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# Transparency in practice

### **Rationale**

<u>MicroFinanza Rating</u> would like to share some experience in client protection, inspired by good practices observed in the field while conducting social ratings and client protection certifications of MFIs, aiming at **promoting best practices**.

### Source of information

MicroFinanza Rating has conducted 750+ evaluations in 70 countries since 2001.

<u>Source of this insight</u>: selected practices from 370 client protection certifications, social ratings and microfinance institutional ratings conducted from 2006 to 2013.

MicroFinanza Rating is <u>licensed to conduct Client Protection Certifications</u> by the <u>SMART campaign</u>. MFIs willing to differentiate themselves by demonstrating their adherence to the client protection principles can undergo a client protection certification. <u>Social ratings and Microfinance Institutional Ratings</u> also review client protection<sup>1</sup> and can be useful to get ready for certification.

### **Client Protection Certification definition**

Provides an opinion on the long-term institutional sustainability and creditworthiness through a comprehensive assessment of risks, performance and market position



# Client protection principles

- 1. Appropriate product design and delivery
- 2. Prevention of over-indebtedness.
- 3. Transparency
- 4. Responsible pricing
- 5. Fair and respectful treatment of clients
- 6. Privacy of client data
- 7. Mechanisms for complaint resolution

More on: Client Protection Certification, research (Lucia Spaggiari).

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<sup>&</sup>lt;sup>1</sup> The depth of analysis of client protection is higher in the Certification than in Ratings.



# Examples of transparency into practice: virtual branch

The following diagrams are not meant to propose ready-made solutions applicable to all MFIs; rather, they illustrate examples of what it means to implement transparency in practice, with a focus on savings operations.

# Figure 1: Virtual Branch

# 2 Staff available to clarify: Customer care staff and saving promoters are available to answer any

question to the

clients

# 3 Public board: Saving withdrawal conditions Interest rates on savings

# 4 Brochures

- Saving products, terms and conditions
- All material is in local language
- New services

# 5 Communication skills:

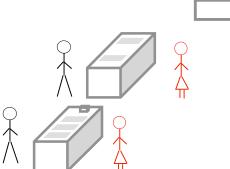
- Communication skills are considered while hiring
- Training for new staff on effective explanation of the saving products and conditions, addressing literacy barriers
  - The operational policy includes the detailed steps to inform clients

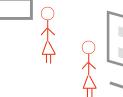
### 6 New services

The staff is informed about changes or new

# 1 Saving conditions sheet:

Clients bring home a sheet describing the main savings conditions to, and take some time to make the decision





# 7 Client financial education: Financial literacy training provided

Financial literacy training provided in alliance with a local NGO









# 8 Assembly:

In loan and saving associations, profit/losses and the consequences for the members' dividends, are disclosed to the members

# 14 Updated account statement: An updated balance of saving account is available on request, free of charge

# 13 Simple saving remuneration structure:

- No fees are deducted from the saving balance
- The interest earned on saving and the dividend earned on shares -if applicableare correctly registered
- The clients saving remuneration and withdrawal limits applied are in line with policies

# 12 Read contract:

Before signing the contract, the loan officer reads the key section to the client in case of illiteracy 10 Saving contract: Simple language, no fine print, filled-in in all its parts 9 Welcome kit

Saving products and process, saving interest rates and benefits of savings

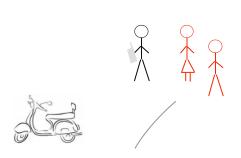
# 11 Insurance contract

Insurance eligibility criteria, premium, events covered and amounts to be reimbursed
Validity, expiry and exclusion list
How to file a claim



# Examples of transparency into practice: virtual field

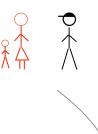
Figure 2: Virtual Field



# 1 Officer explanation

- The officer provides detailed explanations on savings conditions, including interest rate and withdrawal limits and conditions
- After the opening of the saving account, the officer is available to answer any enquiry from clients by phone

Client house / business



# 2 Mobile banking

Depositors receive accurate balance statements after each transaction and a complete account statement on request.

# 3 Auditor visit to clients

- Verify explanation provided by the staff
- Verify documents provided to the client

LEGEND: Client; MFI staff MFI internal auditor

# **Conclusion**

Client protection contributes to a more stable microfinance industry by encouraging practices that aim to ensure prudent, transparent, and respectful treatment of clients. By incorporating client protection into all aspects of business operations, MFIs can lay the basis for sustainable operations through client loyalty, investors' recognition and regulator trust. MFIs willing to differentiate them by demonstrating their adherence to the good client



protection norms can undergo a client protection certification, which grants the highest client protection recognition through a credible and independent process.