THE SMART CAMPAIGN

The leading global voice on financial consumer protection and empowerment

Putting the Principles to Work:

Detailed Guidance on the Client Protection Principles

Protecting and Empowering Financial Consumers

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PREFACE

This guidance is intended to reflect the Smart Campaign's understanding of the community consensus on the meaning and interpretation of each of the Client Protection Principles (CPPs). It describes the spirit of the principles, and gives general guidance on how each principle should be applied. This is a working document, and comments are encouraged. Please address any comments to comments@smartcampaign.org. More details and latest standards are available at www.smartcampaign.org.

The 2019 update document is based on the guidance document that has been in effect since 2011. It integrates important considerations to take into account when protecting consumers from risks when financial services are evaluated and delivered through digital means.

Among the features of digital financial services that lead to revisions in this guidance are:

- Use of electronic delivery channels that profoundly change the way customers access and experience financial services.
- The reliance on technology-based decisions where humans were previously more involved.
- Complex value chains in service provision make it harder to know who is accountable for the client relationship, a critical element to address problems when they arise.
- The use of agents who are not staff of the provider to perform banking functions and who are often the only provider representatives a customer interacts with.

These developments create evolving risks to clients and manifest old risks in new forms. Accordingly, the changes in this document are proposed to adequately reflect new risks and mitigation strategies that need to be put in place to protect clients. This guidance document will be used as a reference for Smart Campaign standards and compliance criteria for digital providers, and guidance for financial consumer protection regulators.

The guidance document begins with a general discussion of each principle and then discusses product-specific applications as the principle applies to credit, savings, payment services, and insurance. The discussions by product flag especially notable concerns but are not necessarily comprehensive.

1. APPROPRIATE DESIGN OF PRODUCTS, SERVICES AND DELIVERY CHANNELS

Principle

Providers will take care to design products, services and delivery channels in such a way that they do not cause clients harm. Products, services and delivery channels will be designed taking client characteristics into account and with client feedback.

Introduction

Providers have a responsibility to exercise good faith in designing products that are suitable for the clients and to not take advantage of client inexperience or underdeveloped markets. They should take active steps to consider the characteristics of target clients during the design process. Products should function as advertised, provide value for money, and not be deceptive in design.

The following elements provide a fuller picture of what is encompassed in this concept: suitability; simplicity; no waivers of client rights; minimum changes; affordability; cooling off period; consumer protection by design; Predatory or deceptive sales and marketing techniques; and choice of partners.

1.1. Suitability. Considerable care should be given to designing products, services and delivery channels that suit client needs while being flexible. As one example, loan repayment schedules are best structured to correspond with the expected cash flows of borrowers. The point of suitability is not to over-design products for narrowly defined purposes, but to ensure that the products are designed to be useful for clients. Providers should gather sufficient information from the customer to ensure that the product is likely to meet the customer's needs and capacity. Product design should take into account the processes and technology by which products will be sold, used and serviced, encompassing the entire customer experience.

1.2. Simplicity. Simple products, including products with simple pricing, are easier for clients to understand and compare, and they may be more affordable and flexible. Simplicity implies minimizing the use of bundled products (that is, requiring a client to buy a second product, such as credit life insurance, in order to use a first product, such as a loan). We note that simplicity is not an absolute value: it must serve product relevance and usefulness.

1.3. No waivers of client rights. Clients should not be asked to waive their rights, such as the right to sue the provider, receive information, cancel use of the product, maintain privacy, etc. If a provider considers a waiver imperative, for example if a product is not viable without a waiver, then this should be made clear to the client. Waivers requested for the convenience of the provider are generally not appropriate.

1.4. Minimum changes. Products should be designed in a way that minimizes the possibility that unexpected changes in pricing, terms or fees will become necessary during the course of the product's life. This is especially important to consider in the early stages of product development, where iteration from an initial minimum viable product can lead to changes for the client. Additional risks to clients in the experimentation phase of developing and delivering new services should be borne by the provider.

1.5. Affordability. Affordability consists of two elements: the cost to the client in the form of interest rates, fees, premiums, etc. (addressed in detail under the principle on [Responsible Pricing] and, for loans and insurance products, the size of the product (loan size or insurance coverage amount) and periodic payment required. These costs should fit reasonably within the client's paying capacity, taking into account the client's overall financial situation. At the time of issuance, providers should confidently expect that clients will not have to make significant sacrifices to their standard of living or business affairs in order to pay for their financial products. These assumptions by the provider should be tested over the course of the client relationship. This is discussed further under [Prevention of Overindebtedness and Responsible Pricing].

1.6. Cooling off period. Cooling off periods allowing the client to reconsider the decision about any product are especially important in the context of first time or less educated financial consumers. Cooling off period considerations are further discussed in the individual products section below.

1.7. Consumer protection by design. For digital products, when client selection, onboarding and product use are all managed without human intervention, product design becomes the critical moment for ensuring client protection, and consumer protection principles should be embedded into the digital interfaces and channels. Financial capability and behavioral insights should be taken into consideration in the design process to comply with the Client Principles. For example, digital interfaces should ensure that products terms, conditions and use are clear to clients and allow clients to make informed decisions. This is discussed further under [Transparency].

Product, service and delivery channel design should prevent predatory sales and should not mislead or deceive clients. Providers should not design products in a way that leads to deception for their own benefits. Product, service and channel design should avoid discrimination on the basis of gender, religion and other sensitive variables.

Similarly, product, service and channel design should support transparency, data privacy and security, complaints handling, etc. Staff or third parties involved in the design of products, services or channels should be sensitized to consumer risks. Each topic is discussed further in under the relevant Client Protection Principle.

1.8. Predatory or deceptive sales and marketing techniques. Marketing practices should prevent predatory sales and should not mislead or deceive clients. Push marketing and unsolicited offers do not always assess the suitability of a product or service to a client's needs and may exploit behavioral biases. Aggressive, unsolicited sales tactics can lead clients to over-borrow or take unnecessary or even detrimental loans, which can subsequently lead to client defaults that can put clients under great financial stress and damage credit history. Providers should refrain from such tactics as set out in [Fair and Respectful Treatment of Clients].

1.9. Choice of partners. As is increasingly frequent, partnerships are used in various aspects of product design and delivery. Providers should carefully consider the choice of partners to align with their commitment to responsible finance.

Client responsibilities for Appropriate Design of Products, Services and Delivery Channels

Clients are responsible for educating themselves about their financial requirements and the responsible use of financial services. They should make reasonable efforts to understand the provisions and risks of products they select, working with the providers to ensure that they select the products that suit their needs and take their financial capacity into account. This does not absolve providers from their responsibilities to clients. Clients should understand that they are not compelled to take any products that do not meet their needs.

Product issues for Appropriate Design of Products, Services and Delivery Channels

Credit products

C.1.1. Overindebtedness. A major focus of credit product design is the prevention of client overindebtedness. Overindebtedness is avoided in product design through eligibility criteria and other terms that balance loan size against a client's capacity to repay. Other safeguards against overindebtedness are discussed under [Prevention of Overindebtedness].

