



CLIENT PROTECTION CERTIFICATION

*Report for Hattha Kaksekar Limited, Cambodia (HKL),
Phnom Penh, Cambodia
Certified in June, 2016*

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 Hattha Kaksekar Limited (HKL). HKL became client protection certified in June, 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 four years subject to a check-in after 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>.

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Selected Examples of Practices

Client Protection Principle 1 – Appropriate Product Design and Delivery

- HKL offers a wide range of financial services based on clients' requirements with focus on credit and deposits. It also provides other services such as local money transfer, ATM services and mobile banking.
- There are clear guidelines on the valuation and collection of collaterals. As per the updated policy, HKL would not take additional collaterals if the value of the first collateral meets the requirement.
- Despite incentive being linked to profitability and client retention rate, productivity targets are not aggressive. The Credit Officers (CO) are comfortable with their individual targets.
- Annual client dropout surveys which includes interview with dropout clients to identify factors that drive clients to leave HKL. Annual satisfaction surveys are conducted by the Research and Marketing department to gather feedback for the development of new products and modification of existing products.

Client Protection Principle 2 – Prevention of Over-indebtedness

- Repayment capacity analysis is comprehensive including cashflow analysis, business analysis and verification with creditors and buyers. This thorough analysis is conducted irrespective of the loan size.
- House and business visits are conducted for all loans by the Credit Officers while verification visits are conducted by the BM, sub-BM or Chief Credit Unit.
- Credit bureau check is done for all loans irrespective of loan amount or cycle. As per the latest amendment which would be effective from 01 July 2016, CB checks would also be conducted for the co-borrower (usually spouse) for loans more than \$1,000.
- HKL has maintained good portfolio quality as PAR 1 has never exceeded 1%.
- Productivity targets to credit agents in HKL comparable with the industry numbers.
- 2-3 audits are conducted for each branch where auditors check if loan assessment is conducted properly.
- Rescheduling policy of HKL is well documented. Also, the MIS has been recently updated to track rescheduled loans.

Client Protection Principle 3 – Transparency

- The pricing information including various terms and conditions are communicated by the HKL staff to the clients several times prior to disbursement. Both verbal and written mediums in vernacular are utilized for this purpose.
- A copy of all the documents including the lending contract and repayment schedule are given to clients during the disbursement. Similarly, depositors are given savings passbook. Receipts are given for all remittances. All the documents provided to the borrowers are in vernacular.
- The repayment schedule has details of the due date of each installment.
- The pricing details (including ranges of interest rates for varying loan sizes) of loans is displayed

Selected Examples of Practices

on the official website.

Client Protection Principle 4 – Responsible Pricing

- HKL follows the industry wise practice of offering products at competitive interest rates. Pricing is non-discriminatory and market based.
- No penalty is charged if the loan is foreclosed 3 months from the disbursement date. Penalty in case of late payment is reasonable.
- HKL has been able to improve its operational expenses which is comparatively lower than its peers (OER of 7.9% during FY2014).

Client Protection Principle 5 - Fair and Respectful Treatment of Clients

- The revised Code of Conduct (CoC) was approved by the board in September 2015 which details the expected staff behavior at all times.
- All the staff sign the CoC along with the non-discrimination policy during the time of joining. The list of appropriate and prohibited behavior is outlined in the Staff Misconduct and Disciplinary Action Policy.
- HKL staff undergo induction training consisting of classroom sessions which includes collection of bad debts, CoC, and customer service.
- The working characteristics of COs which includes ethical behaviour and interaction with customers are parameters for their performance appraisal.
- The internal audit along with the BM, sub-BM and chief credit unit conduct verification the compliance with policies and procedures.
- Non-discrimination was approved on 30 May 2015 and covers all the members of HKL. Staff are trained on the policy during their induction and are required to sign and acknowledge the same.
- HKL has a policy on rescheduling of loans. As per the updated documents, the policy is communicated to the clients by the COs and the same is verified by the teller before loan disbursement.
- As per the latest memo of bad debts collection, local authorities are no longer involved in the bad debt resolution/collection process.
- Collateral can be confiscated and liquidated by the courts for repayment purpose. Collateral documents are kept in a fire proof safe at the branch offices.
- All clients are informed about their rights and responsibilities with respect to grievance redressal mechanism.

Client Protection Principle 6 – Privacy of Client Data

- HKL mentions the importance of maintaining confidentiality of information in Clause II of the Privacy Policy. The IT policy highlights the protection of digital data.
- During the induction training, the staff is oriented on the privacy policy along with sessions on CPP, CoC and operational policies.
- All the IT systems of HKL are password protected with well-defined user rights. Violation of policies would lead to appropriate disciplinary action which is also communicated to the staff.

Selected Examples of Practices

- Client files as well as the collateral documents are securely stored in fire proof safe which is operated by 2 keys (one held by the Admin and other held by the Teller) in the branch's store room.
- Client data privacy policy is communicated by both the CO during the loan assessment period and by the prior to disbursement in the branch to the borrowers.
- HKL through its loan application form and loan contract seek permission from the borrower to share their personal information with relevant third parties including CBC.

Client Protection Principle 7 – Mechanisms for Complaint Resolution

- HKL has developed a customer complaint resolution guideline in September 2015. The guideline outlines the purpose of the grievance redressal mechanism, the process map to be followed by the clients to voice their complaints as well by the staff to record and resolve them timely along with monitoring.
- During the induction period, the staff are trained on their right to complain along with the process.
- The loan repayment schedule which is provided to all the borrowers bears the call centre number (not toll free) of the HO and the CO number.
- The TAT is well defined for complaints received through various channels.
- Staff are trained on complaints handling process during induction training. The call centre officers based in HO receive, record and escalate the complaints to relevant departments.
- Client complaints/feedback collected through various channels are considered as inputs for revising terms and conditions.
- The audit team verifies the timely resolution of complaints as well as the level of satisfaction of the clients.