



CLIENT PROTECTION CERTIFICATION

*Report for Agency for Finance in Kosovo (AFK), Peje, Kosovo
Certified in October 2015*

Mission Conducted by MicroFinanza Rating

“Certified financial institutions have demonstrated their commitment and practice to treat the people they serve fairly. They contribute to a microfinance industry that prioritizes client care.”

- *Isabelle Barrès, Director, the Smart Campaign*

This document was prepared by MicroFinanza Rating, a licensed certifier of the Smart Campaign's Client Protection Certification Program. It contains excerpts of analysis from a certification mission conducted at AFK, which was certified in Client Protection in October 2015. Certification missions entail a streamlined desk review of institutional policies and procedures followed by an on-site due diligence visit that includes extensive staff interviews and focus group discussions with clients. The certifier looks for evidence of adherence to the [Client Protection Principles](#) as evidenced by meeting [standards](#) associated with each principle in institutional policies, procedures, systems, organizational culture and staff behavior. In order to become certified, an institution must meet all of the client protection standards. Only organizations that pass certification will be made public. Certification status is valid for up to four years, with a check-in required after two years.

This summary presents selected excerpts from the certification mission analysis, which in total covers 30 standards of care. The evidence presented is not exhaustive but rather meant to illustrate what the certification standards of care look like in practice and to highlight specific practices by this institution. We encourage readers to reference the [client protection standards](#) when reading this report. For more information about the certification program and a list of certified organizations please visit the Smart Campaign's website <http://www.smartcampaign.org/certification>.

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Selected Examples of Practices

Client Protection Principle 1 – Appropriate Product Design and Delivery

- AFK's product design is appropriate to serve clients' needs without harming or creating negative value for them.
- Collateral policy is in place, clearly describing acceptable collateral and non-acceptable assets that – if seized - would deprive borrowers of basic survival capacity.
- AFK gathers feedback from clients both formally and informally, leveraging good relationship between LOs and clients. AFK developed formal feedback collection tools such as an annual client satisfaction survey based on focus group discussions with LOs, focus group discussions with clients and phone calls with former clients; a free-toll line used for both complaints and suggestions; suggestion/complaint boxes placed in every branch, clearly visible.

Client Protection Principle 2 – Prevention of Over-indebtedness

- AFK performs a thorough repayment capacity analysis of clients before disbursement. This check is carried out for each loan irrespective of the product type/amount, and for each loan cycle. Depending on the loan amount, there are different approval stages, ensuring an adequate level of decentralization.
- Portfolio quality is regularly monitored and reviewed by the management. AFK's finance department produces monthly reports on PAR30, rescheduled loans and write-offs (percentage and amount).
- AFK's productivity targets and incentive schemes are reasonable and aligned to competitors. LO's salary level is based on portfolio size and salaries are revised quarterly. Bonuses are set in such a way that for each LOs portfolio category, the variable portion does not exceed 25% of their total salary.
- AFK reviews and checks client data by consulting the Credit Bureau for each loan, regardless of the loan cycle. AFK's Management Team and Board show awareness of the risk of over-indebtedness.
- The internal control is adequate and ensures proper prevention of over indebtedness.

Client Protection Principle 3 – Transparency

- The client is informed verbally of loan terms and conditions prior to sale during the loan application and appraisal process. The loan agreement includes clear disclosure of administration fees, pre-payment and late payment fees, expressed in percentage terms. Before signing the loan contract AFK shows clients fees and costs related to registration of pledge, mortgage, notary services arising from the agreement. As these costs vary from case to case, AFK indicates either exact amounts whenever available or a fee range.
- Before signing the contract, clients and guarantors (if any) receive a draft contract, an ad/hoc repayment schedule and, in case of collateral, the collateral document. AFK gives clients a hard copy of all documents they sign.
- AFK's pricing mechanism is transparent and does not create confusion over the total cost of the loan. The transparency index (nominal interest rate * 100)/APR is very good, ranging from 83.3% to 100% (full transparency in case of agricultural loans and car registration loans for which no fees apply).
- AFK requires LOs to use a product price list showing product, loan amount, repayment period, annual and monthly interest rate, admin fees and EIR. This product price list is clearly visible on LOs' desks.

Selected Examples of Practices

Client Protection Principle 4 – Responsible Pricing

- The institution offers non-discriminatory pricing and does not discriminate based on gender, ethnicity, religion, age, race or colour, marital status, or political orientation.
- Efficiency ratios are in line with peers.

Client Protection Principle 5 - Principle 5 - Fair and Respectful Treatment of Clients

- Organizational values and standards of professional demeanour are consolidated in Code of Conduct and further reported in 2 other documents: LOs' Code of Conduct and Credit Manual. AFK staff are aware of acceptable and unacceptable behavior and sanctions in case of non-compliance.
- Recruitment process is in line with the Code of Conduct and occurs without any discrimination or prejudice. Procedures include a systematic check on staff background.
- AFK developed and implemented a comprehensive training policy that highlights the importance of abiding by the Code of Conduct.
- Staff evaluation is performed yearly. The performance evaluation specifically mentions aspects such as customer care skills and ethics, quality of interactions with clients, corporate responsibility and ethics, professional conduct and integrity.
- AFK shows concern about the temporary inability of clients to repay. Rescheduling is seen as an exceptional measure to be taken in adverse circumstances. Both clients and AFK staff can suggest rescheduling if appropriate. Auditing criteria include policies for refinanced loans and policies and procedures for re-scheduled loans, which are audited on a regular basis.

Client Protection Principle 6 – Privacy of Client Data

- AFK's clients are provided with a Welcome pack that includes a detailed section on clients rights and obligations, including privacy. Confidentiality of client data is addressed during various training sessions for AFK staff.
- The loan agreement mentions that if the loan becomes delinquent AFK is entitled to share clients' credit information with the Central Bank of Kosovo, commercial banks and other credit institutions. Misuse/misappropriation of client data is explicitly mentioned and penalized in AFK's sanction policy as serious violation of labour duties.
- The MIS adequately covers secure access to clients' data.

Client Protection Principle 7 – Mechanisms for Complaint Resolution

- AFK Complaint Resolution Policy and Procedure clearly explain how to handle complaints and specifies how to inform client about the complaint mechanism. In particular, when clients approach AFK to obtain a loan, the institution provides them with a welcome pack including a comprehensive section on complaint management. All AFK branches are equipped with posters explaining how to file a complaint.
- AFK developed a new complaint resolution procedure clearly defining roles, responsibilities, procedures and processes. Complaints are resolved in 10-30 working days depending on complexity. AFK systematically provides the client with a confirmation of receipt 1 day (at the latest) after the complaint has been filed.
- Internal Audit visits clients who submitted a complaint. IA also conducted a survey on compliance and effectiveness of the complaint resolution mechanism.