

THE CLIENT PROTECTION PATHWAY

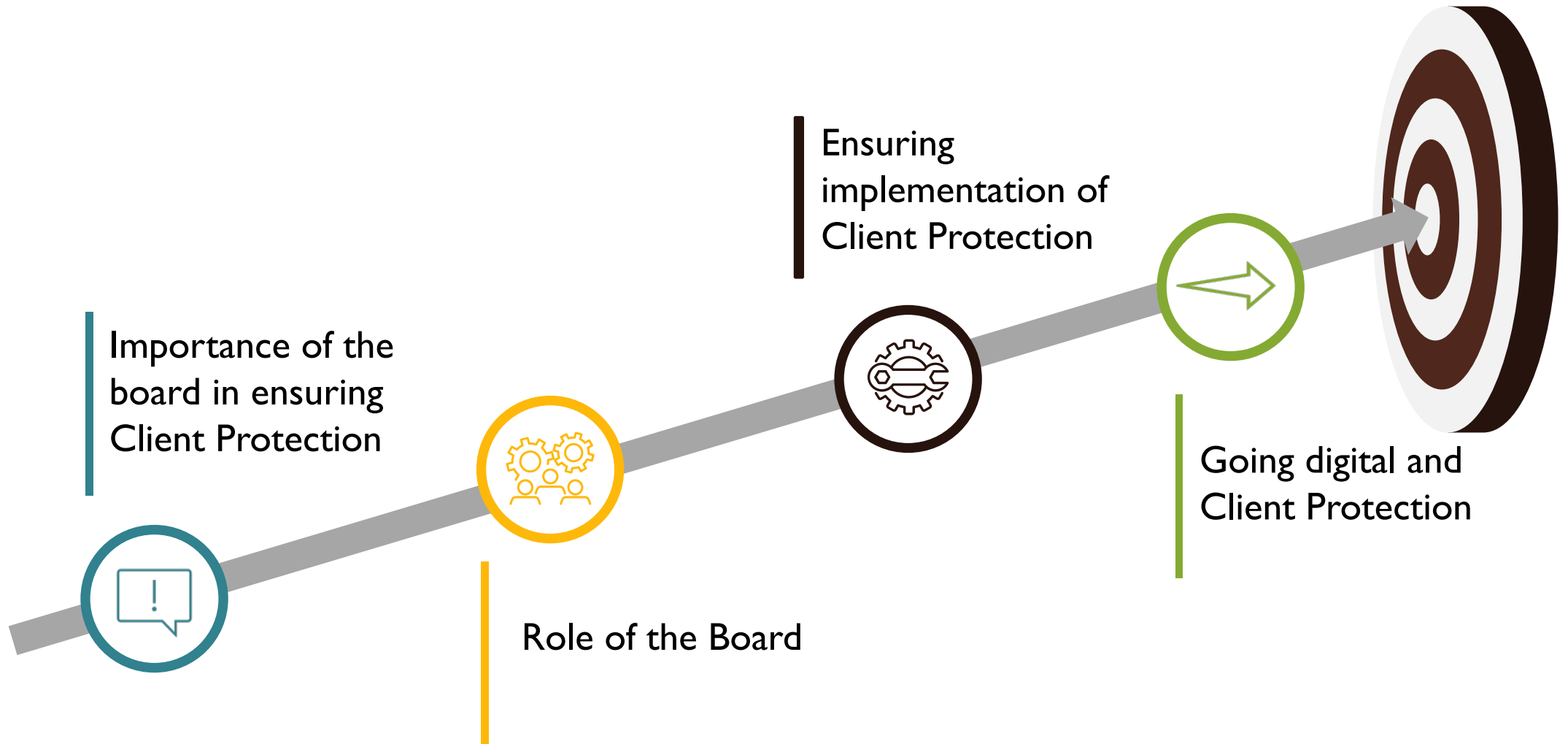
ROLE OF GOVERNANCE

IMPLEMENTATION SERIES: WEBINAR 5

 cerise + SPTF



Our Goals



THE CLIENT PROTECTION PATHWAY

ROLE OF GOVERNANCE

WHY IS THE ROLE OF GOVERNANCE IMPORTANT?



CP starts at the top



Effective CP practices depends a lot on the governance and management systems in an institutions

The board and management are critical in ensuring effective CP in an FSP

They set the goals and monitor these goals.They also set the culture of the FSP

Are you achieving the sale targets?



Do you think product are appropriate for our clients?



Asking sales and operations questions is important, but conversations with branch staff often are only about PaR and sales targets

Why should the board focus on CP



- The focus of board and management reviews and discussions tends to be on financial metrics, with an absence of what the results mean for products and processes at a client level
- Over-indebtedness, aggressive sales, interest rate caps, and high-risk refinancing are areas of common concern across many markets
- Increasing digitisation and COVID has created challenges related to products and processes (e.g., low digital literacy, transparency related to digital credit, customer due diligence). These consumer level risks can impact an FSPs financials performance.
- Political risks emanating from consumer level risks mandate that the board reviews the FI CP practices
- Many investors and lenders are seeking to understand how FSPs implement and monitor client protection practices. This is often linked with access to institutional funds.

What then is the role of the board on CP?



Ensure they are up to date CP initiatives and how it relates to risk management



Ensure implementation of CP in the FI by holding management accountable on CP

The board is support in this by



Reporting on CP to the Board

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ROLE OF GOVERNANCE

ROLE OF THE BOARD



Before building board capacity...



