



CLIENT PROTECTION CERTIFICATION

*Report for FINCA Pakistan, Lahore, Pakistan
Certified in April 2017*

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*

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 for FINCA Pakistan. Microfinanza Rating is pleased to announce that FINCA Pakistan became client protection certified in April 2017.

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](#), proven by complying with [standards](#) associated with principles related to institutional policies, procedures, systems, organizational culture and staff behavior. In order to become certified, an institution must meet all of the client protection standards. Public announcements are made only for organizations that pass the certification. Certification status is valid for up to two years, after which an institution must undergo a certification check-in mission.

This summary presents selected excerpts from the analysis conducted throughout the certification process, which in total covers 25 standards of care. The evidence presented is not exhaustive, but rather meant to illustrate what the certification standards look like in practice and to highlight specific practices by FINCA Pakistan. We encourage readers to refer to 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

- FINCA Pakistan adequately trains its front office staff, in order to determine which product and service best suits the clients. The training team under the HR department organises detailed orientation and refresher courses to lending staff. These courses are split into levels, include quizzes and role plays, and are offered both via a digital platform (which can also be accessed via smartphones) and in classrooms.
- The Marketing department of FINCA Pakistan conducts different types of client satisfaction surveys, segmented into different topics and types of clients. Firstly, the customer pulse telephone survey is conducted on a sample of clients, who recently received a loan or opened a savings account to understand their level of satisfaction with the service. Also, every year a topic is chosen for a much more extensive survey. For example, the enterprise survey was executed in 2015 to identify clients' cyclical needs.
- FINCA Pakistan adequately verifies that their clients are able to interact with the technologies required for using their services. The client financial literacy leaflet, for example, is written in simple language with drawings to explain how to use the ATM machine, amongst other things.
- The incentive structure and targets for lending staff do not promote aggressive sales in FINCA Pakistan. Monthly targets are defined by the Business Banking department, together with the relevant branch and regional managers, to match the loan officer's capacity and portfolio, the season of the year and geography.

Client Protection Principle 2 – Prevention of Over-indebtedness

- FINCA Pakistan Board has approved the "Post disbursement screening system" that provides a clear description of sample size to be checked and frequency of the control by the Risk Management Department. The post disbursement system operates to ensure that significant size of the disbursed portfolio is screened within a month (i.e. 25% of disbursed at each Loan Officer's level). The review shall consist of file reviews, field verifications and portfolio review.
- The Credit Policy clearly states that no single branch will be permitted to have a portfolio of more than 10-15% of the total portfolio of the bank at any time. Branch Managers can extract from the system daily reports on portfolio quality, broken down by LO and aging category. Regional Managers visit also branches regularly and start conducting additional monitoring when PAR30 gets above 3%.
- FINCA Pakistan has approved a comprehensive "Monitoring mechanism / guidelines for Sales and caseload targets" for field staff. The document includes detailed criteria for sales, caseload targets and PAR level along with proper monitoring of the defined criteria at Branch level, Regional level and Head office level. In case of breach, it would trigger additional monitoring and corrective measures.

Client Protection Principle 3 – Transparency

- The Understanding your Customer guide clearly states the different steps Loan Officers and Customer Service Officers should undertake when first getting in contact with the potential borrower (e.g. Importance of Understanding your customer, what to explore, agree, deliver and assure).
- FINCA Pakistan has decided to implement at all branches the concept of having two notice boards and colourful ones. One board will be designated to general information and the

Selected Examples of Practices

other (called "Smart board") provides all information relevant to rates, terms and conditions and code of ethics.

Client Protection Principle 4 – Responsible Pricing

- FINCA Pakistan is on a growing trend and aims at enhancing its economies of scale in the medium term. The current high ROA is considered acceptable, given the current stage of development of FINCA Pakistan.
- FINCA Pakistan's interest rate is set in an affordable manner. They are slightly higher than competitors, but in line with the current growth needs of the Bank.

Client Protection Principle 5 - Fair and Respectful Treatment of Clients

- Colourful poster of summary of Code of Conduct and prohibited behaviours (both in Urdu & English languages) have been designed and placed on most visible spot in the branches for customer awareness. A flyer of summary of Code of Conduct and prohibited behaviours in local language has also been designed to the customers and provided to Loan officers for the training / awareness on FINCA's standards of professional conduct and prohibited behaviours.
- In FINCA Pakistan, all employees go through CoC training twice a year, where employees are obliged to pass a quiz at least by 80%.
- A performance appraisal form is used, where the employee's soft skills such as behaviour, treatment of clients and complaints received are taken into consideration. In the case of lending staff, 60% of the appraisal is focused on targets and 40% on customer experience.
- In FINCA Pakistan, every branch gets visited once per year by the risk team, the compliance team and the regulators. The risk and compliance team are responsible for monitoring that all branch operations are in line with the internal policies and processes and the local regulation. These teams also visit a sample of clients in order to make sure that the procedures related to fair and respectful treatment of clients are respected by the field staff. In addition, the internal audit team visits branch offices and a sample of clients every year and inquiries about the behaviour of staff to the clients as well. Lastly, the call centre is currently piloting compliance calls, which are designed to call a sample of clients as another internal control process to verify uniform application of policies and procedures.

Client Protection Principle 6 – Privacy of Client Data

- FINCA Pakistan formalised a recovery plan per each unit in their organigram. Also, the institution has a business continuity plan separate for the head office and for branch offices, which have been approved by its Board of Directors.

Client Protection Principle 7 – Mechanisms for Complaint Resolution

- The revised template of the quarterly complaints report for management has a designated section on the potential gaps of internal control and recommended corrective action regarding the complaint redressal mechanisms.
- Lending staff were provided a refresher training on responsible lending and complaint handling, where it was stressed that the complaint redressal channels have to be communicated to customers before loan disbursement. This aspect is now incorporated in the checklist for the compliance team.