



CLIENT PROTECTION CERTIFICATION

Report for Compartamos Banco (Mexico)

Mexico City, Mexico

Certified in August 2014

Mission conducted by MicroRate

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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

This document was prepared by MicroRate, a licensed certifier of the Smart Campaign’s Client Protection Certification Program (CPP Certification). It contains excerpts of analysis from a certification mission conducted at Compartamos Banco (covering its Mexican operations). The bank received its client protection certification on August 15, 2014.

Certification missions entail, firstly, a review of policies and procedures, followed by an on-site visit that includes staff interviews and focus group discussions with clients. The certifier looks for evidence of adherence to the [Client Protection Principles](#) (CPP), according to the [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 covers 30 client protection standards in total. The evidence presented is meant to illustrate how the institution implements the [certification standards](#). We recommend reading this report as a reference for the client protection standards. For more information about the certification program and a list of certified organizations please visit the Smart Campaign website <http://www.smartcampaign.org/certification>.

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Selected examples of practice

Client Protection Principle 1 – Appropriate Product Design and Delivery

- Compartamos Banco provides a range of financial products that seek to fit the profile and needs of clients. Through continual market research, drop-out studies and direct feedback from customers, it adjusts and continually improves its products.
- Using the Client Protection Index (CPI, or “IPAC”) as an internal control mechanism focused on the client, Compartamos Banco measures the level of compliance with client protection standards and best practices. These are monitored by various bank departments and supervised by the Board as an institutional goal by means of a “Balance Scorecard.”

Client Protection Principle 2 – Prevention of Overindebtedness

- The bank’s group lending methodology mitigates against the risk of overindebtedness through: 1. appropriate self-selection of groups, which ensures that members know each other and belong to the same community; 2. client awareness training regarding the concept of joint liability; and 3. participation of the coordinator in the disbursement process to ensure cross-checking of information from each member.
- For individual loans, Compartamos Banco maintains loan origination policies based on risk segmentation. Thus, a riskier and more indebted client is subject to a more in-depth evaluation process before obtaining a loan.
- After a 12 month period to reinforce skills, loan officers and assessors are evaluated for certification in the credit methodology. Each region has an instructor who constantly reinforces the methodology.
- The internal audit department assesses the uniformity of processes and monitors quality through visiting nearly 80% of offices each year. Each office is assigned a score on the basis of compliance with the policies and systems, including those that prevent the risk of overindebtedness.
- The internal audit department also visits a sample of clients (about 3,100 groups in 2012) to verify appropriate compliance with the lending methodology.
- The portfolio quality (PAR 30 + write-offs) of 8.7% remains at a similar level to the Mexican average as shown by MicroRate as of August 2013 (accumulated write-offs for 8 months).
- Loan officer bonuses are based on reasonable portfolio quality indicators.
- In addition to the analysis conducted at the time of the loan origination, Compartamos Banco carries out an additional analysis every 6 months that is aimed at analyzing the evolution of client indebtedness and payment behavior, a practice that is rare in the Mexican market. This is used to create the dashboard of “Management of Risk of Overindebtedness” and update key indicators. This enables to identify in each agency possible trends of deterioration in the clients’ repayment ability, and to take appropriate actions, which are monitored by the Risk Committees.
- The internal audit department checks a sample of files to ensure that the information from credit bureaus has been checked and that such information has formed part of the credit analysis.
- Senior management and board members show awareness and concern about the risk of

overindebtedness, continuously monitoring the quality of their portfolio, and conducting market research on overindebtedness in the areas they serve.

- Compartamos Banco offers clients financial education sessions focused on preventing overindebtedness at group meetings, among other topics. In 2013, they held workshops on budgeting and debt capacity with the participation of 85,316 women.
- The risk department carries out mapping to identify key credit risk indicators. This includes mapping of offices with a higher proportion of write-offs, a higher level of payment delays related to harvests, and areas at greater risk from natural disasters. Limits have been set for these indicators, which are revised annually in the Risk Committees.

