



## CLIENT PROTECTION CERTIFICATION

*Report for Kompanion Bank, Bishkek, Kyrgyzstan  
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 Kompanion Bank. Microfinanza Rating is pleased to announce that Kompanion Bank 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 Kompanion Bank. 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

- Kompanion offers a wide range of banking services—including credit, deposit, payment cards, and cash settlement—that are delivered to target clients through appropriate channels including internet banking. Product design involves pilot tests to ensure adequacy for client needs.
- Credit products are designed to require gradual principal repayment and provision for fair collateral requirements. Of note is a high share of loans backed by group solidarity (64% of gross loan portfolio as of March 2017).
- Client satisfaction and dropout surveys are conducted annually to collect client feedback and inform product and service modification as necessary.
- Kompanion forbids aggressive sales techniques and trains staff accordingly to ensure uniform policy implementation in practice. It emphasizes clients’ right to refuse product and service use and, for loans, defines triggers for additional monitoring of staff sales practices to impede aggressive sales.

### Client Protection Principle 2 – Prevention of Overindebtedness

- Kompanion has a sound policy and processes for assessing borrower repayment capacity through cash flow analysis supported with mandatory credit bureau checks and minimum debt capacity thresholds varying by loan term and loan currency.
- Staff training on credit policy and procedures is systematic and refreshed at least annually.
- Internal control systems for ensuring uniform policy implementation are comprehensive.
- Kompanion monitors regularly portfolio quality and reports to the management and the Board of Directors on market conditions, including the risk of over-indebtedness, and takes mitigating measures when necessary. It maintains sound portfolio quality and takes a measured approach to growth to ensure appropriateness for operating context.
- Solidarity group loans are offered only in local currency to avoid exposing borrowers to FX risk. For SME loans, Kompanion conducts mandatory FX sensitivity analysis and applies higher repayment capacity thresholds based on the share of income in foreign currency.
- Kompanion sets reasonable staff productivity targets and incentivizes quality loan disbursements through its documented bonus policy that is revised at least annually and foresees limits signaling high risk in terms of PAR7 and caseloads.

### Client Protection Principle 3 – Transparency

- Kompanion employs a sound policy and procedures for disclosing product and service terms and conditions transparently to clients prior to sale. Borrowers receive mandatory Fact Sheets detailing loan conditions that are then documented in loan agreements.
- Borrowers of foreign currency loans are explained and asked to confirm their awareness about FX risk prior to signing loan agreements.
- Clients are provided with appropriate time for reviewing agreements which are written in the language of client’s choice (i.e. Kyrgyz and Russian) and avoid legalese. Clients can take draft contracts with them for additional review outside of the office before signature.
- Kompanion provides clients with on-demand information on account balances.
- Disclosure of product and service information in public domain is systematic and accurate. It captures pricing information including effective interest rates on loans and deposits.
- Kompanion trains staff to ensure they are able to clearly communicate product and service terms and conditions to clients. The trainings are systematic and refreshed annually.
- Internal Audit verifies the completeness and accuracy of client information materials in public

## Selected Examples of Practices

domain. It crosschecks client understanding of terms and conditions and whether clients received sufficient information for informed decision-making.

### Client Protection Principle 4 – Responsible Pricing

- Kompanion is a financially sustainable bank with adequate capacity to cover its costs and preserve its capital base. The pricing policy is set out to balance competitiveness with long-term institutional sustainability.
- Product and service prices and fees are market-oriented and in line with those of Kompanion’s direct competitors. Interest on loans is accrued on declining balance in a straightforward manner. The APR of the main product (i.e. Standard Group Loan) is within the accepted range.
- Financial performance indicators (i.e. LLER, OER, and ROA) are within accepted performance ranges. Operating efficiency shows an overall positive trend.

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

- The organizational values and standards of interaction with clients are formalized and emphasize the importance of respectful treatment. Prohibited staff behaviors are disclosed on client information boards in offices for client reference.
- HR policies reinforce standards of professional conduct and provision for relevant sanctions. Staff are trained on the standards systematically and acknowledge their understanding of the standards in writing.
- Kompanion forbids any form of client discrimination against the categories protected by the Campaign. Accordingly, product and service terms and conditions are standardized.
- Acceptable and unacceptable loan recovery practices are clear and communicated to staff through compulsory trainings refreshed annually.
- A formal policy regulating loan restructuring and write-offs demonstrate Kompanion’s willingness to lessen debt burden on distressed clients. It stipulates eligible cases and steps that staff must take to analyze and document necessity.
- Collateral seizing is respectful of client rights and follows applicable local laws. Staff are forbidden from seizing client assets during loan recovery.
- Appropriate processes are in place to remedy erroneous transactions.
- Fair and respectful treatment of clients by staff is monitored on an ongoing basis by office supervisors and periodically verified by internal control functions (i.e. Credit Control Department and Internal Audit) through observation of staff interaction in offices and client interviews. Staff violations are documented and managed by the HR Department.

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

- Relevant policies and procedures are in place to ensure the security and confidentiality of client information. Internal systems are adequately set up to prevent misuse and unauthorized access.
- Client consent is mandatory for disclosure of information to third parties unless exempted by law, of which clients are informed in advance: the credit bureau, the central bank, the State Financial Intelligence Services, and courts. The explanation of how client data will be used or shared and with whom is stated in product contracts.
- Kompanion ensures its staff understand and have the skills to implement the privacy policy through detailed instructions on information classification and handling (staff must acknowledge their understanding in writing), training on standards covering privacy of client data, and on-the-job training on information handling and storage.

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

- Kompanion has several complaint submission channels that appropriate for client needs and preferences: toll free number, office hours for client visits, complaints and suggestions journals in offices, email, and postal address.
- Kompanion allocates a maximum of 10 days for complaint resolution.
- The reporting lines are clear with daily reporting of complaints from branches to designated complaint handling staff.
- The staff training on complaint resolution is detailed and covers an overview of the system, mechanisms for handling complaints by channel of submission, staff responsibilities, timeframe for resolution, and the importance of careful treatment of complaints.
- As part of the internal control system, Internal Audit receives information on complaints same day and monitors their resolution. During branch audits, Internal Audit also checks availability of information on complaint submission channels in offices, clients' awareness of their right to submit complaints, and their appropriate resolution.