C.1.2. Appropriate repayment schedule. Appropriate loan repayment schedules correspond with the borrower's cash flow. Requiring small, regular payments is the most convenient way to encourage borrower discipline and monitor performance. However, consideration should also be given to the needs of clients with seasonal cash flows, such as farmers. Large bullet and balloon payments should be avoided because they put a burden on the client to accumulate a large sum of money. Large prepayment penalties can also reduce a client's ability to use loans for productive financial management.

C.1.3. Appropriate use of collateral. Collateral can be an important element of good loan product design. However, the availability of collateral should not be the primary loan approval criterion. Excessive over-collateralization can create undue hardships for the client if the collateral is liquidated, and careful consideration should also be given to the results of liquidating collateral that is critical to the borrower's livelihood or home. It is important for lenders to have clear guidelines for what constitutes acceptable collateral. See [Fair and Respectful Treatment of Clients].

C.1.4. Compulsory savings. For loan products for which compulsory savings serve as collateral, the savings product should be designed specifically for that purpose, with full disclosure of that purpose. Clients should have the right to withdraw their savings after the loan has been repaid, because there is no longer any need for collateral. It is recommended that the provider evaluate the pros and cons of combining voluntary and compulsory savings in one account or keeping them in separate accounts. All financial institutions that provide compulsory savings, especially those that are not regulated as deposit taking institutions, should take the necessary prudential steps to ensure that these savings are not at risk.

C.1.5. Guarantees. Guarantees can be useful as a way to protect the lender's interests in case of the borrower's default, but the availability of guarantees should not be the primary decision-making criterion. There should be standard procedures for evaluating the creditworthiness of guarantors as well as the effective relationship to the client, and the consequent ability to call on that guarantor in case of default. Guarantors must be fully informed of terms and conditions (see [Transparency]).

C.1.6. Foreign currency risk. If the provider has access to local currency funding and the borrower's operations are only in local currency, then local currency loans are preferred. If local currency loans are not available, then it is important to make this risk clear to the borrower and to add an extra margin to the calculation of the client's repayment capacity to allow for devaluation risk.

C.1.7. Cooling off period. For some loan products and types of clients it can make sense to include a cooling off period, which is defined as a period of time during which the borrower can decide to cancel the loan (or other product) after the contract has been signed. Cooling off periods help to compensate for situations in which the borrower simply changes his or her mind or might have experienced sales or other pressure. The length of such a period can be commensurate with the size and term of a loan.

Savings products

S.1.1. Minimum balances. The purpose of minimum balances should be to compensate the financial institution for the cost of maintaining the account. If balances fall below the minimum, the fees should be calculated on the basis of these costs (that is, not excessive). Providers are encouraged to evaluate whether their minimum balance level might exclude part of their target market.

S.1.2. Fee structure. A topic of concern for savings accounts is fees that significantly deplete small account balances. Financial institutions are encouraged to assess how they can viably provide the account while offering a service of value for clients. This is discussed further under [Responsible Pricing]. The importance of transparent fee structures is discussed in the section on [Transparency].

S.1.3. Account closing. Unless there are significant costs associated with closing accounts, it is inappropriate to charge fees or create other restrictions to closing accounts.

S.1.4. Overdraft protection. In a number of more developed markets overdraft protection creates a risk of overindebtedness and unexpected fees for inexperienced clients. This refers to allowing clients to overdraw savings accounts when they submit payment or withdrawal requests that deplete the account and then charging interest and/or fees for this service. Providers should analyze the client's creditworthiness before providing overdraft protection, and ensure that the client understands and agrees to the product terms. The service should only be activated with client consent.

S.1.5. Cooling off period. A cooling off period may be relevant for long term savings products with limits or penalties for access.

Insurance products

I.1.1. Exclusions for health insurance policies. Policy exclusions are not always well understood by clients and can be difficult and expensive for the provider to monitor and enforce. While they may be necessary, at times, for the overall viability of the product, there is a general preference in favor of simplicity and fewer exclusions. Waiting periods can be a means of reducing the overall cost to the insurance provider and therefore making the policy more affordable for the client.

I.1.2. Credit life products. Mandatory credit life products can be designed responsibly, but sometimes they are not, for example when premiums are significantly higher than expected payouts or when clients are not made aware that they are purchasing insurance. Instead of insurance, a well-structured loan with appropriate collateral or guarantees, together with a policy for general loan loss reserves, may be sufficient to protect the lender if a client dies.

I.1.3. Cooling off period. Particularly for clients of low income or limited education it can make sense to include a cooling off period during which the client can decide to cancel the policy after the contract has been signed.

Payment products

P.1.1. Reliable payment agents. For domestic and international payments, the paying agents that receive and disburse cash are central to product delivery. As a general principle, providers are responsible for ensuring that their agents operate according to the client protection principles. Payment service providers must use their best efforts to ensure that the organization receiving and making the payment is reliable. For international payments, providers should consider advising their clients if the payment agent is not known to them.

P.1.2. Excessive delay of payment. Money transfer payments should be made within a reasonable period of time, although this advantage should be weighed against the potentially higher cost of the service.

P.1.3. Predictable exchange rate. For international transfers, it is recommended that payment providers develop a standard system for fixing the exchange rate that can be advised to the client. It is recognized that fixing the exchange rate is often the prerogative of a third party and can therefore be beyond the control of the payment provider.

2. PREVENTION OF OVERINDEBTEDNESS

Principle

Providers will take adequate care in all phases of their credit processes to determine that clients have the capacity to repay without becoming overindebted. In addition, providers will implement and monitor internal systems that support prevention of overindebtedness and will foster efforts to improve market level credit risk management (such as credit information sharing).

Introduction

Over-lending is perhaps the client protection problem most likely to cause significant harm, both to individual clients and to providers. Practical experience of overheated credit markets as well as behavioral research have repeatedly demonstrated that borrowers have difficulty in realistically assessing their loan repayment capacity and may be prone to cognitive biases that can contribute to over-borrowing. Providers have a duty to ensure that they do not take advantage of these tendencies. The most important way to do so is through credit processes that assess client capacity to repay. The entire credit process (from sales through collections) should be designed with this in mind, and other internal systems (data analytics, human resources, internal audit, etc.) should provide further reinforcement. As overindebtedness frequently appears in markets that are especially competitive or expanding rapidly, it is also important for providers to participate in market-level initiatives to prevent overheating, such as the development of credit reference systems.

When digital lending based on predictive algorithms replaces traditional repayment capacity assessment, different methods for controlling overindebtedness are needed. Rather than verifying income and expenses for each loan, and especially for very small loans, responsible digital lenders will use ex ante and ex post assessments at the loan portfolio level to verify that automated decision making adequately protects customers from debt stress.

Prevention of overindebtedness includes the following: defining overindebtedness; loan underwriting; information verification; use of credit bureaus; loan renewal, refinancing and rescheduling; production targets and incentives; and monitoring systems.

2.1. Definition of overindebtedness. Lenders should maintain an operative definition of overindebtedness that takes into account client debt stress to help evaluate whether they are lending responsibly. An example of such a definition is, “A state in which a borrower has to

make significant sacrifices to his or her standard of living or business affairs in order to repay debts."

