



M-CRIL Micro-Credit Ratings International Ltd.

CLIENT PROTECTION CERTIFICATION

*Report for Kashf Foundation,
Lahore, Pakistan
Certified in February, 2015*

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 Kashf. Kashf became client protection certified in February, 2015.

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>.

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Selected Examples of Practices

Client Protection Principle 1 – Appropriate Product Design and Delivery

- Kashf Foundation (KF) follows the individual lending model and offers range of loan products to women in the low income group for both existing businesses *Kashf Karobar Karza* and to start a new business *Kashf Ibteda-e-Karobar Karza*. *Kashf Murabaha (KM)* a *Shariah* compliant product to purchase assets or raw materials for business enhancement is specifically tailored to needs of clients in Khyber Pakhtunkhwa (KPK) province. Additionally, Kashf School *Sarmaya (KSS)* is offered to women school owners of low cost private schools; apart from credit KF also provides capacity building support to the management of the school and teachers.
- Kashf has multiple touch points to collect client feedback. This includes quarterly meetings of the Women Entrepreneurs Council (WEC) comprising of representative clients (one from each area) with the management, annual client satisfaction survey and regular staff discussions. As a result, the maximum loan size of KKK was increased and the efficient disbursement process was introduced for streamlining the disbursement activity.
- Reasons for clients' exit are recorded manually by the Business Development Officers (BDO) and verified by the Branch Manager (BM) and Area Manager (AM) during monitoring visits. Research department conducts annual client exit survey with a sample of ex-clients.
- Staff are incentivized on number of disbursements and portfolio quality. If the number of disbursements in a month exceeds 40 per BDO such cases are highlighted for ensuring quality portfolio by the operations team. Other aspects of client satisfaction such as turnaround time and client retention are evaluated for all BDOs during annual appraisal and form the basis for salary increment.

Client Protection Principle 2 – Prevention of Over-indebtedness

- Kashf conducts a detailed cash flow analysis for all clients to adjudge the repayment capacity. The Loan Approval and Business Appraisal Form (LABAF) captures the income and expense details of the client's household. BM and BDO visit the household and verify the business for all new clients. For loans for new business, only 75% of income is considered in cash flow analysis.
- Credit Information Bureau (CIB) check is done in 76 (out of 185) branches with the CIB facility. In case a client has outstanding loans from other MFIs, Kashf does not lend more than PKR45,000. For repeat clients, past credit history is also considered in addition to cash flow analysis.
- Credit Committee comprising of BDO and BM approve the loan based on net disposable income.
- Maximum loan amount for first cycle is PKR30,000. For subsequent cycles, the maximum loan amount increases by PKR5,000 and the approved loan amount is based on the repayment capacity of client. Also only foreclosures done after 9 out of 12 installments allow clients to avail higher sized loans.
- Board actively monitors penetration by other MFIs in its areas of operations. External risks such as political instability, security and civil unrest are recognized and a plan of action has been developed to prevent and mitigate such risks.
- Compliance and Internal Audit (IA) departments scrutinize the processes and interact with clients to monitor deviance from policies; also check frequency of monitoring by BM and AM.
- Kashf has formulated a relief policy for clients who face adverse situations, which affects their ability to repay. Branch Managers present the case of the aggrieved clients to their supervisors.

Selected Examples of Practices

Client Protection Principle 3 – Transparency

- Clients are given a product booklet to help them take an informed decision. It mentions the product features and the terms and conditions.
- KF communicates details of various charges and the terms and conditions during the Basic Financial Literacy (BFL) training by BDO. The BM reiterates it during the screening process.
- Terms and conditions are printed in the loan agreement (part of LABAF) and loan passbook in Urdu. All clients are given a passbook and loan repayment schedule (LRS) during disbursement.
- The loan processing fees, interest rate and interest amount are printed in the agreement and LRS.
- Further clients can contact the BDO or visit the branch during working hours to know the balance. Kashf participates in the Transparent Pricing Initiative of MFTransparency, launched in 2013.

