



CLIENT PROTECTION CERTIFICATION

*Report for Thaneakea Phum (Cambodia), Ltd. (TPC),
Phnom Penh, Cambodia
Certified in June, 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 TPC. TPC became client protection certified in June, 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

- TPC offers products depending upon the intended use and the cash flow of the clients. Loan products are offered using both the group and individual lending methodology. Clients engaged in agriculture or other seasonal activities have the option of availing products with balloon or semi-balloon repayment. Clients can choose the currency in which loan can be availed and also choose to repay either at the village meeting point (if there is one) or in the branch.
- For secure loans, in case a client does not have a collateral to pledge, the guarantor can pledge collateral on behalf of the client
- Annual client satisfaction and exit surveys are conducted by enlisting third party enumerators. The objective of these surveys is to determine the satisfaction of clients with various product terms and services. The exit surveys help TPC determine the key factors responsible for client dropout and also investigate the reasons that drive clients to move to other financial institutions.
- The Credit Officers (CO) collects reasons for client exit whether it is voluntary or rejection by TPC. The Credit department collates this data for analysis.
- In-depth market research studies are conducted with stakeholders to determine demand for products. Changes in product are made during the pilot phase, followed by the product launch.
- Collateral is taken for all individual loans; the collateral policy has clear guidelines for the valuation of the collateral. The policy also has an exhaustive list of items that cannot be accepted as collateral.

Client Protection Principle 2 – Prevention of Over-indebtedness

- Rigorous repayment capacity is conducted for all loans. The CO collates the requisite information during the physical verification of the client's house and business.
- Credit Bureau Cambodia (CBC) reports are generated after analysis and the details of other active loans are verified and updated accordingly in the loan forms.
- The installment amount cannot exceed 70% (65% for seasonal loans) of the household's surplus. In case the client has one or more active loans, the installment amount is capped at 50% of the surplus. This policy is followed rigorously and adherence is monitored.
- The value of the collateral is estimated at 70% of the market value; the estimated value of the collateral has to cover at least 200% of the loan amount.
- The Head Credit Officer (HCO) conducts physical verification for a sample of clients if the loan amount is less than \$1,250. For all other amounts, the HCO does 100% physical verification. For loans exceeding \$3,500, even the Branch Manager (BM) conducts physical verification.
- COs refer to the records of clients/applicants in the rejected, watchlist and blacklist registers maintained at the branch before seeking approval for the loan.
- In case the client forecloses her loan before paying 50% of the outstanding, the subsequent loan amount cannot exceed 125% of the previous loan amount.
- Internal Audit team regularly monitors compliance with policies and procedures and verifies whether the loan appraisal is conducted after a thorough analysis. Additionally, the branch support team also monitors compliance and provides inputs upon identifying gaps.
- Board regularly reviews market reports containing information on outreach, details of PAR30 of other MFIs. Branches with PAR30 exceeding 0.5% and products with highest PAR are monitored.
- Village wise penetration rate of four large MFIs (including TPC) is generated every month and

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shared with the BM. Portfolio growth is prohibited in case the penetration rate exceeds 100%; if the penetration rate is between 80-100%, the branches are advised to proceed with caution.

- The incentive of the CO is contingent upon the profitability on the portfolio and portfolio quality, which ensures that staff do not resort to aggressive sales.
- TPC has formulated a rescheduling policy for clients who have the willingness but not the capacity to pay due to adverse circumstances such as natural disasters or events beyond the client's control that affect their livelihood.

Client Protection Principle 3 – Transparency

- Multiple trainings are conducted using visual aids (Metacard) to communicate the product's features, charges and terms and conditions.
- At the time of disbursement all clients receive loan agreement, repayment schedule and a transparency sheet; all documents are in Khmer. The loan agreement and the transparency sheet have details of all the charges paid by the client and the approximate installment amount.
- Repayment schedule provides details of each installment amount (broken down into principal and interest, if applicable), due date. In case of group loans, a repayment schedule of all members is also given to the group leader.
- Receipts are given for all repayments; for group loans receipt for the whole group is given, which is maintained by the group leader.
- Interest rates are clearly displayed in branches; this is also available on TPC's website and the respective product brochures.
- The Internal Audit and Branch support team verifies whether the staff communicates the terms and conditions and the associated charges prior and during disbursement.
- Clients are given adequate time to consult and seek clarification before taking the loan; clients can annul their loan anytime before disbursement.