2.2. Client underwriting process.

- Repayment capacity analysis. Analysis of an individual's repayment capacity is a best practice for assessing creditworthiness, and is often accompanied by checks to assess willingness to repay. This assessment will typically include a careful analysis of the borrower's existing cash flow, with considerably less emphasis on additional cash flow anticipated as a result of any new borrowing. Collateral and guarantees can be used as a secondary source of repayment and as confirmation of the borrower's commitment to repay, but not as the fundamental basis for loan approval. In determining loan amounts, it is recommended that this methodology be accompanied by a quantitative loan approval limit based on the ratio of available cash flow to debt service payments. This ratio should incorporate a cushion for error and unexpected expenses. It should also be adjusted as needed; for example, during a period of high system-wide delinquency a more conservative ratio may be called for.
- Algorithm-based lending. When credit decisions are made using electronically sourced data and sophisticated analytics to generate predictive credit scores, the individualized repayment capacity method for preventing overindebtedness does not hold. Especially for very small loans, the credit process is often 100 percent automated, and it is not feasible to check repayment capacity for each loan. Providers should practice sound algorithm governance, which involves care in constructing algorithms and selecting data (ex ante), coupled with monitoring of the default performance of the resulting portfolio and evidence about indebtedness and client stress among selected borrowers (ex post).
- Algorithm governance. Responsible algorithm governance principles should be reflected in internal procedures. Principles include: privacy protection, internal checks and balances (review of algorithm design by a unit other than the designers, such as internal audit), and non-discrimination. The choice of which data sources to use should follow a data minimization principle: to collect only that data shown to offer the best proxies for or predictors of repayment capacity and willingness. Algorithms will avoid discrimination on the basis of gender, religion and other sensitive variables. This topic is elaborated under [Appropriate Design of Products, Services and Delivery Channels].
- Group lending. When decisions on loan eligibility and amount are delegated to borrower groups, guidance and training should be provided to the groups on a clear system for quantifying and monitoring the repayment capacity of group members.

2.3. Information verification. Where feasible, the process for assessing debt capacity should include a requirement for confirming information provided by an applicant, such as reference checks and site visits. This information can be useful for assessing not only the applicant's ability to repay but also capacity and willingness to repay.

2.4. Use of credit bureaus. In addition to assisting lenders to avoid lending to bad credit risks, credit bureaus can help build positive repayment culture in a market. Lenders should consult

credit bureaus during the underwriting process and should provide timely and complete information on their borrowers to credit bureaus as permitted by law. A provider also has an obligation to inform a client when it reports negative information to a credit bureau.

An exception to credit bureau reporting may be made for very small loans and/or loans made during an early "algorithm training" period where high-default loans are made as a way to hone the model. Customers should not have to bear the consequences of blacklisting for very small defaults or for loans offered with insufficient analysis in the underwriting process.

2.5. Loan renewal, refinancing and rescheduling.

- Automatic loan renewals. Updating client assessments at the time of a new loan request or at an established periodic interval is an important element to ensure that automatic renewals do not conceal borrower problems.
- Refinancing. Recognizing that, like multiple lending, loan refinancing poses a significant risk of over indebting clients by creating pressure to unsustainably increase loan sizes, refinancing should be used cautiously, and not as a way to artificially increase loan sizes or hide delinquencies.
- Rescheduling. Clients sometimes face hardship that minimize their ability, if not willingness, to repay a loan. Providers are encouraged to have flexible terms and conditions for extreme cases and treat these exceptions in a non-discriminatory manner.

2.6. Production targets and sales incentives. Providers utilizing performance targets and monetary incentives for employees should be required to have a policy in place to ensure that incentive schemes are reasonable in comparison to industry benchmarks and market risks, and a documented process that allows the provider to monitor high-risk portfolios and identify red flags. The provider should have sustainable target growth rates considering the markets in which it is engaged.

2.7. Monitoring systems. Whether they use traditional or algorithmic underwriting, lenders must regularly monitor the status of their portfolios, not only to ensure soundness but also to check on the likelihood that a high proportion of borrowers are suffering debt stress. If a portfolio generates a consistently high arrears and default rate, and especially if late fees fully compensate the lender for these arrears, this is prima facie evidence of a lending model that generates debt stress and needs to be adjusted. Lenders should set threshold levels for arrears and defaults beyond which lending models are recalibrated. Because many customers suffering overindebtedness continue to repay their loans while making high personal sacrifices, lenders should check in with samples of clients from time to time to gauge their levels of indebtedness and debt stress. This direct-to-client monitoring may take many forms.

Client responsibilities for Prevention of Overindebtedness

Clients are responsible for educating themselves on the prices, terms, and conditions of the loans they take. They should make a realistic assessment of their capacity to repay a loan

before borrowing, and should not borrow funds they do not need or cannot repay. Clients are also responsible to provide full and accurate information about their financial situation when applying, and to inform the provider if they are having difficulty repaying the loan.

Product issues for Prevention of Overindebtedness

As this principle is specific to credit, which is fully discussed above, there are no further product issues.

3. TRANSPARENCY

Principle

Providers will communicate clear, sufficient and timely information in a manner and language that clients can understand, so that clients can make informed decisions. The need for transparent information on pricing, terms and conditions of products is highlighted.

Introduction

Transparent communications enable clients to take responsibility for their own financial service use. When clients have clear, sufficient and timely information about product options, they are equipped to decide what products are best for them and to accept the consequences of their decisions. By fostering an atmosphere of open communication, transparency also strengthens the relationship between microfinance providers and clients. In addition, transparency – particularly pricing transparency – contributes to the development of efficient financial markets by laying the groundwork for fair competition and supporting responsible pricing.

For clients with low levels of education or literacy, who may be unfamiliar with formal financial products and their terms and conditions, it is the responsibility of providers to ensure that they communicate with clients in a way that clients can understand, such as using plain language in the local vernacular, and in some cases communicating orally or in pictures. It is especially important to highlight the need for complete information on interest rates and fees, which may need to be communicated in multiple times, places and formats. "Key Facts" documents that summarize all the most important terms and conditions in easily understood language can be especially useful.

The following core elements of product transparency provide a picture of what is encompassed in this concept: clear use of language; complete cost and non-cost information; appropriate timing of disclosures; informing clients of partner relationships; informing clients of their rights; and confirming client understanding.

3.1. Clear use of language. Transparency requires using plain wording and straightforward terms, in the client's own language, wherever possible. If complex wording must be used for some reason, this should be highlighted and explained. Extensive use of footnotes, small fonts and information provided in obscure locations are to be avoided. They can be confusing or misleading for clients. Attention should be paid to the needs of clients who cannot read or who

have barriers to understanding such as blindness or, for youth, lack of experience. These guidelines apply to all means of presenting information, including advertising, product descriptions, user screens and contracts.

When communicating through digital means, it is especially important to design user interfaces that are easy to understand and navigate, while ensuring that essential disclosures are conveyed and available for clients to review at any time.

3.2. Complete cost information. Complete cost information entails explaining interest rates, exchange rates, penalties, premiums and fees. Information about third party fees and commissions should be provided as well. Advance termination penalties and fees for late payment should also be disclosed. Information about fees includes when fees are payable and the events that will trigger fees or payments. In addition, clients should be advised whether and by how much any product terms, such as interest rates, can change during the client's use period, under what circumstances and how notice will be provided. Pricing and return information should be readily available to clients in multiple locations (e.g. posted, in marketing materials on websites and apps and in the client's own account documents).

