



CLIENT PROTECTION CERTIFICATION

*Report for Kompanion Financial Group Microfinance CJSC,
Bishkek, Kyrgyz Republic
Certified in April, 2014*

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 Kompanion. Kompanion became client protection certified in April, 2014.

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

- Kompanion offers three kinds of credit products: group loan, individual secured and individual unsecured loans. The group loans constitute 97.2% of the total portfolio as on 31 December 2013. These products are designed and constantly revised taking into consideration the clients' needs and feedback. Kompanion has also started offering remittance services as a bank agent. Currently, Kompanion does not accept deposits as it does not have the necessary license. Kompanion is in the process of applying for a banking license which will allow it to accept deposits.
- The product development department collects and analyses reasons for client exit and also conducts annual customer satisfaction surveys. Loan features like tenure and repayment frequency were modified to meet clients' requirements.
- Kompanion does not use high pressure sales technique. Clients do not feel pressured and are given enough time to consider the terms and conditions prior to disbursement. Staffs feel that the targets are reasonable.
- Kompanion has a board approved collateral policy and delinquency management policy (delinquent loan treatment procedure) which details the policies and actions to be taken while dealing with collateral in case of default.
- The collateral policy lists the items that are acceptable/not acceptable as collateral.

Client Protection Principle 2 – Prevention of Over-indebtedness

- Kompanion does a thorough repayment capacity analysis for all clients. This analysis takes into account the credit bureau report, economic condition of the household, credit history, obligations of the client and violations of lending terms in past (if any). The economic condition is evaluated by appraising the business and additional income sources of the potential client.
- Staff is trained on the methods of performing analysis during the internship period. The client credit rating system (CCRS) document lists the criteria to determine the financial condition of the client using both quantitative and qualitative indicators.
- Group members self-select themselves. The concept of group solidarity is emphasized during the meetings and certification process. It is mandatory for the group members to visit the other member's houses and businesses prior to disbursement.
- The institutional PAR₀ has never exceeded 3%. PAR information is updated on the system on a daily basis. Management reviews PAR and write-off cases on a quarterly basis.
- Amount disbursed by the Loan Officer (LO), number of clients served and portfolio quality carry equal weightage in the calculation of monthly bonus of the LO. Bonus is not given in case either the PAR₇ of the branch equals or exceeds 3% or the PAR₇ of the LO is 3% or more.
- Group members self select themselves. The LOs provide training to the clients on the products, policies and processes of Kompanion and have a monitoring role in the repayment process. Targets are comparable with the industry standards.
- Board approved credit policy and CCRS document describe appropriate debt threshold levels for approval of loan depending on the financial condition and credit history of the client.
- Internal Audit department visits a sample (1% each) of clients during the annual branch audit. The IA team downloads client data and verifies client information during the visit. The credit administration department also visits every branch at least once every year and interacts with a sample of clients. Processes of the branches and sub offices are audited once very year to check

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compliance with the policies of Kompanion.

- Parallel loans with other MFIs are discouraged and clients have to pay a higher loan processing fees. The number of clients with parallel loans has fallen from 32% in 2012 to 25% in 2013.
- The delinquency loan management policy lists the cases in which a loan can be considered for rescheduling. The Senior Credit Committee writes off the loan in the event of client's death. The final decision to write-off the principle amount for reasons other than borrower deaths rests with the Board.

Client Protection Principle 3 – Transparency

- All charges and penalties are disclosed by Kompanion during the interactive pre-disbursement meetings by the Loan Officer (LO). The same is verified and reiterated by the Senior Loan Officer (SLO) during the certification meeting. Displays containing information pertaining to loans are available in all the branches.
- Loan agreement, which has the terms and conditions of the loan are printed in a language chosen by the client and a copy is given to all clients. Receipts (for the entire group) are given to the treasurer of the group for all payments.
- Repayment schedule is given to clients at the time of disbursement. The total repayment amount and outstanding principal is given for each repayment date. The clients can also walk into any of Kompanion's branches or sub-offices and contact the field staff or the cashier to get any loan related information.

