



CLIENT PROTECTION CERTIFICATION

*Report for LOLC Micro Credit Ltd (LOMC), Colombo, Sri Lanka
Certified in December, 2013*

Mission Conducted by Micro-Credit Ratings International Ltd. (M-CRIL)

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Selected Examples of Practices

“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 M-CRIL, a licensed certifier of the Smart Campaign’s Client Protection Certification Program. It contains excerpts of analysis from a certification mission conducted at LOMC. The institution became client protection certified in December, 2013.

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>.

If you have any questions or concerns about this report please contact:

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Selected Examples of Practices

Client Protection Principle 1 – Appropriate Product Design and Delivery

- LOMC places importance to design products appropriate to the needs of clients. It has made relevant changes in its products based on feedback from clients.
- Clear guidelines are in place to deal with assets in the micro-leasing product, and for gold loans.
- The reasons for dropout are recorded in a register at the branches, introduced recently. This information is compiled at the HO and reported to the management on a quarterly basis.
- LOMC does not use high pressure marketing techniques.

Client Protection Principle 2 – Prevention of Over-indebtedness

- LOMC has good processes in place to verify repayment capacity of clients – Compulsory credit bureau checks (for micro-leasing clients), and cash-flow analysis (quick analysis for micro-leasing clients, detailed analysis for group clients).
- Sufficient emphasis is given to self-selection of members during group formation. All group clients are visited at their home for verification. High risk clients are identified for micro-leasing product and verification process includes visit to client's house.
- The loan size for group loan product is decided based on the net-income with the clients.
- Policies are adequately disseminated through trainings to staff, policy circulars and manuals.
- Portfolio quality is one of the parameters considered to determine incentives for branch staff.
- LOMC has been successful in maintaining reasonable portfolio quality over the years (PAR 90).
- Performance targets are set in consultation with the branch staff, considering local conditions. Internal audit verifies branch staff's adherence to the policies.
- Loans are rescheduled based on the situation of clients, it is tracked and reported separately.

Client Protection Principle 3 – Transparency

- LOMC communicates the total cost for loan including all the charges to the clients in writing before the disbursement. It communicates the flat interest rate to clients for the group loans.
- LOMC has adopted communication methods suitable to its client base. The products are simple and easily understandable for the clients.
- Contact information of field staff and the supervisor is made available to clients; the clients find staff approachable to clear their doubts, if any.
- LOMC gives a disbursement letter to clients which contains all the terms and conditions of the loan. In addition, the groups are given a centre notice with all the terms and conditions, which is filed in the centre register.
- Receipts are issued and passbooks are updated for all the payments.

Client Protection Principle 4 – Responsible Pricing

- LOMC has reduced interest rate for group loans from 35% in 2010 to 32% declining p.a. in 2013.
- The rates charged for different products are line with the market rate, according to the management and clients.
- LOMC has negotiated favourable terms for the clients and has taken steps to expedite the settlement process. It does not retain any part of insurance premium collected from clients.
- LOMC does not charge more than full interest for the entire loan tenure for prepayment in case of group loans.

Selected Examples of Practices

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

- The code of ethics and staff rule book mentions about the professional behavior expected from the staff especially while dealing with the clients.
- The MFI trains its staff on code of ethics. Appropriate collection practices are also part of the induction training. The staff sign a letter of undertaking which includes the compliance to code of ethics. It gives examples of serious misconducts
- Staff behavior is monitored by both branch (supervisor) and head office operations team (through group audits). The ERM department also monitors staff's compliance with Code of ethics. Disciplinary actions are taken against the staff who breach the code.
- LOMC reschedules loans of clients on a case to case basis. The policy on rescheduling/ Moratorium of loans is mentioned in the credit policy statement. Clients are advised to approach the MFI staff in case they face any difficulty in repayment.

Client Protection Principle 6 – Privacy of Client Data

- LOMC has a written policy for privacy of client data.
- The staff are trained not to share client level data with anyone. Staff understands that sharing client information with a third person is considered as violation of code of ethics and actions can be taken against them.
- LOMC communicates with clients its privacy policy and takes their consent to share information with credit bureaus, insurance agents, and asset recovery companies, as required.
- Client written consent is sought for using information/ photos for promotions/marketing.
- LOMC has a robust MIS which protects confidentiality and security of clients' data.

Client Protection Principle 7 – Mechanisms for Complaint Resolution

- LOMC has a grievance policy with clearly defined escalation levels.
- LOMC has multiple channels to address clients' complaints - clients can call the branch office (number given in the centre register) or head office number (printed on the passcard) or drop a complaint note in the suggestion box (at the branch office).
- Staff at various levels are trained to handle the grievances from clients.
- Majority of the complaints are resolved at the branch level, which are recorded in dedicated register. It is shared with the HO where it is compiled and analysed.
- Complaints related to staff fraud or misbehavior get escalated to the ERM department, which conduct a thorough investigation of the complaints.
- LOMC has taken actions to improve its product and processes, based on feedback from the clients.