3.3. Complete non-cost information. Providers should also ensure that any non-cost attributes of products are made clear to clients, such as switching barriers, what happens in the case of delinquency or default, and the like. Bundled products require particular attention, because they can be harder to understand and to compare with other products. Transparency also entails advising clients of their rights, including any waivers of their rights, how to make complaints, and privacy of information. These issues are also discussed under [Appropriate Design of Products, Services and Delivery Channels], [Mechanisms for Complaint Resolution], and [Privacy and Security of Client Data].

3.4. Appropriate timing of disclosures (before, after and at time of purchase). Because clients need time to review product information and contracts, to compare options and ask questions, relevant information must be provided in a time frame that enables clients to make their decisions without rushing. This concept applies to information provided during the marketing period and when the product contract is signed. In addition, loan and insurance products can sometimes have cooling off periods that give the clients a certain amount of time after contract signing to cancel the contract without penalty. Cooling off periods are designed to protect clients from making decisions under pressure, and ultimately they protect the financial institution from defaults due to product-client mismatches.

Timeliness also applies to providing clients with information during the lifetime of their product use, such as providing account statements and access to account information between account statement periods.

3.5. Informing clients of partner relationships. When services are provided by a partner rather than staff of a provider (i.e., an agent), the partner should ideally meet the same standards of

transparency as the provider. Nevertheless, it is recognized that partners may not be in a position to provided highly detailed information or respond to detailed questions. At a minimum, partners should inform clients of their relationship to the principal service provider and make available contact information for the principal service provider, to enable clients to make enquiries or lodge complaints.

3.6. Informing clients of their rights. Client must understand their rights in order to be able to respond appropriately when they are not being treated responsibly. Information about client rights, including what is not acceptable behavior by the provider's staff, how to make complaints (and what to expect about their resolution) can be provided orally and in written materials.

3.7. Confirming client understanding. Microfinance providers are responsible to the best of their ability for ensuring that their clients understand the products that are offered. Fulfilling these responsibilities entails taking steps to make sure the procedures actually work. Measures that providers can use include client call-backs, check lists to review with clients, key facts documents and/or use of glossaries. A broader perspective on client understanding can be gained through analysis of complaints and inquiries.

Client responsibilities for Transparency

It is the client's responsibility to take advantage of the opportunities that transparency provides to select the products and providers that best suit her/his needs. Clients should not accept a product whose terms they do not believe they can meet. The client is expected to review the information provided, to make comparisons with other products and providers as relevant, and to make sure that all questions are answered before making a decision. Clients are also responsible for being transparent and honest about the information that they give to providers.

Product issues for Transparency

Credit products

A combination of total cost of credit (TCC) and a standard annual percentage rate (APR) or effective interest rate (EIR) format is ideal and should be used for credit, based on local industry norms or regulations, in addition to other information.

<u>C.3.1. Total cost of credit.</u> The minimum standard of information to provide to clients about the cost of credit is a total cost of credit (TCC) approach that details:
An amortization schedule, showing disbursement and repayment dates and amounts, broken down by principal and interest and displaying any fees, insurance and fees and commissions.
Total charges over the life of the loan: interest, fees, commissions, penalties, mandatory insurance, etc.

Any payments of compulsory savings/cash deposit/loan guarantee fund and any interest earned thereon.[1]

C.3.2. Comparable pricing. It is highly desirable for providers to disclose the APR or EIR equivalent on the repayment schedule to clients. Industry participants should also work to create an environment where comparative transparency is possible using standardized, annualized calculations such as APR or EIR, and participate in industry initiatives when available.

C.3.3. Location of disclosures. All fees should be disclosed by channel (mobile, ATMs, agent, etc.). In addition to public posting of general product-based interest rate information on websites and apps, in branches and on informational materials, providers should indicate the APR or EIR of the specific loan on the loan documentation – e.g., on the loan contract and repayment schedule or passbook.

C.3.4. Foreign currency risk. Clients who borrow in foreign currency should be advised of the risks entailed, including examples of how exchange rates would affect their required interest and principal payments.

C.3.5. Cooling off period. If a cooling off period is part of the credit product, it is important to make clear to clients how long the period lasts, how to cancel the loan, and what, if any, cancellation fees apply.

C.3.6. Guarantees. Clients and third party guarantors of individual borrowers should understand the responsibilities entailed in providing guarantees, such as processes and payments required when a guarantee is called; and the consequences if the guarantee obligations are not met. Guarantees should be for specific amounts (not open-ended) and for specific loans and the guarantor should receive a copy of the loan agreement. Depending on local laws and practices, it is recommended that providers consider the advisability of ensuring that both spouses in married couples be made aware of any borrowing or guaranteeing obligation undertaken by the spouse and the role of parents in guaranteeing the financial obligations of youth.

C.3.7. Delayed or failed payments. Clients and guarantors should be provided with information about what will happen in the case of delayed or non-payment. The consequences can include increased interest rates, increased fees, visits by loan collection agents, worsened credit rating, calling of guarantee, legal fees, court procedures, loss of collateral and/or savings balance. It is also important for clients and guarantors to understand their obligations if the proceeds from liquidation do not cover the loan amount due.

[1] For loans that have a compulsory savings requirement, transparency requires advising the borrower of the cost of the loan net of the savings deposit.

C.3.8. Group loans. For loan products that use group guarantees, it is important to ensure that the members understand the financial and reputational risks that they face if a group member is unable to fulfill his or her responsibility to the group. This should be specified in writing.

Savings products

S.3.1. Access to savings. It is important for clients to have clear information about when and where they can access their savings and any access restrictions that might apply.

S.3.2. Fees. All fees should be disclosed, including for account opening and closing, account maintenance, balance inquiries, withdrawals, payments and transfers, by channel (mobile, ATMs, agent, etc.). If fees vary depending on account balances and/or usage (for example, if certain services are free if balances are above a certain minimum), this should also be made clear.

S.3.3. Interest rate calculations. The interest rate information required is: the percentage interest rate; how it is calculated (on the basis of the original deposit or compounded for interest accruals) and how often; the annual percentage yield; whether the interest rate can be changed and, if so, how often.

S.3.4. Minimum balances. Any minimum balance requirements and consequences (higher fees, ability to earn interest, account closure, etc.) if balances fall below the minimum.

S.3.5. Compulsory savings. If there is a compulsory savings or compensating balance requirement, the client should be advised about the terms of access to the account, including any procedures by which the lender can use the savings account to compensate for unpaid loan installments by blocking the account or seizing the balances in the account. If compulsory and voluntary savings are held in one account, differences in treatment must be made clear, such as differences in pricing, terms of access, balance information, etc. Clear information about pricing is particularly important, because the client's costs potentially include interest foregone on the compulsory savings deposit, and the loan interest rate is implicitly higher due to the offset of savings against loan size.

S.3.6. Account closure. Account closing procedures, including any additional fees and the time required to liquidate final balances, should be clearly available.

