



## CLIENT PROTECTION CERTIFICATION

*Report for VisionFund AzerCredit LLC, Baku, Azerbaijan  
Certified in October 2014*

Mission Conducted by MicroFinanza Rating  
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*“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*

## Selected Examples of Practices

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 VF AzerCredit. VF AzerCredit became client protection certified in May 2014.

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 two years, after which an institution must undergo a new certification mission.

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

- The products offered are appropriate to clients' needs. Products are flexible in terms of variety, minimum loan amount and collateral requirement, allowing access to the target population.
- The institution monitors the client retention rate on a monthly basis and the information is shared at the top management level. Reasons for client dropping out are investigated.
- Clients' feedback is extensively used for the development and/or improvement of products.
- The institution does not employ aggressive sales techniques. Loan Officer productivity targets are not overly burdensome.

### Client Protection Principle 2 – Prevention of Overindebtedness

- Azercredit performs good repayment capacity assessment of clients and does not solely rely on guarantees or collateral for loan approval. The analysis is conducted for each and every loan with prudent limits on client repayment capacity and systematic onsite visits.
- The management receives detailed weekly reports on portfolio quality broken down by sector, product type, Portfolio at Risk (PAR) level, branch, Loan Officer (LO), among other categories. The Board of Directors (BoD) receives quarterly reports on key performance indicators.
- The Financial Institution (FI) systematically cross-checks client information at the credit registry (CR) for every loan appraisal process. Each loan must also be approved by a credit committee, which guarantees second level verification. The internal audit department verifies the CR input and reviews 5% of disbursed loan files for compliance issues.

### Client Protection Principle 3 – Transparency

- The loan agreement uses simple legal language understandable to clients and does not employ fine print. The overall information provided to the client is complete, comprehensive and expressed in a way that ensures adequate understanding. Field staff is trained on how to communicate with clients during the loan induction period.
- The clients are provided with a sample of the contract and of the repayment schedule (including principal, annual interest rate, commission fees) before signing the contract.
- Insurance terms and conditions, effective interest rates (EIR), penalties and prepayment fees are clearly disclosed in the contract. Employees are required to provide the client with information specific to their loan.
- The cost of loan, as well as the associated commission fee, is clearly stated on the website and on the brochures available at branches.

### Client Protection Principle 4 – Responsible Pricing

- The annual percentage rate (APR) of the four main products ranges from an average of 42.4% for an individual microloan priced in dollars (USD), 44.8% for an individual microloan priced in Azerbaijani manat (AZN) to an average of 41.4% for family loans in USD and 42.7% for family loan in AZN. Azercredit APR is in line with the main competitors.
- The FI is financially efficient. Operating expenses are fully aligned with the market average and with those of main competitors.
- Pre-payment cost does not exceed the amount the client would have paid in the period between early repayment and full settlement.

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

- Expected staff behavior is defined in the code of ethics and business conduct. The code

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similarly stipulates prohibited behavior (physical force, shouting at clients, humiliation, privacy violation, corruption, discrimination). Staff is recruited and trained in line with the code.

- Disciplinary matrix clearly reports sanctions (including termination of employment) in case of an employee's breach of code of conduct rules and collection practices.
- Appropriate collection practices, procedures and relative sanctions are clearly formalized in the credit manual and in the training materials.
- Staff evaluation includes an assessment of the quality of their interactions with customers.

### **Client Protection Principle 6 – Privacy of Client Data**

- Detailed privacy policy is spelled out in the credit manual as well as in the code of ethics and business conduct and applies to staff during and after their employment at AzerCredit.
- Loan contracts include a confidentiality clause that clearly explains how client data is used and under what circumstances it is disclosed to the credit bureau and to third parties. The privacy policy is explained by the staff to the clients prior to loan disbursement.

### **Client Protection Principle 7 – Mechanisms for Complaint Resolution**

- Clients receive an explanation of available complaint mechanisms prior to loan disbursement.
- The institution has developed a fair and timely system to resolve complaints. Monthly reports and analyses of the causes of complaints are submitted to the management.
- A dedicated training on client complaint mechanism is provided to all newly hired staff. The FI has a dedicated staff person in charge of handling complaints.
- Collected feedback is used to correct mistakes, omissions and activities that may be harmful to clients and to improve the quality of services.