



## CLIENT PROTECTION CERTIFICATION

*Report for Koperasi Mitra Dhuafa (KOMIDA), Jakarta, Indonesia*

*Certified in May 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 Koperasi Mitra Dhuafa (KOMIDA). MicroFinanza Rating is pleased to announce that KOMIDA became client protection certified in May 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 KOMIDA. 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

- KOMIDA product development is based on a continuous flow of client feedback (e.g. feasibility studies, market surveys, focus groups, client satisfaction, client complaints etc.) which influences all the process of launching and evaluating products and services offered.
- KOMIDA analyses product usage by client feature through the annual client satisfaction survey which shows results broken down by client characteristics. The FI regularly tracks the dropout rate every 3 and 6 months, including the analysis of reasons. During the progress phase KOMIDA has started tracking the number of dormant borrowers and the reasons for not renewing their loan on a quarterly basis.
- KOMIDA has a formalized policy in place on non-aggressive sales techniques. Targets are reasonable considering the business model, the stage of development and the institutional strategy aimed at expanding the network. The incentive scheme for field staff does not promote aggressive sales and well balances portfolio growth with portfolio quality.

### Client Protection Principle 2 – Prevention of Over indebtedness

- Loan approval is based on assessment of the client repayment capacity, which is differentiated by loan product. The analysis considers business and household incomes and expenses including informal sources. Liabilities and loans with other providers are considered through informal investigation within group members and community.
- KOMIDA has defined and formalized limits in terms of loan instalment over disposable income, which is computed after deducting debt from KOMIDA and other providers. Instalment/net income stands at maximum 30%.
- KOMIDA has a comprehensive internal control process to verify the uniform application of policies and procedures related to client underwriting.
- KOMIDA directors and managers regularly review the level of competition and portfolio quality in the market. The Institution has defined general PAR targets and targets by branch based on the branch risk profile. PAR is monitored on a daily basis and corrective measures are taken in case of high PAR branches. Portfolio quality stands at very good levels over the period of analysis, averaging below 1%

### Client Protection Principle 3 – Transparency

- The written documentation given to the members (passbook for savings, passbook for the loan, loan contract) contains main loan information in a clear and easy language.
- Leaflets with detailed information on product terms and conditions are displayed and visible in branches and are regularly shown and explained to perspective clients. Leaflets include pricing information and a clear disclosure of the total cost of credit.
- KOMIDA has formalized detailed scripts for loan officers, which include all the information (terms, conditions and pricing) related to the products available (loans, savings and insurance). These scripts represent a guide during the compulsory client training, which is scheduled at the beginning of the client membership, allowing the clients to be fully informed before signing the contract. The weekly meetings ensure the dissemination of information throughout the whole credit process and at each loan cycle.

### Client Protection Principle 4 – Responsible Pricing

- KOMIDA pricing practices are responsible and do not significantly deviate from those of peer competitors in Indonesia. The interest rate is set to be affordable considering the operating and funding cost of the institution.
- During the progress phase KOMIDA has changed its interest calculation method from flat to

## Selected Examples of Practices

declining, to be in compliance with best practices.

- The loan loss provisioning and funding expenses are within accepted ranges. The Operating Expense ratio is slightly above the accepted performance range but still at an adequate considering the institution's strong expansion of operations as well as the institution's target market and business model (group lending with weekly repayments).

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

- The Code of Conduct clearly spells out KOMIDA's organizational values (loyalty, honesty, transparency, etc.). It covers the professional standards expected from all staff in their relation with the company, co-workers and all members. Sanctions to be applied in case of breach of the Code are formalized in the Sanction Policy.
- KOMIDA HR policies and procedures reinforce the standards identified in the code of conduct. The Induction training includes a section on the Code of Ethics and the CPPs and the staff appraisal system includes the assessment of the staff's adherence to the Institutional values and ethical behaviour.
- The Staff Sanction Policy is well formalized and lists disciplinary actions in case of forbidden behaviours. The policy foresees a list of actions depending on the gravity: written warning, written letter, and also termination of the employment contract.
- KOMIDA's management regularly revise client feedbacks related to fair treatment through client satisfaction surveys, client complaints reports and audit findings from client visits. In case of non-compliances, actions are discussed and implemented.

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

- KOMIDA has policies and processes in place to maintain the confidentiality, security and accuracy of clients' data. The dedicated privacy policy ensures the collection, process, use, distribution and storage of client information, providing the staff with specific guidelines and expected behaviours. Also, the Code of Conduct lists the confidentiality of clients' data among the institutional values.
- KOMIDA's MIS adequately protects against theft or misuse of client data or identity.
- KOMIDA asks the client consent for sharing data at the first beginning of the credit process. The application form clearly discloses a statement, signed by clients, through which clients acknowledge the KOMIDA obligation towards privacy of client data.

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

- Mechanisms to submit complaints are easily accessible by clients, who can file complaints through free SMS. Clients also know that they can raise a grievance directly to the branch staff (Loan Officers, Branch Manager or Branch Coordinators) during the regular meetings. Clients are adequately informed on how to submit a complaint during the application process.
- All the complaints received though informal channels at branch level or on the field are reported to the branch MIS staff, who are requested to record the complaint in a google form, which is then automatically shared with the HO. Branches also have an excel form to collect complaints received at branch and then sent to HO secretariat for consolidation on a monthly basis.
- The results from the satisfaction surveys, the report on complaints and the reasons for dropout are consolidated and transmitted on a quarterly basis to the Management Team, who is committed to use the clients' feedback to improve operations and services.