S.3.7. Deposit insurance or guarantees. Clients should be advised about the existence of deposit insurance or other guarantees, to cover depositors if the institution fails, with information about the amount of deposits guaranteed and any fees, if relevant. In cases without insurance, it is important for clients to understand that their savings may be at risk if the institution fails.

Insurance products

Regulation of the insurance market plays a key role in the effective implementation of the Client Protection Principles, although this topic is beyond the scope of these guidelines. Issues specific to insurance products fall into the following five categories:

I.3.1. Type of product. Clear information is necessary about specific loss events covered and the amount of coverage, including deductibles and co-payments. If there are waiting periods prior to the effective date of the policy (or even the beginning of a health condition), explanation is required.

Conditions or events that are excluded from coverage, must be highlighted. This is particularly important if the policy excludes pre-existing conditions. Clients must also understand any expiry conditions, such a health insurance policy that expires after the client reaches an age limit.

The issue of whether the client is reimbursed for expenses (an indemnity policy), or if the insurance company pays on the client's behalf, is particularly relevant for low income clients, because of the difficulties they might have in making upfront payments.

I.3.2. Specifics of the application process. Clients should clearly understand potential penalties for non-disclosure in application forms, including grounds for denying coverage or claims. This can be a particularly relevant consideration for clients with pre-existing conditions.

If the application process includes a fee, clients should be advised whether the fee will be reimbursed if the application is refused.

If there is a cooling off period after contract signing, the terms of the period should be made clear: length of the period, policy cancellation fees, and cancellation procedures.

Insurance sales people can have different incentives depending on whether they are agents (working for the insurance company) or brokers (working for the client). In the latter case, it is important for the client to know what fees, if any, the broker is receiving from the insurance company, because this could potentially create a conflict of interest. Cases in which a lender is receiving a fee from an insurance company should also be made clear.

I.3.3. Premium payments. The consequences of late payments are critical for the client to understand, since the client risks losing the policy and the value of all preceding payments. This consideration can be particularly important, because the common practice of annual premium payments can create a significant challenge for the client's cash flow management. Providing sufficient advance notice of premium payments can help clients remember and prepare for payments.

I.3.4. Claims. Clients should be given clear information about how to file claims, how they will be paid, whether there are any conditions to being paid (such as having a bank account), and

how long they should expect to wait for payment. The client has to understand that it is his/her responsibility to initiate this process.

I.3.5. Surrender value. It is important for client to understand whether they are entitled to the surrender value of a life insurance policy (if a policy is cancelled before it becomes payable) and if so how the value is calculated.

Payment products

P.3.1. Product details. Full transparency from a payment provider requires providing the following information in response to inquiries, regardless of whether the inquirer has committed to make a payment or take any other action, such as opening an account:

- *Net amounts*. The amount of money to be paid by the sender, in the sender's currency, and the amount of money to be received by the recipient, in the recipient's currency.
- *Fees and other costs*. The fees to be charged by the paying agent and the receiving agent, as well as any other costs (for example taxes).
- *Exchange rate*. The exchange rate to be used, as well as any margins added to the exchange rate.
- *Timing*. When the payment will be made and, if there is any time lag, when it will be received.
- *Collection*. For payments not made directly to bank or mobile accounts, where and how the money can be collected (e.g., identification required, payment confirmation numbers).
- *Possible variations*. Whether any of the factors above varies depending on such issues as whether the sender has an account with the sending agent; whether the payment is cash to cash, cash to account, account to account, etc.; whether there is detailed information about the receiver (such as account information), etc.
- *Cancellation*. Information on cancellation/amendment procedures and any charges.
- *Errors*. Information on how to follow up if a transfer is not correctly executed or is delayed.

Although in an ideal scenario the above product information would always be made available, there are constraints that could make this infeasible. In these cases, the payment provider should explain to the client why the information cannot be provided.

4. RESPONSIBLE PRICING

Principle

Pricing, terms and conditions will be set in a way that is affordable to clients while allowing for financial institutions to be sustainable. Providers will strive to provide positive real returns on deposits.

Introduction

Providers should price their products and services in a way that contributes to the long-term financial health of their clients while meeting their own needs for financial sustainability. Financial sustainability is a necessary requirement for continuing to serve clients. Therefore, providers should strive to achieve efficiencies that allow prices to be as affordable as possible and deliver reasonable value-for-money. Pricing requires careful attention when serving the poor, because low-income clients operate with such constrained financial resources. Pricing can be a particular challenge in markets where competition is not playing a significant role. Therefore, providers have a responsibility to take into consideration the client's ability to pay while examining their own operational efficiency and profit. Transparency is a pre-condition for responsible pricing, because it enables clients to understand and compare products and providers.

The following elements are encompassed in this concept: pricing procedures and fees.

4.1. Pricing procedures. It is recommended that providers use a formal pricing procedure for each product that takes into account the cost to provide; affordability for the client; desired profit for the provider; and any other objectives, such as serving very poor people, maximizing cross-selling opportunities, etc.

The pricing procedure should include a comparison of the provider's pricing with that of competitors offering similar products. If the provider's pricing is substantially higher or lower, responsible pricing implies that the provider should be able to justify this difference to its clients and other stakeholders. Lower pricing is inappropriate if it reveals that the provider is unsustainable or has a strategy to gain market share and then raise prices later. Higher pricing should raise concerns if the provider has higher operating costs than the competition, i.e., is passing the cost of its inefficiencies to its clients. Particular attention must be paid to monopoly and near-monopoly markets, in which competitor comparisons are unlikely to provide a full picture of whether a provider's pricing is responsible.

In addition to reviewing pricing on a product-by-product basis, it is recommended that providers consider how product pricing and product costs are reflected in the provider's overall profitability. Providers that appear to be unusually profitable on an overall basis compared to their competitors would then evaluate whether their level of profitability is consistent with the long-term benefit of clients. The provider's board of directors may consider establishing target return on assets, return on equity or other relevant profitability targets. It should not be automatically assumed that high profits are inconsistent with responsible pricing; they could be justifiable, for example, when client needs are being served and the profits are being used to build up equity (and attract loans and investment) to strengthen the provider over the longer term.

4.2. Fees. Fees can contribute to a lack of pricing transparency, both for calculating overall product cost and because some fees are contingent and may not be anticipated or understood by the client. Therefore, as a general principle, it is desirable to minimize fee-based pricing.

When fees are necessary, the purpose should be to provide a reasonable coverage of the provider's costs for a specific service and to encourage appropriate behavior by the client. It costs money for financial institutions to open accounts, accept loan prepayments, pay insurance claims, etc., and it is legitimate for providers to be compensated for those services. Fees can also help to encourage appropriate client behavior, such as late payment fees that encourage on-time principal and premium payments. In encouraging appropriate client behavior, however, it should be borne in mind that poor clients face a relatively high level of unpredictability in their lives. Therefore, a fee structure that is costly for clients facing unexpected situations, such as one featuring high penalty changes, is to be avoided.

It is not appropriate to charge fees that are so high that they harm the client, such as late payment fees that make burdens unrealistically high or account maintenance fees that rapidly reduce client savings. It is also not appropriate to charge fees that are designed to limit client choice, such as account closing fees.