Client Protection Principle 4 – Responsible Pricing

- TPC follows the industry wide practice of offering a range of interest rate for a product. The interest rate depends upon the competition and the location of the branch. The monthly interest rate for the group loan ranges between 2.9% to 3.5% and for individual loans 1.7% to 3.5%; this is comparable with similar sized MFIs.
- As per the regulations of the National Bank of Cambodia (NBC), the interest is charged on a declining basis.
- OER has been following a downward trend and dropped from 13.60% at the end of 2012 to 10.77% at the end 2014; this is lower than its peers.
- Clients can foreclose their loan at any time without paying any extra charge.
- Penalty is collected for delayed payments; clients are informed of this fact. Based on the reason for delay, the CO has the right to waive off the penalty after taking permission from the BM.

Client Protection Principle 5 - Fair and Respectful Treatment of Clients

- The Code of Conduct (CoC) incorporates TPC's mission, values, professional conduct expected from the employees and prohibited actions. At the time of joining all employees agree to abide by the CoC by signing the declaration; implications of violating the CoC are also communicated.

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- The 10-day induction for employees includes sessions on CoC, client protection principles, social performance management, customer service, loan problem solving and restructuring policy.
- During the session on loan problem solving, appropriate collection practices are demonstrated with the help of role-plays.
- The COs are not eligible for incentive for the particular quarter if there is a single instance of violation of the CoC, resulting in a warning or if more than 90% client complaints are not resolved.
- The HCO and BM monitor activities of field and branch staff involving client interaction. The Branch support and Internal Audit team conduct surprise audits to check clients' perception of the services provided to them.
- The rights and responsibilities of clients are communicated at the time of disbursement; additionally clients receive a folder, which has the rights and responsibilities printed on one side and the client protection principles on the flipside.
- Clients are informed that they can negotiate their repayment terms with TPC in case they face any difficulty in repaying and a representative of TPC has affirmed the financial condition.

Client Protection Principle 6 – Privacy of Client Data

- The Privacy Policy clearly states the information TPC collects from its staff and clients and the purpose for collecting it; policy has details of third parties with whom TPC shares its data. It is binding on all employees and third parties authorized to use the system.
- "Confidentiality of Information" clause is part of the CoC; it prohibits employees from disclosing any information relating to TPC both during and after the end of their employment with TPC.
- The client and TPC representative sign the Data Privacy Agreement, which informs the clients how their information will be used and the clients' responsibility towards ensuring confidentiality of their information. Written consent is taken from clients for using their photos for marketing.
- The IT Policy governs the security of the MIS and systems at TPC. The policy on password protection has instructions on creating, changing and protecting passwords for various systems.
- Client files and back-up data are secured in locked cabinets at a limited access location in the branches; only authorized personnel have access to this information.

Client Protection Principle 7 – Mechanisms for Complaint Resolution

- The grievance policy lists the various channels provided by TPC for clients to register their complaints and feedback. The policy stresses on communicating the various avenues to clients.
- During induction training staff are informed of the importance and methodology to solve clients' grievances. Regular refresher trainings are conducted that recapitulate the grievance mechanism.
- During the initial training the grievance process is communicated verbally to clients and at the time of disbursement visual aids are used to communicate the same point. The internal auditor verifies whether the clients are aware of the grievance mechanism.
- Stickers of the hotline number are pasted on the repayment schedule; these are red in color for greater visibility. These numbers are also printed on the posters that are hung at the common meeting point in the villages. Contact number of the BM and Branch Accountant (BA) are printed on the marketing stickers and pasted at various points in a village.
- Clients' rights, which are communicated to clients both verbally and in written form, include the

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right to complain.

- Complaint box along with complaint forms are available outside every branch. The Regional Manager has the key to the box, which is opened once every quarter. This channel is rarely used.
- At the Head Office the Customer Service Officer (CSO) is responsible for handling calls and escalating the complaints to the concerned person; the CSO also follows up for resolution. Details of the complaints and the actions taken are recorded in the e-complaint system.
- Depending upon the severity, the complaints have been assigned priorities and an escalation matrix has been developed. Depending upon the priority and the level of escalation, resolution times have been defined.
- Complaints received at the branches either verbally or through the complaint box are recorded in the e-complaint system primarily by the BA, although all staff can enter the complaints in the system. Either the CSO or the BA follows up the complaint for resolution.
- A complaint is marked closed only when the CSO has confirmed that the client is satisfied with the resolution provided; otherwise the complaint is marked re-complaint and escalated to the next level.