2) a trade-off between financial return and client protection efforts, simply because costs may exceed benefits in the mid-term. Examples: Transparent pricing can be a trade-off, when one institution is the first mover in the market. It disadvantages that institution, when others do not follow the same practice because “1st mover” products ---often the same product at a lower price---will look more expensive. Industry level initiatives are often required. Revising staff incentive systems to focus on quality at least as much as growth can be a trade-off because organizational costs in the mid-term may exceed short term benefits. Including linked products with no-opt out in the price of the loan, (such as forced savings, loan insurance, etc.) may be a trade-off, as the product will look more expensive, and de-linking products may have many organizational repercussions when these linked products are used as guarantees.

**“Virtuous Circle Scenario”:** This scenario generally requires a long term investment before benefits are generated. Virtuous cycle initiatives tend to be supportive of the greater good in the industry. Often these are industry wide investments where one institution will not see the benefit of financial return, but all institutions will benefit. Examples include: financial literacy which requires a long-term investment in the customer base; credit bureaus which require investment at the industry level and agreement to a shared data system which can often be controversial. The virtuous cycle incorporates the long term view – building quality, reputation in the market, investment in customer base and the confidence of consumers in a system that merits that trust.

### **Preventing Over-indebtedness**

*Examples of good practices:*

**The Entry Pass:** The organization's loan officer incentive system uses portfolio quality indicators as the entry pass for a bonus. Portfolio quality is rewarded above growth or at least as much as growth. Revision of the incentive system was based on analysis of the increasing trends in delinquency, competitor analysis and review of market conditions.

**Internal Audit Digs in to Debt:** The internal audit department checks two groups of borrowers at the branch level: 1) a mixed group of borrowers who are delinquent and those who are not, and 2) a group of borrowers who are delinquent. The analysis considers compliance with loan underwriting procedures and identifies weakness or violations that may have occurred. The IA reviews specific practices that have lead to over-indebtedness, and management has acted to review products and procedures.

*Examples of practices that make the institution and the industry vulnerable:*

**Market Dominance:** In efforts to gain market dominance, this institution advertises and lends in larger amounts to any borrower from another MF institution.

**Debt Spiral:** The MFI has one product, originally designed for small retail operations with weekly cash flows. Without further analysis the product is extended to farmers who have a seasonal cash flow and require higher initial loan amounts. The farmer borrows the remaining amount from another MFI that offers exactly the same product and terms. The farmer cannot meet the weekly installment payments required by either MFI. She borrows from the moneylender to make the payments.

### **Ensuring Transparency**

*An example of a good practice:*

**It only takes a minute:** This FI requires all loan officers to read contracts together with the borrowers prior to signing. They use a Q&A point list for each provision to ensure that the customer understands and agrees to the terms. The contracts use clear language which is not obfuscated by legal terms.

*Examples of weak practices:*

**Wait a minute!** The institution deducts a fee at the time of loan disbursement. Borrowers are confused (and annoyed) because the amount of the loan that the organization said it had approved is not the same amount that the borrower received.

**Wait a minute! Part 2:** Effective interest rates are calculated following the banking authority formula which the contract includes. The contract also includes another APR which is what the institution actually earns. What the borrowers are told is that they pay 3% a month (the nominal rate). This rate does not appear in the contract.

*Examples of practices that make the institution vulnerable:*

**Where did all my money go?** Borrowers' mandatory savings accounts are blocked by the institution if the borrower is one day late with an installment payment. Voluntary savings accounts are also blocked and seized. The terms are in the contracts, but loan officers do not ensure that customers understand these important provisions prior to borrowing. The number and amount of voluntary savings accounts in this institution has declined.

**The extra mile matters:** No one told a new mobile banking customer that there would be a charge for each account balance inquiry. The account holder checked the balance, and it went down. He checked it again in disbelief. This process continued until the account was nearly drained.

### **Appropriate Collections Practices**

**What is appropriate?** Here are some stories that illustrate the topic:

**Visits:** Is it okay to visit the borrower's home? At 3PM in the afternoon, at 1AM in the morning? Can a collections officer sit in front of a borrower's house? How long? A story: A loan officer visited the borrower's house and place of business to collect a late payment. The borrower said that her husband was

coming from a nearby town with the payment. The loan officer asked is it okay to wait. Yes. The loan officer waited until 9PM that evening. If she had made the initial visit at 9PM, she conceded that would have been inappropriate (it would have appeared as a threat); but she was invited to stay until the husband arrived, which he never did.

**Postings:** Can a list of delinquent borrowers be posted in public? Can it be published in the newspaper? Is that considered unreasonable public harassment or embarrassment? In some contexts only government or court authorities are permitted to publish debtor information, in some contexts there may be no convention.

**Visits:** Visiting a place of employment is generally shunned, but...the loan officer arrives at factory gate, phones from gate and client goes to meet the loan officer on an established break. This was acceptable, since the client was not embarrassed in front of her co-workers and the break time was her own. In other contexts visiting the place of employment, or even making a call may not be considered appropriate.