Client responsibilities for Responsible Pricing

Clients have a responsibility to inform themselves about price, other relevant product characteristics, and attributes of the provider. It is responsible for clients to comparison shop to ensure they have selected products and providers that meet their needs well. Clients should be aware that price is not the only relevant factor in selecting products; other product terms and provider characteristics should be considered as well. Clients should be alert to situations in which the product pricing seems unusually high or unusually low and try to understand the rationale.

Product issues for Responsible Pricing

Credit products

C.4.1. Loans with compulsory savings. Loan products with compulsory savings reduce the net loan exposure to the lender and therefore raise the effective interest rate for the borrower. Responsible lenders are expected to take this into account when calculating the appropriate loan interest rate, in addition to ensuring that mandatory savings requirements are appropriate for the risk level of the loans.

C.4.2. Pricing trends. During the early stages, when operations are relatively inefficient, such as during an algorithm "training" period, higher prices may be justified. However, as institutions become more efficient over time, some of the benefit of increased efficiency should be passed on to clients in the form of a trend toward lower prices.

Savings products

S.4.1. Fees. As was noted, fees that are disproportionately high relative to small deposit balances do not serve the needs of clients. Providers are encouraged to assess how they can best provide deposit services to clients without charging fees that absorb a major share of the principal of the account. If this is not possible, they may consider whether the product has sufficient value to clients to warrant offering it.

Insurance products

I.4.1. Claims ratios. Claims ratios vary according variables such as whether the product is mandatory and pricing methods used. While standards for inclusive insurance are still evolving, a minimum claims ratio is expected. It is considered best practice to adjust pricing based on actual claims experience.

I.4.2. Premium discounts. Providers can also adjust pricing based on risk incurred, by providing policy renewal discounts for clients that have paid on time and have had no claims.

Payment products

P.4.1. Competitive information. As noted, payment providers cannot always control the cost of payment products, because they often rely on at least one other party to effect the payment. However, providers can compare their pricing with the market using published data.

5. FAIR AND RESPECTFUL TREATMENT OF CLIENTS

Principle

Providers, their agents and their products will treat their clients fairly and respectfully, avoiding discrimination. Providers will ensure adequate safeguards to detect and correct corruption and aggressive or abusive treatment by staff and agents, particularly during sales and debt collection.

Introduction

Client selection and treatment should not involve discrimination on the basis of race, ethnicity, gender, political affiliation, disability, religion, orientation or age. Non-discriminatory treatment is important for providing access to financial services to all clients who can use them and builds their confidence in the fairness of the provider. Non-discrimination applies to both digital and staff-based selection and treatment.

Every direct interaction between clients and staff should be characterized by honesty, fairness, and respect. Because of their low socioeconomic status, low income clients may often receive poor treatment when interacting with mainstream business or government organizations. This is not acceptable. Respectful treatment is particularly important to maintain during loan collection, when clients are sometimes perceived as no longer deserving of respectful behavior.

Providers should have zero tolerance for any form of corruption on the part of their management, staff or agents, including fraud, kickbacks and favors requested or demanded from clients.

The following elements provide a picture of what is encompassed in this concept: non-discrimination; commitment to code of ethics; appropriate incentive structure and sales practices; responsible use of agents; preventing staff corruption; and client feedback.

5.1. Non-discrimination. Non-discrimination means treating all clients equally, regardless of their race, religion, ethnicity, political affiliation, disability, age, orientation or gender. Terms and conditions may be set based on risk and accommodation (e.g., for disability), but risk assessment cannot be based directly upon the sensitive categories such as those listed above, and care should be taken substituting proxies for these categories. See [Appropriate design of products, services and delivery channels].

When client selection is processed by algorithms, responsible non-discrimination requires prior review of the data used in selection, and periodic assessment of the results. As noted in the section on [Prevention of Overindebtedness], good algorithmic governance includes internal review of the data and design through checks and balances such as internal audit.

Implementation of non-discrimination can sometimes be complicated for providers created specifically to address the needs of people who have previously experienced discrimination in accessing financial services, for example, women. While such focus can often be a desirable choice for overcoming social ills, a provider with a specific focus group of clients should evaluate periodically whether this focus continues to be the best way of achieving its objectives.

5.2. Commitment to code of ethics. The core of the responsible treatment of clients derives from a genuine commitment to the code of ethics that is upheld and enforced throughout the institution, from the board of directors to entry level staff. A code of ethics states the institution's mission and articulates its organizational values, such as fair treatment of clients. In some codes unacceptable behavior is explicitly defined, and in some of these cases the penalties are specified, while in other codes the concept of unacceptable behavior is implicit. A written code alone will not generate this behavior; it has to be embedded in employee thinking and behavior. A code of ethics can help to reinforce this behavior by being treated as a relevant, "living" document: it should be approved by the board; signed by employees and board members; and reviewed or updated regularly.

5.3. Appropriate incentive structure and sales practices. It is important to ensure that staff compensation is aligned with responsible behavior. Irresponsible behavior must not be rewarded (for example bonuses linked to sales without regard for loan quality), but providers could also create incentives to reward staff for good client relations. In designing their incentive

structure, providers are also encouraged to be vigilant about the risk of mis-selling products that clients cannot afford or otherwise unsuited to their clients' circumstances and needs.

5.4. Responsible use of agents. The key point underlying provider relationships with agents is that the provider is responsible for the behavior of agents and third parties that provide the service. Providers cannot be responsible for every detail of the treatment of their clients by third party agents, however, they must take due care that the fundamental principles described here are practiced by their agents and that procedures for recourse and problem resolution are available to clients. Providers are encouraged to consider how to ensure that their agents comply with the standards for responsible treatment of clients.

It should be noted that outsourcing of client acquisition for loans to commissioned agents has been associated with aggressive sales.

5.5. Preventing staff corruption. The responsible treatment of clients clearly excludes obtaining money or other favors from clients in return for providing products, as well as other forms of corrupt staff behavior. A strong corporate culture can help limit corruption to some extent, because it should create an environment in which other employees feel safe to be whistle blowers if conditions warrant. An important tool is a secure way for an employee to report anonymously any inappropriate staff behavior. However, providers should also implement a robust system for detecting and correcting fraud and corruption, including effective internal controls and a commitment to address all cases of corruption quickly and, if possible, openly, in order to create deterrents. Clients should be made aware of these policies to help remove any fear they may have of reporting on unethical behavior. Fraud detection and control is discussed further under [Privacy, Security and Integrity of Client Data].

5.6. Client feedback. Important tools for assessing a provider's success in fostering the responsible treatment of clients are regular client surveys; "mystery shopping" in which a specialist poses as a client; and an effective system for addressing client complaints. The latter topic is addressed in detail under the section on Effective Problem Resolution.

Client responsibilities for Fair and Respectful Treatment of Clients

Clients are expected to behave responsibly in their dealings with providers, which above all means honesty in representing themselves, good faith efforts to comply with the terms of product use and non-abusive behavior towards provider staff and agents. Clients must never accept unethical behavior from staff (or from loan group members) by paying bribes or providing favors in order to obtain services. It is important for clients to register serious   for Fair and Respectful Treatment of Clients.

