



CLIENT PROTECTION CERTIFICATION

Report for KREDIT Microfinance Institution Plc.

Mission Conducted by Micro-Credit Ratings International Ltd. (M-CRIL)
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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 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 KREDIT. KREDIT became client protection certified in September, 2016.

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

- KREDIT offers a wide range of financial services based on clients’ requirements with focus on credit and deposits; using both individual and group lending methodology. KREDIT also provides local money transfers and ATM services.
- KREDIT has clear guidelines for conducting valuation of collaterals; acceptable collaterals are listed in the loan policy. The valuation of primary collateral should be at least 1.5 times the loan amount and extra collateral is not collected if the value of the collateral is 2 times the loan amount.
- Productivity targets of staff are reasonable compared to peers. Right to refuse a loan is listed as a right of the client in the institution’s Code of Conduct.
- Annual client dropout surveys are conducted by the marketing department to identify factors that drive clients to exit KREDIT. In addition, field staff record reasons in the dropout register when a client does not avail a repeat loan.
- Annual satisfaction surveys are conducted by the Marketing department to gather feedback for the development and modification of new and existing products, processes etc.

Client Protection Principle 2 – Prevention of Over-indebtedness

- The loan appraisal process is rigorous – includes analysing the credit bureau report, cash-flows, business and conducting household verification. Group loan clients self select to form groups.
- House and business visits are conducted for all loans by the Credit Officers (CO)/Loan and Savings Officers (LSO) and the Sub-Branch Managers (SBM).
- All new recruits undergo a one-month orientation training during which they are trained on the sourcing and appraising clients, valuating the collateral, calculating the various ratios and the ratios’ importance in the loan approval process.
- Credit Bureau check is done for all loans irrespective of loan amount or cycle. Data pertaining to client liabilities is shared with the CB every 35 days. CB check is done for co-borrowers for higher loan sizes.
- The portfolio quality is closely monitored by the Board and senior management. PAR (30 days) has never exceeded 10%. The Risk management function and senior management monitor credit risk closely. The Marketing Department conducts independent studies for a representative set of active borrowers to assess the degree of multiple lending.
- Productivity targets of the COs and LSOs are reasonable and are based on the annual business plan. Incentive system ensures balance between growth and portfolio quality.
- All branches are audited at least twice in a year; audit policies mandate that auditors visit 4%-15% of the branches' clients during each audit. Underperforming branches are audited regularly.
- Rescheduling policy is well documented. KREDIT considers rescheduling requests from clients if they have been impacted by natural/man-made catastrophes, accidents and critical illnesses.

Client Protection Principle 3 – Transparency

- The pricing information including various terms and conditions are clearly communicated by the KREDIT staff to clients at multiple times prior disbursement. Communication is done using both verbal and written mediums.

Selected Examples of Practices

- A copy of all the documents including the loan contract, hypothecation agreements and repayment schedules are given to clients during the disbursement. Depositors are provided with a savings passbook. Acknowledgement receipts are given for all transactions. All the information presented in the documents is in simple and comprehensible language.
- The repayment schedule contains the date of repayment, installment amounts, pricing details, amortization schedule along with the contact details of the CO, and branch.
- KREDIT displays the detailed pricing information for all its products on the website.

Client Protection Principle 4 – Responsible Pricing

- The pricing policies of KREDIT are non-discriminatory and aligned with market standards.
- No penalty is charged if the loan is foreclosed after payment of the first 4 monthly installments. Penalty levied in case of delayed payments is reasonable which is waived off on a case to case basis.
- KREDIT’s efficiency ratios are comparable with its peers. Controlling measures have been put in place by the management, which have led to the decrease in the OER.

Client Protection Principle 5 - Fair and Respectful Treatment of Clients

- The institutional CoC are is binding on all employees of KREDIT including the Board of Directors. The CoC clearly states the core values of the institution in the preamble to the Code of Conduct; it includes integrity, responsibility, dignity and transparency.
- All staff sign an acknowledgement at the time of joining KREDIT; the acknowledgement states that the staff agrees to abide by the Code of Conduct.
- KREDIT is an equal opportunity employer; non-discrimination is part of the HR manual.
- Staff are trained on the Code of conduct during the orientation training; appropriate conduct and the implications of not complying with the CoC are disseminated.
- Sale of asset can only occur only if authorized by the court; sale of collateral to KREDIT’s staff or relatives of staff is prohibited under any circumstance.
- Compliance with policies and procedures is verified by supervisors. Branches are audited twice in a year; the audit team has a target of meeting at least 15% of the client base during a year.
- The Code of Conduct explicitly states that the staff will treat clients in a dignified and non-discriminatory manner. Staff are prohibited from discriminating against clients. KREDIT’s policies do not encourage zero tolerance for PAR. Soft skills account for 10% of the field officer’s appraisal.
- The rescheduling policy was approved by the Board and became effective on October 1, 2015. Staff are oriented on the provision of rescheduling.
- Clients are informed of the rescheduling policy verbally and in written via the loan agreement.

Client Protection Principle 6 – Privacy of Client Data

- KREDIT’s privacy policy has clear instructions on collection, use, sharing, storage and protection of all client data. The policy is binding on all staff of KREDIT.
- The privacy policy and the Code of Conduct prohibit violating the confidentiality of data’ any violations would attract disciplinary actions.
- All loan files are stored securely in locked cabinets in a separate store room at the branches and the collateral documents are stored in a vault. Only authorized personnel can access the documents after taking due permission.

Selected Examples of Practices

- IT policy makes adequate provisions for password protection. User access is defined for each user in the system as per their role in the organization.
- Clients are informed of the privacy policy by the CO and tellers prior to disbursement. Privacy policy is part of the loan contract and the loan application.
- Written consent is taken from clients prior to sharing their information or photo.

Client Protection Principle 7 – Mechanisms for Complaint Resolution

- KREDIT has developed a complaint resolution policy; the objective of the policy is to establish an effective system to solicit and record client complaints and suggestion, and to inform clients of the complaints handling process.
- Customer service module of the orientation training of field staff contains an exclusive session on complaint mechanism and methods of educating clients on the mechanism.
- Clients are trained on the grievance redress channels including the toll free number, contacting field staff, at the time of filling the loan application form, disbursement; channels include: hotline number, verbal communication with KREDIT staff, customer desk at the branches, e-mail, website, social media, client satisfaction or exit survey. The contact numbers of the field staff and branch office are printed in the loan schedule.
- KREDIT has a dedicated 4-member team to handle client grievances and ensure timely resolution; Customer Service Officers (CSO) have been appointed in all branches to handle complaints and resolve client queries.
- The complaint handling staff are trained to categorise complaints across 4 levels of priorities on the basis of the type of complaint; maximum resolution times and escalation levels have been defined for each category of complaint.
- Head of customer service department interacts with 10% of the complainants to check satisfaction with resolution. In addition, the internal audit team also meets with 10% of the aggrieved clients.
- Client complaints/feedback are considered as inputs for revising terms and conditions.