Client Protection Principle 4 – Responsible Pricing

- In order to provide for the increasing cost of utilities, Kashf increased its interest rate for the first time in its history from 20% to 22% (flat) in July 2014. However, since the loan-processing fee was decreased from PKR400 to PKR200, the APR increased marginally from 38.3% to 39.8%.
- Kashf was able to bring down its OER from approximately 27.0% in FY11-12 to 19.8% in FY13-14 by focusing on making efficient use of its resource and increasing the productivity of field staff.
- Clients can preclose their loan at anytime during the tenure without any penalty. A 5% rebate is given on the outstanding interest amount.

Client Protection Principle 5 - Fair and Respectful Treatment of Clients

- Kashf's Code of Conduct (CoC) is binding on all employees. It delineates acceptable and unacceptable conduct; in addition to acting as a ready reckoner for professional conduct.
- Training on CoC and Customer Protection Code(CPC) is part of the mandatory orientation training. Staff sign an employee agreement, accepting to abide and act in accordance with CoC.
- The CPC instructs the staff to be dignified towards clients under all circumstances (including default) and prohibits used of abusive language and threatening actions.
- CoC apprises staff that any violation of the code will lead to initiation of disciplinary action. Details of the actions are listed in the HR Manual, a copy of which is in all branches.
- Immediate supervisors (BM & AM) monitor staff behavior towards clients during monitoring visits. Compliance team meets 50 clients per branch monitoring visit (3% to 5% of branch's client base) every 2 months and seeks feedback on staff behavior. IA team meets ≈10% clients during the bi-annual branch audits.
- Field staff only monitor the reception of collections. Repayments are done at the branch or at one of the alternate delivery channels (ADC). The ADCs have to abide by the ADC CoC and provide appropriate and timely services to Kashf 's clients. The IA team regularly audits all ADC providers.
- During training, the BDOs informs the clients of their key rights: access to quality service, transparency and access to correct information in easy to understand terms, non-abusive behaviour during recovery, privacy: of clients' information and right to complain.
- Rescheduling or write-off is done in accordance with the relief policy.
- The CPC prohibits staff from confiscating assets in lieu of payment. PDCs are deposited after 90 days of default for encashing. In case the cheque is dishonored, a legal case is lodged.

Selected Examples of Practices

Client Protection Principle 6 – Privacy of Client Data

- CoC states that all information pertaining to clients will be kept confidential. Further, the CPC mentions that Kashf will not divulge client information to a third party (such as a CIB) without the client's written consent and authorization.
- Confidentiality clause in the loan agreement states that Kashf will share client's information with third parties for processing of loan. This is also printed in the individual loan passbooks.
- The IT policies have well defined user access rights and data sharing rules.

Client Protection Principle 7 – Mechanisms for Complaint Resolution

- Kashf offers its clients multiple channels to register their grievances. Toll free customer care number is the primary channel for registering complaints. Clients can approach the field staff either by calling them or walking into the branch office. They can also walk-in to the HO to register the complaint.
- Clients can also drop in their complaints in the complaint box at the branches or use the pre-printed complaint forms that are placed next to the complaint box.
- BDO inform the clients about their right to submit complaints during the training. The compliance team meets a sample of clients to check their awareness on the GRM.
- KF has appointed a customer service officer (CSO) with field experience to handle clients' calls at the customer care number. The CSO reports to the compliance department and is responsible for escalation and ensuring timely resolution of complaints.
- Complaints pertaining to staff behavior and relief are resolved after investigation and thorough consideration and take longer to close. Other complaints are resolved within the stipulated 7 days.
- The CSO verifies with the aggrieved client whether the complaint was resolved satisfactorily. In case the complainant is not satisfied, the status of the complaint is changed to re-open and escalated to the relevant personnel.