Product issues for Fair and Respectful Treatment of Clients

Credit products

C.5.1. Avoiding overselling. Avoiding the overselling of credit products deserves highlighting as a critical element of the responsible treatment of clients. Overselling poses risks for all clients, as research shows that human beings are often susceptible to sales pitches or unable to realistically assess their current and future loan repayment capacity. Clients with less education and many unmet needs may be even more susceptible. Clients in highly competitive markets in which there is not reliable credit bureau information can be particularly vulnerable to overselling, because it is difficult for lenders to assess their clients' true financial picture. Comments made earlier about incentive structures of those involved in the sales, approval and product delivery process are particularly relevant in the case of credit.

C.5.2. Appropriate collections practices. Ensuring the responsible treatment of clients during the debt collection process is a complex challenge. It is common in these circumstances for a client to be perceived as a problem who must be frightened, shamed or harassed into repayment. It is therefore important for lenders to have procedures that articulate inappropriate collections behavior and the sanctions that will be applied if that behavior is used. If collections are outsourced, the outsourcing agency must commit to these procedures as well, while the provider remains accountable.

Although norms of appropriate behavior differ by country and culture, prohibited examples may include the use of physical force; contacting the client too often or at inappropriate times; humiliation; and compromising the client's right to privacy. As was noted under the section on [Appropriate Products, Services and Delivery Channels], lenders should have clear guidelines for what constitutes acceptable collateral. Seizing of collateral critical to a client's daily survival or substantially in excess of the value of the loan is not acceptable, because seizing that collateral will only exacerbate the borrower's problems.

Savings products

S.5.1. Compulsory savings. Institutions that do not have deposit-taking licenses but whose loan products include compulsory savings have a particular obligation to ensure that the clients' deposits benefit from adequate protection measures.

Insurance products

I.5.1. Mis-selling and overselling. Clients face unusual challenges in assessing the need for and value-for-money of insurance products. They are at risk of purchasing a product that does not fit their circumstances, paying too much, losing the full value of their premiums if they are unable to continue making regular payments, or having their claim denied when the insured event occurs. These inherent challenges are exacerbated by the prevalence of intermediaries such as brokers. Providers that are marketing insurance products to lower-income people need to exercise particular care to be sure that sales practices as well as products are appropriate for this client segment.

I.5.2. Use of call centers. Requiring clients to contact a call center in order to activate an insurance policy can be an effective way to ensure that the client actually wants the policy (and to counter the risk of possible overselling) and to ensure the client's understanding of the product terms.

Payment products

P.1.1. Agents. Providers must take due care that the fundamental principles described here are practiced by their agents.

6. PRIVACY, SECURITY AND INTEGRITY OF CLIENT DATA

Principle

The privacy of individual client data will be respected. Providers will only use client data for authorized purposes and with client consent. They will maintain systems to keep client data from being released improperly or misused and to protect clients from fraud, whether by internal staff, partner companies or bad actors.

Introduction

The confidentiality of personal information is a right that protects privacy and individual liberties. Providers need a clear understanding of client data privacy rights and of the appropriate treatment and handling of client data. They also need effective systems for protecting data from unauthorized use. Privacy of personal financial information is particularly important to prevent losses due to theft and fraud. The increasing complexity of the technology used to manage client data, together with burgeoning amounts of data in use, heighten the challenge for providers to maintain the privacy of client data. Clients also have a responsibility to safeguard the financial information they hold and to correct inaccurate data about themselves.

The following elements of client data privacy detail what is encompassed in this concept: data privacy policy and procedures; information provided to clients about their rights and consent; sharing client data; data security; and data integrity.

6.1. Data privacy policy. Financial services provider must have a privacy policy and associated procedures. The policy should establish the principle that client data is to be kept private unless otherwise mandated by law. Client data includes any information the institution holds in connection with providing products or services to the client: identity, financial and transaction information, and information obtained from other sources such as mobile phones, credit bureaus or the internet. An appropriate privacy policy would address:

- Definition of client data covered by the privacy policy.
- Establishment of the principle of data minimization: data is only collected that is directly necessary for the provision of financial services and is only retained while needed or

legally required. This principle avoids unnecessary intrusion into client lives and reduces risks of data misuse. Any data that could be used for illegal or merely arbitrary discrimination, such as information about ethnicity, religion, political affiliations, etc., should not be collected.

- In keeping with the above, details on: what types of data are obtained and how, who obtains it, and the purposes for which it is used.
- Affirmation that clients have the rights to: be informed about and consent to the use of their data, review their data, and correct inaccurate information.
- A statement regarding the conditions under which data can be shared with third parties.

6.2. Data privacy procedures. The procedures explain how the provider operates to protect client data, including:

- Organizational location of overall responsibility for client data privacy
- Procedures for internal staff access to client data and how data is protected from unauthorized access. This involves restricting access to individual data to staff not directly involved in service delivery.
- Procedures to be followed for sharing information with outside service providers, such as marketing companies, data processing companies, collections agencies, etc.
- Ensuring that outside service providers process follow appropriate data privacy procedures
- Procedures to be followed in the case of voluntary waiving of client data privacy (under the general principle that waivers should be as limited to specific information and uses as much as possible)
- Procedures to be followed in the event of a privacy breach or complaint

6.3. Informing clients about their data rights and obtaining consent. Providers should share the key facts about their privacy policy and procedures in simple language. Key topics include what data is used and for what purposes, as well as procedures for clients to review their data and verify its accuracy, to request transfer of data to other parties, and to follow up in case of a breach. Clients should be provided with a simple means to review data maintained about them. Clients should be instructed on their responsibilities for ensuring data confidentiality, such as storing any records in a secure location and protecting personal identification codes.

In cases where financial institutions share client information with other entities for cross-selling purposes, the client should understand clearly that the data is being shared and have the right to opt out of participating (in writing). (Note that clients do not typically have the right to opt out of sharing information with third parties contracted as part of the service delivery process, such as marketing, data analysis, collections, etc.)

Financial services providers should have clear procedures when a client chooses to waive privacy rights, such as sharing credit history with another lender or a potential employer. Waivers should be for specific and limited purposes; clients should not be requested or required to sign more general waivers that eliminate most or all rights to privacy. Any waivers

should be written simply and clearly, be explained to the client, and, when feasible, signed by the client.

6.4. Sharing client data. Sales of client data to third parties are generally not in keeping with good privacy practice. Except at the request of the client, data on individual clients should only be shared with third parties who are directly involved in delivery of a financial service, and those third parties must agree to adhere to high standards of data privacy and protection. When data is shared, good practice is for the financial services institution to provide only the information required by the other institution, not the entire client file.

Whenever possible, access to data identifying individual clients should be limited to those with a direct need to interface with that client or client account. Many data users will be able to perform their functions without access to client identities, such as through tokenization or aggregation, and providers should install such processes where feasible.

Any use of client testimonials, photographs and/or case studies in marketing or other public materials should be agreed upon in advance in writing by the client. The provider is responsible for ensuring that this principle is enforced not only with its own staff but also with other organizations that have client contact on the provider's behalf, such as investors.