**A kind offer:** The loan officer visits a borrower's farm. The farmer says she doesn't have the money, but has two lambs that she was intending to take to market and sell. The loan officer says I'll take you there now. The farmer agreed and sold the lambs to the butcher, paying the delinquent loan balance with the proceeds. Is this considered seizing assets, or a kind offer to pay transportation costs to the market? The organization was horrified at this behavior and sanctioned the loan officer. The reason: "For us, this is not an acceptable practice." The organization identified what they considered an "inappropriate" collections practice.

**Software Reduces Perceived Harassment:** One organization instituted specialized collections software that tracks the patterns of late payments. The system revealed that some clients are always 5-10 days late, but always repay; some clients slip more deeply towards default. The organization's collections procedures give priority to the unusual patterns, providing for a more efficient operation and reducing unnecessary collections visits that may be perceived as harassment.

**Change in attitude:** Debt collectors are rarely viewed as the borrower's friend. A client and staff survey of collections practices within the organization revealed significant complaints with collections agents and their practices. The collections department was reorganized under the legal department. Collections agents are expected to view their job as "a new face, another opportunity to pay" and the organization provides training in ethical dilemmas collections agents will likely face, using cases from experience. A second survey, undertaken one year later, shows almost no complaints with collections. This example shows how an organization's good intent is put into practice through specialization, clear procedures, staff preparation for the job, and regularly monitored for consistency throughout the organization.

### **Staff Ethics**

**A bonus for ethics!!** This organization awards an additional monthly bonus to staff members who meet 30 out of 50 criteria for ethics and customer service. The incentive program is popular.

**Know Your Job (KYJ):** This organization developed a comprehensive ethics training program that includes job-specific ethical dilemmas. The modules are based on experience of what ethical choices others have found in the job.

**Real-Time:** This organization developed an anti-corruption and fraud prevention training program, which uses real cases that have occurred.

### **Complaints Mechanism and Resolution**

**Transparency and complaints:** This organization includes call center information on the first page of all contracts. The organization also includes the hotline for the government consumer protection financial services agency on the same page.

***Compliance, Transparency and complaints Part 2:*** This organization requires the Internal Audit department to check to see that clients have been informed about the complaints hotline and their ***obligation*** to complain if things go wrong.

***Blind Spot:*** This organization undertakes a detailed customer satisfaction survey every six months to provide information for staff performance reviews. However, the information is not used to revise products and procedures, which clients find problematic

### **Privacy and Security of Client Data**

***Bankers into Social Workers:*** With the advent of new technology that loses direct contact between the teller and the customer, one FI finds staff turning into family counselors, as well as bankers. Husbands, wives and children know or can guess account access codes and PIN numbers. When the customer checks the balance and finds it low, she accuses the FI of stealing the funds. Only the security video system reveals the real culprit. The FI has made an extra effort to train clients about how to safeguard this information.

### **Responsible Pricing**

***No Penalties for Prompt Repayment!*** The bank does not charge pre-payment penalties on any loan product.

***Prices fall:*** No up-front fees or commissions are charged for the loan. This is a recent practice. When fees were eliminated, the monthly interest rate did not increase to compensate for them.

***Discounts Prevail:*** A non-bank institution offers group deals on savings accounts through established agreements with local banks, allowing groups to pool their savings and avoid charges for not maintaining minimum balances, which can be significant. The organization has negotiated agreements with local banks and convenience store outlets to cover installment payment fees that are often charged by 3<sup>rd</sup> parties for the credit transaction.

***Promises Kept:*** One organization values establishing long-term business relationships with customers over short-term profit-maximization, as demonstrated by interest rate discounts, flexible terms and guarantee requirements that are offered to repeat customers as part of customer loyalty initiatives.

## **A Note on Client Interviews**

It is important to interview clients. The main reasons: 1) interviews will provide the team with a glimpse of the FI clientele, and 2) interviews may provide some basis for assessing client-staff interactions, although this should be viewed with a great dose of caution.

The Guide is devoted primarily to an assessment of consumer protection policies, procedures and systems within the FI. It is important to recognize that client interviews will not provide a representative sample of the customer base or customer attitudes toward the FI, or customer/staff inter-actions.

The team's most important assignment is to observe interaction between FI staff and the customer. This includes observing any orientation/educational sessions that are offered by the FI, observing (but not asking questions) during the loan contract signing or collections, and observing new accounts staff interactions with customers, or marketing visits to potential customers.

The best observations are made when the team member is a "fly on the wall", for example, when sitting in a front office waiting for a branch manager interview, while clients and loan officers are going over a loan contract before signing.

### **Interview tips:**

Interviews are important because the team gets an idea of the customer base served. Client interviews can be short for the amount of information revealed, but they can serve as a glimpse of staff/customer inter-actions.

The essential questions are:

- Can you compare the FI services with others? If yes, follow-up with what do you think about them? Here you may get information on transparent pricing, efficiency, customer service.
- What do you appreciate most about the (service)?
- Is there something you would change?

### **Group interviews:**

From experience to date the most important aspects of visiting a group are to observe the interaction of the FI staff with the group.

- Does the group have questions, issues, problems that must be resolved?
- How does the staff respond? How does the group re-act and inter-act?
- How does the group manage its affairs?