



## **CLIENT PROTECTION CERTIFICATION**

***Report for EDPYME RAIZ***

***Lima, Peru***

***Certified in August 2014***

**Mission conducted by MicroFinanza Rating**

**Analysts: Michela Broseghini and Erlan Llanos**

## Selected examples of practice

*“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 (CPP Certification). It contains excerpts of analysis from a certification mission conducted at EDPYME RAIZ, which became client protection certified in August 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>

If you have any questions or comments on this report please contact:

Via Rigola 7-20159

Milan, Italy

Tel: +39-02-3656.5019

aldo.moauero@microfinanzarating.com

## Selected examples of practice

### Client Protection Principle 1 – Appropriate Product Design and Delivery

- EDPYME RAIZ offers a range of loan products that suit the characteristics of the target population, aimed at financing different needs of working capital, fixed assets, multi-purpose, improvement and acquisition of housing, specific destinations such as growing coffee (Raíz Café) and special loan campaigns.
- Clients are segmented on the basis of their characteristics and the requirements of different businesses, with a preferential rates model.
- The procedure for the creation of new projects includes the formal creation of client feedback channels.
- Aggressive sales techniques are not used; advisors are aware of the importance of establishing long-term relationships with clients.

### Client Protection Principle 2 – Prevention of Overindebtedness

- The institution has adequate loan policies, regulations and procedures for carrying out analysis of clients' ability to pay.
- Evaluation of ability to pay is based on household income, expenditure and debts. There are prudent policies for taking into account other income.
- Visits are made to client workplaces and homes on a systematic basis during each loan cycle, including for parallel loan campaigns.
- The institution has implemented a cross-supervision mechanism (agency head, regional supervisor, business coordinator) to guarantee uniform application of policies.
- Daily portfolio quality reports are produced for each office and sent to advisors, agency heads, regional supervisors and top officials.
- The risk department carries out a monthly analysis of the behavior of the quality of the loans portfolio and the levels of overindebtedness in the sector; prudent growth policies have been defined that take the risk of overindebtedness into account.
- In the incentive scheme for advisors the portfolio quality variable is a decisive factor for access to the incentive. The scheme takes into account delinquency in relation to harvests.
- Internal audit visits are carried out at the business and home of the client, focusing on monitoring the existence of the client, destination of the loan, and analysis of ability to pay. Approximately 5% of the total of disbursements made over the previous three months by each agency are reviewed.

### Client Protection Principle 3 – Transparency

- The institution has a table of tariffs that is open to view by the public in each office, which sets out the terms and conditions of the loan products on offer.
- The institution displays the annual effective cost rate amount for each product on its website and in every office in physical format. It has joined the [mftransparency.org](http://mftransparency.org) - Promoting Transparent Pricing in the Microfinance Industry (MFT) initiative.
- The payment plan sets out the fee components and indicates the total amounts to be paid for each item, as well as the total final value. No commissions are charged. The annual effective cost rate, the delinquency interest rate and the costs relating to debt recovery are clearly indicated.

## Selected examples of practice

- The institution has implemented a loan request form based on a question and answer format that is simpler and clearer for the client. The information presented in branches and in the loan documents has been translated into the Aymara language.
- Each client receives a copy of the payment protection insurance policy which stipulates the procedure to be followed in the event of disaster, the price of insurance, coverage, the insured amount, exclusions and information on advocacy for the insured.
- There is a script for personnel with the information that should be communicated to the client during the disbursement process.
- The installment payment receipt includes information on the amount of the next installment and the due date and the loan balance. The option to request home delivery is available.

### Client Protection Principle 4 – Responsible Pricing

- Effective interest rates are in line with the market and do not discriminate; the annual effective cost rate for products aimed at working capital and fixed assets are below market averages.
- Studies of interest rates in the various regions serviced are carried out periodically.
- Penalties are not applied for early partial or total repayment, discounting interest and payment protection insurance.

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

- The code of conduct and internal working regulations are approved by the company directors and circulated during staff induction. The penalty regime is applied in cases of failure to follow the code of conduct.
- The debt recovery guide includes acceptable and unacceptable recovery practices.
- A written commitment is required from external debt recovery companies to ensure they meet the client protection guidelines and debt recovery practices adopted by RAIZ.
- The evaluation of client service performance applied to business and platform personnel is focused on interaction with clients and ethical and professional behavior.

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

- The privacy policies are included in the internal working regulations, code of conduct, security policy and data handling procedure.
- The institution has an information system with a high level of security, policies for profile access and password changes.
- There is a training program for all staff on policies and procedures in terms of information security, with a focus on maintaining confidentiality, integrity and availability of information, in line with recent regulations (Circular G-140, Law 29733 on data protection).

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

- Clients are informed about their right to present complaints or grievances through information panels, the website, leaflets and loan documents.
- The body has a specific system for handling complaints that makes it possible to monitor

## **Selected examples of practice**

the status of the resolution process and compliance with the established terms.

- The institution has a formal client service unit, which is in charge of handling statistics for complaints and grievances and proposing improvements to processes.
- Specific improvements have been proposed to the loan summary sheet and the payment plan on the basis of client feedback, through the complaint and grievance process.