6.5. Data security. The financial services provider should have robust systems and procedures for ensuring the security of client data. Data should be maintained in secure systems with protections against unauthorized access as well as theft and damage. Staff should be informed and trained regarding procedures for maintaining data security. Access to data should be limited to authorized users, with robust authentication in place for staff, agents and clients. Good cyber hygiene should address both storage and movement of data, proper use of encryption and firewalls. Business continuity plans and audit trails should be in place, as well as protocols for response to data breaches. Given the evolving nature of threats, the provider should ensure that security is maintained up to date, with the help of vulnerability and penetration testing, backed up by independent security audits.

6.6. Data integrity (fraud protection). Providers should develop effective systems to prevent, detect and respond to fraud related to client accounts, whether committed by staff, agents or others. It should train staff and agents on fraud identification and provide channels for fraud reporting and serious penalties for incidents of fraud. Clients should also have a readily available means of reporting loss or theft. Internal controls and audit processes are needed to monitor for fraud. In the event of fraud, providers should compensate clients for direct losses due to fraud committed by any of their personnel or partner companies.

For services delivered through mobile phones and/or agents, network downtime often provides opportunities for incorrect or fraudulent transactions, and therefore, providers should work to ensure that downtime is minimized.

Client Responsibilities for Privacy, Security and Integrity of Client Data

Clients have three roles to play in contributing to effective data privacy, security and integrity. First, they should understand their rights and use them responsibly, such as by understanding and thinking through the pros and cons of voluntarily sharing information. Second, they should protect any access to data over which they have control, such as personal information codes, passwords and account statements. Third, they should confirm that the data maintained about them is accurate and ensure that inaccurate data is corrected.

Product issues for Privacy, Security and Integrity of Client Data

Credit products

C.6.1. Establishing a credit history. When it is mandatory to provide client information to a credit bureau, it is the responsibility of the provider is to make this requirement clear to the client. When providing credit information is not mandatory, the lender should explain the option of credit reporting and its pros and cons to the client. Sharing of data should require the client's affirmative consent.

C.6.2. Group lending. Privacy issues can be complex for group lending, because group members have access to extensive personal information about each other, such as loan sizes and account balances. Therefore, it is important for groups to receive training that emphasizes the importance of keeping confidential information safe within the group and is assisted to establish procedures for safeguarding data and responding in case of a breach by a member.

Savings products:

S.1.1. Permission to collect savings. The provider should not collect voluntary savings unless it has legal and regulatory permission to do so.

S1.2. Prudent savings management. To protect depositors' funds, the provider should have prudent financial management (sufficient liquidity, etc.).

Insurance products

I.6.1. Privacy of health information. Health and life insurance providers and financial institutions that work with health and/or life insurance providers must have adequate safeguards in place to protect health information.

Payment products

P.6.1. Agents. As noted previously, providers are responsible for the conduct of their agents in protecting client data. Payments providers should inform clients when they are not confident that all parties to a payment transaction have adequate data privacy policies and procedures.

7. MECHANISMS FOR COMPLAINTS RESOLUTION

Principle

Providers will have in place timely and responsive mechanisms for complaints and problem resolution for their clients and will use these mechanisms both to resolve individual problems and to improve their products and services.

Introduction

Dissatisfied clients and their complaints are inevitable. Providers should address these problems quickly and effectively, and should use complaints as feedback for improving operations. They should ensure that clients are aware of their right to complain, that they know how to complain and that the process is easy for clients to use. A range of channels can be used to receive and respond to complaints – such as face-to-face meetings, call centers, e-chats or chatbots. Providers need to confirm that their channels are effective for clients.

The following elements are encompassed in this concept: the complaints handling policy and procedures (intake, resolution, appeals); advising clients about their rights and how to complain; and using complaints to improve operations.

7.1. Complaints handling policy and procedures. The provider must ensure that it has a clear policy and procedures for managing complaints.[2] It is important for the complaints policy to highlight the client's right to complain and to assert that a key element of client service is responding quickly to those complaints. The policy should also state that complaints should be handled fairly and without discrimination.

Procedures for addressing complaints should typically include the following:

- Procedures for informing clients of their right to complain and how to do so
- Organizational structures for responding to and resolving complaints, including a triage or escalation process.
- Systems for recording and tracking complaints.
- The process for responding to complaints (by email, phone, letter, etc.), including target time frames.
- Training for complaints handling staff and agents on procedures and how to resolve common types of complaints. Appropriate training is required for all staff that interacts with clients as well as any specialists that manage complaints and agents or third party staff who interact with clients.
- Assignment of responsibility for monitoring and evaluating trends in complaints and complaints handling across the organization and for identifying remedial actions.
- The process to follow when complaints cannot be resolved, such as referral to an internal or external dispute resolution mechanism.

[2] Examples are noted in the Sources listed at the end of this guidance.

7.2. Advising clients of their rights and how to complain. Clients should receive clear and simple information about their right to complain and how to complain, and they should be assured that complaints will not be held against them. Toll-free telephone numbers or web addresses for registering complaints should be readily visible on user screens and in physical offices, and detailed information on the complaints process should be easy to access (such as steps after a complaint is filed, the time frame for response, and appeals).

Many mechanisms can be effective for receiving and responding to complaints, which are often mixed in with simple inquiries. Providers may use a hierarchy of responses, moving from fully automated (such as chatbots) to highly personalized, and in that way, they may fulfill information requests efficiently while separating out genuine complaints for more tailored response. Consumer research reveals that customers prefer to interact directly with a person when they have complaints, but this can take many forms, from face-to-face conversation to call center phone calls to email and e-chat. The important principle is to have a clear and responsive process with eventual access to a person.

Some providers will have access to external mechanisms for dispute resolution, such as an ombudsman or impartial third-party arbiter. If such a mechanism exists, clients should be advised how and when to use it.

7.3. Using complaints to improve operations. The provider must ensure that the complaints and problem resolution process works effectively. Senior management attention to complaints and complaints handling is a critical element of effectiveness; best practice is for a member of the senior management team to have ultimate responsibility for complaints management and for complaints to be reviewed periodically at senior management meetings. Performance indicators (KPIs) on the complaints process, such as time to respond and resolution rates should be monitored. Such assessments should include note whether the resolutions are fair for the clients, not only whether the complaints have been resolved.

In addition to checking on how well the complaints process is performing, the data on complaints should be routinely analyzed to identify and correct problems in the organization as a whole, whether they appear in certain products, geographies, or processes. Such data is a rich source of client feedback. It can be supplemented by surveys on client satisfaction, ensuring that voices of both complaining and non-complaining clients are heard.

Client responsibilities for Mechanisms for Complaints Resolution

Clients should make good faith efforts to resolve problems directly first, and then to use the complaints procedures available to them. Providers rely heavily on their reputations, and it is not fair for a client to make negative comments about a provider to friends and colleagues or to seek assistance from government officials without first trying conscientiously to resolve the complaint. Clients should also avoid making frivolous complaints about issues that have not caused them serious inconvenience or cost.

Product issues for Mechanisms for Complaints Resolution

Payment Products

P.1. Agents. When providers use agents to deliver services, it is important for signage and written materials to inform the customer how to register a complaint. Such communication should make clear who is responsible for resolving complaints, and how to lodge complaints concerning the behavior of agents.