Client Protection Principle 4 – Responsible Pricing

- Kompanion changed its pricing model in February 2013. The interest rate depends on the group loan amount, which earlier depended on the loan cycle of the client. Also, the average loan size has increased from KGS37,165 (~\$784) in 2012 to KGS54,490 (~\$1108) in 2013.
- The interest rate for the standard group loan varies between 2.35% to 3.3% per month (declining) depending on the loan amount of the group. Kompanion's average price of credit is 34.27% (as on Dec, 2013), which is comparable to the industry average of 34.03% (June, 2013, NBKR bulletin).
- Kompanion was able to bring down its OER from 25.8% in Dec, 2011 to 20.6% in Dec, 2013. Its yield of 35% is comparable to that of its peers.
- As a part of the transformation policy to become a bank, Kompanion has upgraded its systems and uses the Centre of Financial Technologies (CFT) banking system.
- Clients do not have to pay a penalty to pre-close their loans provided they give a 30 days' notice. In case the clients do not give prior notice, they have to pay 50% of interest outstanding for group loans and 3% of principal outstanding for individual loans.

Client Protection Principle 5 - Fair and Respectful Treatment of Clients

- Professional behaviour and ethics code is part of the employee manual of Kompanion and the same is emphasized during the initial trainings conducted for the staff. All staff sign the employee manual acknowledgement form which states that they have understood the policies in the employee manual and agree to comply with them. Any violation is dealt with as per the policies.
- Staffs are recruited locally and are placed in their hometowns. Equal opportunity employment policy is part of the employee manual which prohibits discrimination of any kind during recruitment.
- Kompanion uses a two dimensional approach to evaluate performance of staff - personal competencies (which includes compliance with established norms, customer oriented approach,

Selected Examples of Practices

liabilities, team work, diligence and efficiency) and professional competencies. For loan officers, personal competencies section carries a weight of 37.5% of the total score.

- The internal audit and credit administration department conduct surprise visits during the annual branch audits. The team meets the clients, in the absence of field staff, and discusses behaviour of the loan officer, awareness and satisfaction with grievance redress process.
- Kompanion reschedules or writes off loans on a case by case basis. Clients can apply for rescheduling of their loan in the event of being affected by natural catastrophes, serious illness resulting in inability to work or bankruptcy.
- Kompanion informs the clients about the procedures of collateral seizing during the trainings. It is part of the pledge agreement which is signed by the borrower at the time of signing the loan agreement.

Client Protection Principle 6 – Privacy of Client Data

- The loan agreement, credit policy and employee manual specify that the information of the client will be kept confidential at all times except in the following circumstances: (i) it has been authorized by the client in writing (ii) the client agrees to disclose credit information to the credit bureau and (iii) the disclosure conforms to the laws of the Kyrgyz Republic - Banking Secrecy Law.
- Confidentiality of client information is part of the employee manual which is used for training the employees. Staff is aware that any violation of the policy will lead to disciplinary action. All employees have to sign the Confidential Information Non-Disclosure Agreement as an acknowledgement of the policy. The policy is binding on all current and ex-employees of Kompanion.
- The Centre of Financial Technologies (CFT) banking system has appropriate password protection and user - defined access functionalities.

Client Protection Principle 7 – Mechanisms for Complaint Resolution

- The policy for addressing complaints, requests and suggestions details the grievance process and the TAT for complaint resolution and actions to be taken if the complaint is not resolved within the specified TAT.
- Clients can register their complaint with Kompanion in three ways. The client can either call the field staff or walk into the branch or sub office during the office hours and register the complaint. Clients can also register their complaints on the toll free number or in the book of complaints.
- The toll free number is printed on the displays in branches and told to clients during the pre-disbursement meetings. During certification, the SLO verifies whether the clients are aware of the process of registering their complaint.
- Satisfaction of clients with the resolution is checked by the internal audit team during the annual branch audits on a sample basis. Client feedback and suggestions have acted as genesis for the introduction of new products in the past.