Client Protection Principle 3 – Transparency

- The bank's loan contracts include a summary cover page which explains the main terms and conditions of their products. This includes the annual cost of the credit, the total amount to pay, payment periods, applicable commissions and insurance, all in an amortization schedule.
- Emphasis is placed on verbal communication to clients prior to disbursement. According to procedures, at the disbursement meeting and prior to the signing of contracts, the terms and conditions of the loans are read out loud, together with the most important clauses of the contract and the rights and responsibilities.
- At the focus groups, it was observed that clients do feel they have enough time to review the terms of the products and make inquiries. At individual credit disbursement meetings it was observed that enough information is provided prior to signing the document.
- The interest rates are published in booklets in branch offices and on the bank's website.

Client Protection Principle 4 – Responsible Pricing

- The product that makes up the largest share of its portfolio (74%), Crédito Mujer, has an unweighted APR of 104.5% and weighted APR of 98% as of October 2013, which is comparable to its peers in Mexico, and is slightly below the median of the market. The rates displayed include interest, taxes and mandatory savings.
- Compartamos Banco favors rate segmentation based on repayment behavior and the length of time groups have been borrowing.
- It has excellent levels of operating efficiency, above the Mexican market average. The operating expenses over gross portfolio (35%) and per client (US\$179) are comparatively lower than the MicroRate sample for Mexico as of August 2013 (45.8% and US\$180, respectively).
- The bank does not charge penalties for early repayment.

Client Protection Principle 5 - Fair and Respectful Treatment of Clients

- The institution maintains an outstanding code of ethics that encompasses the philosophy, mission and vision of the institution. It also sets out in detail the standards of conduct expected from each staff member. Compartamos Banco intends for this document to be a guide to the daily activity of partners inside and outside the institution. Its premise is that clear standards and positive treatment of staff will support staff in providing good treatment of clients.

- Employee guides per products include best practices for debt collection, ensuring these are well known amongst loan officers. For example, these specify that information should not be left with minors, that clients should be contacted in suitable places and at appropriate times of the day, and that no threats or deceit may be used. In case of failure to comply with these practices, staff is sanctioned according to the gravity of the issue.
- Third party debt collection agencies must sign a Supplier Code of Ethics, which contains the same principles as the Code of Ethics used by the institution's internal staff. In addition, they are trained in best practices for debt collection, and must also adhere to the Code of Ethics for Collection Management of the ABM. Selection procedures are non-discriminatory, and adhere to the Code of Ethics and values of the institution.
- Clients are advised both verbally and in writing (through credit and savings booklets) about the treatment they should expect to receive. The internal audit department makes periodic visits to clients to verify that they are treated fairly and respectfully.

Client Protection Principle 6 – Privacy of Client Data

- The bank has a specific unit which is responsible for maintaining data privacy manuals to ensure these adhere to local regulations. This unit is also responsible for training, educating and raising awareness of staff with regards to data privacy. This is reinforced by the Code of Ethics, which details how to handle client data.
- Control over access to both physical and electronic data is maintained throughout the institution. Controls monitor the security of this data. Loan officers and service providers are also obliged to sign confidentiality and privacy agreements with the bank.
- The bank has privacy notifications in all contracts and credit applications that specify the type of information that may be requested from clients, the purpose of this data, and explains that information will be treated in a confidential manner. Loan officers have copy of these notifications and explain what the information entails to clients before asking for their data.
- Group leaders receive training regarding their responsibilities which include keeping the group's data confidential.

Client Protection Principle 7 – Mechanisms for Complaint Resolution

- Compartamos Banco has complaint resolution mechanisms which include a toll-free telephone number and specific email addresses for handling complaints. The institution informs clients about these mechanisms both verbally during the disbursement process, and in the loan booklets as well as through flyers placed in the branch offices.
- The bank has a special unit responsible for the resolution of grievances (Call Center), where client complaints are centralized. The Call Center staff receives comprehensive training on how to handle complaints and refers to a User Manual for managing complaints.
- According to 2013 call center records, 97.3% of complaints were dealt with in less than 30 days. Once a case is closed, the institution calls clients to verify that the complaint or inquiry has been resolved appropriately.
- Monthly reports are issued by type of complaint and by the time taken to solve it.