



## CLIENT PROTECTION CERTIFICATION

*Report for AMK Microfinance Institution PLC. (AMK)*

*Certified in November, 2016*

Mission Conducted by Micro-Credit Ratings International Ltd. (M-CRIL)

Sanjay Sinha

Shraddha Jha & Sana Zehra

*“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 AMK. AMK became client protection certified in November, 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:

**Micro-Credit Ratings International Ltd. (M-CRIL)**  
542, Megapolis  
Sohna Road  
Gurgaon, India  
[contact@m-cril.com](mailto:contact@m-cril.com)

## Selected Examples of Practices

### Client Protection Principle 1 – Appropriate Product Design and Delivery

- AMK offers an array of products and services, including group (Village Bank or VB) and individual loans (ID), deposits, remittance, micro insurance, payroll and bill payments. Depending on the loan product, clients have the flexibility of selecting the currency (KHR, THB, US\$), the repayment location (client location or at branches) for ID loans and method of repayment (installment, end of term or credit line).
- AMK regularly solicits client feedback and suggestions to revise products and processes and introduce new products post market research and pilot. Client satisfaction and client exit surveys are conducted annually. AMK also periodically conducts mystery shopping via third parties.
- The collateral valuation policy defines and gives examples of immovable and movable assets and the assets that cannot be accepted. Policies restrict collection of excess collateral in case the collateral value (CV) ratio criteria is fulfilled.

### Client Protection Principle 2 – Prevention of Over-indebtedness

- Cashflow analysis is done for all loans irrespective of the loan cycle and maximum loan amount is determined by the borrower's net income, existing debt and the loan tenure. For Village Bank (VB) loans, the business analysis is separately done for regular and irregular income sources. Restrictions on the loan methodology are effected in case depending on the share of irregular income in the total income.
- For Individual (ID) loans (loans >\$500), monthly cashflow analysis is done for a period of 12 months and the loan methodology is determined by the surplus. In order to calculate monthly gross margin, 140% of payment on proposed AMK loan is considered. Debt service coverage ratio is calculated in cases where client requests for reduction in interest rates and the ratio needs to be more than 1.2.
- Loan application form has to be filled up at client's house and non-compliance with this policy is considered very seriously. Area Manager (AM) visits clients' house for all ID loans and visits group loan clients on a sample basis.
- AMK's cross-finance policy allows AMK to be the 5th lender. For new ID clients, cross finance is not allowed.
- Credit bureau check is done for all loans irrespective of loan amount or cycle and is done for the co-borrower for all loans exceeding \$1,000. While calculating the total outstanding amount from other sources, entire household debt is considered.
- Compliance with internal and external cross-finance policy is verified and quality of cashflow assessment is checked during internal audit (IA).
- In the past four years, AMK has maintained good portfolio quality at PAR<sub>30</sub> <1%. Disaggregated PAR30 data is reviewed by the management on a monthly basis. Disaggregation is done on the basis of products, sectors, sub-sectors, branches, disbursement period in addition to top COs and AMs in terms of high PAR are also identified. Monthly trend analysis for PAR clients, amount and % is done.

### Client Protection Principle 3 – Transparency

- Terms and conditions, including pricing information are communicated several times prior to disbursement. Both verbal and written communication are in vernacular.
- Both VB and ID loan clients receive a copy of the loan contract and the repayment schedule; individual clients get collateral contract additionally. The contract states the loan amount, term, maturity date, disbursement method, repayment method, location, interest rate, upfront charge and penalty on overdue.
- Depositors are given FD certificate or account statement as applicable. Saving clients are also informed of the balance amount through sms alert, the deposit or withdrawal receipt with the updated balance.
- Receipts for all remittance transaction are given. Fees for various transactions are clearly displayed at the agents' locations.

## Selected Examples of Practices

- Clients who have opted for insurance receive insurance card and book which details eligibility conditions, charges and benefits.
- Detailed pricing information for all the products is available on the website.

### Client Protection Principle 4 – Responsible Pricing

- AMK has adopted the industry wide practice of offering products with a range of interest rates for individual loans. For VB loans, the interest rates are fixed depending upon the product and currency. Loans in US\$ and instalment method are cheaper.
- Clients can preclose their loan at anytime without paying any penalty; AMK charges a penalty of 1% of the overdue amount in case of delayed repayment.
- Staff productivity is on the higher side due to the large proportion of group loan clients. Despite higher productivity, the OER of AMK is higher than its peers. Management attributes the higher expenses to agent and VBP commission pay-out. In the past one year, AMK incurred expenses for marketing the deposit product and in standardising the branch infrastructure. In addition, the average loan size of AMK clients is one of the lowest due to its focus on low ticket group loans (81% clients and 65% portfolio as on 31-Dec-15).
- Nevertheless pricing is competitive and non-discriminatory.

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

- The CoC was institutionalized and first approved by the Board in January 2014; since then two amendments have been made. Organisational values (AMK's principles) and the eight codes of conduct for client protection further defines the culture at AMK.
- All staff are trained on the above mentioned codes and principles during induction. Multiple sessions during training covers acceptable and unacceptable staff behavior.
- The staff are also informed of disciplinary actions corresponding to various violations which are part of CoC and the HR policy.
- Customer focus, communications and ethics are the 3 common parameters for all staff under 'Competency' for performance appraisal. Customer service is part of the regular audits during which the IA officers ascertain the behaviour of staff and agents towards clients.
- Portfolio quality has a gradual effect on the incentive of field staff and staff having PAR<sub>30</sub>>1% are ineligible for the incentive. The VB President's incentive reduces by one-third if there is a single overdue.
- In order to prevent aggressive collection practices, the VBPs are also oriented on the prohibited actions and commit to the VBP CoC which is part of the VBP agreement. Similarly, the agents are trained on the prohibited actions by the MBO and also sign the agent agreement.
- Board approved rescheduling policy has been implemented in all branches in February 2016 for the benefit of clients with genuine reasons of default. Rescheduling policy is part of the key messages, which are read out to the clients during disbursement by the staff.
- Key messages include rights of clients and other aspects of CoC.

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

- AMK's data privacy policy covers the collection, use, and maintenance of information of AMK's clients both in the form of hard and digital copies. The policy is applicable to all personnel and/or entities who have business relationship with AMK, either existing or in the past.
- Privacy of client data is part of the CoC and one of the eight of AMK's code of conduct for client protection. Staff are trained on the privacy policy; the agreements of the Village Bank President (VBP) and agent includes the confidentiality clause.

## Selected Examples of Practices

- User access is defined in the system as per the role of the personnel; user rights assigned by IT infra team and verified by IT security team. Password Management section of the IT policy has clear instructions for setting and changing the password.
- Checks by internal audit and system audit by external party is done annually.
- Client loan files and collateral documents are kept in locked cabinets with restricted access. Record of withdrawal of collateral document is maintained by the Accountant.
- AMK takes consent from client to store and share their information with the CBC in the loan application form. Use of their information is also stated in the loan application form, loan contract and is part of the key messages.

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

- The Customer Complaint and Suggestion policy details the process for handling complaints received via various channels available to clients including field staff, call centre, suggestion box, walk-in to a branch, e-mail and social media. The Policy defines the maximum resolution time for complaints received via various grievance redress channels.
- The helpline numbers are also printed on the loan cards, ATM card, MI card and product brochures. The various channels are also part of the key messages.
- AMK has a dedicated nine-member call center team which work in 3 shifts to handle and resolve client calls. The Customer Service Officers (CSO) at the branches are responsible for handling customer queries and grievances, open suggestion box and recording complaints for consolidation.