...build buy-in



It is important to build buy-in on the CPs at the board level as they must monitor its implementation

Strengthens financial performance

- For example, CPP 1:
Appropriate products and processes
- Proper client segmentation is key – can help generate new business

Linked with risk management

- For example, CPP 2:
Preventing over indebtedness
- Proper repayment capacity assessment systems is a vital risk mitigation strategy

Social investor interest

- Social investors care about CP
- They don't just want a customer quotation or a photo of a smiling customers
- They want evidence of CP practice implementation

Regulatory lens on CP

Regulators are increasingly becoming more concerned by CP
Many NFIS's not highlight CP a priority area of work



Ensuring board is updated on CP initiatives



- Many board members will not be aware of national and international efforts to support CP practices
(e.g. CP Pathway and the transition from Smart Campaign to the SPTF-Cerise)
- Boards don't need to understand the details of each complementary initiative. They should know that CP is a global phenomenon, there are communities of practice dedicated to helping FSPs improve and demonstrate their CP practices.
- **Board will want understand their role in CP. The board should expect to:**
 - Establish/approve the FSP's CP strategy
 - Review CP reports to check for progress and implementation
 - Hold management accountable
 - Make strategic decisions about various CP aspects

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ENSURE IMPLEMENTATION OF CP PRACTICES



Start with these questions – can board members answer these questions?



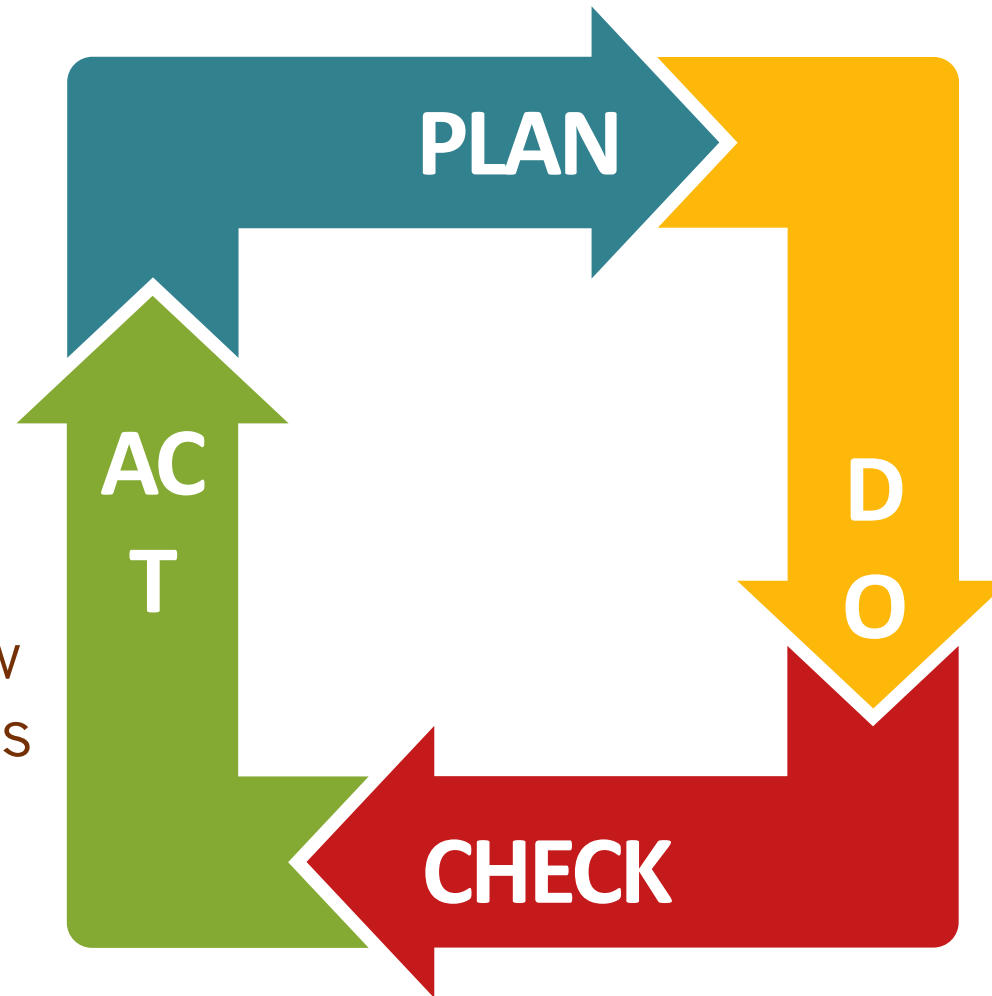
- Do we have **policies or practices designed to protect clients**?
- Do we take **measures to ensure Client Protection**?
- Are **product terms and conditions**, as well as the **rights and responsibilities** of clients, **communicated** to them in a way that illiterate clients can understand and remember?
- Do we have a **policy for supporting clients who face repayment difficulties** due to factors outside of their control?
- Do we have a **policy to help avoid and monitor over indebtedness**?
- Does our institution have **client feedback and complaint mechanisms** in place?
- Do our **clients know the interest rate** they are paying for their loans?

A systematic approach to effective governance for Client Protection



- Governance
- Strategy
- Policies and mechanisms

- Management review
- Corrective measures
- Continuous improvement



- Implementation
- Staff training
- Client information
- Institutional culture

- Internal control / Audit
- Client Suggestions / Complaints
- Risk management

Board holds management accountable for achieving CP goals



Start with the following data - provided by management - Minimum frequency: annually

Risk of client over-indebtedness



Client satisfaction



Responsible pricing



Data privacy



Fraud and corruption



Frequency or reporting is important to consider

Board takes corrective action

Analyze by gender, product, geography

Board is supported by...



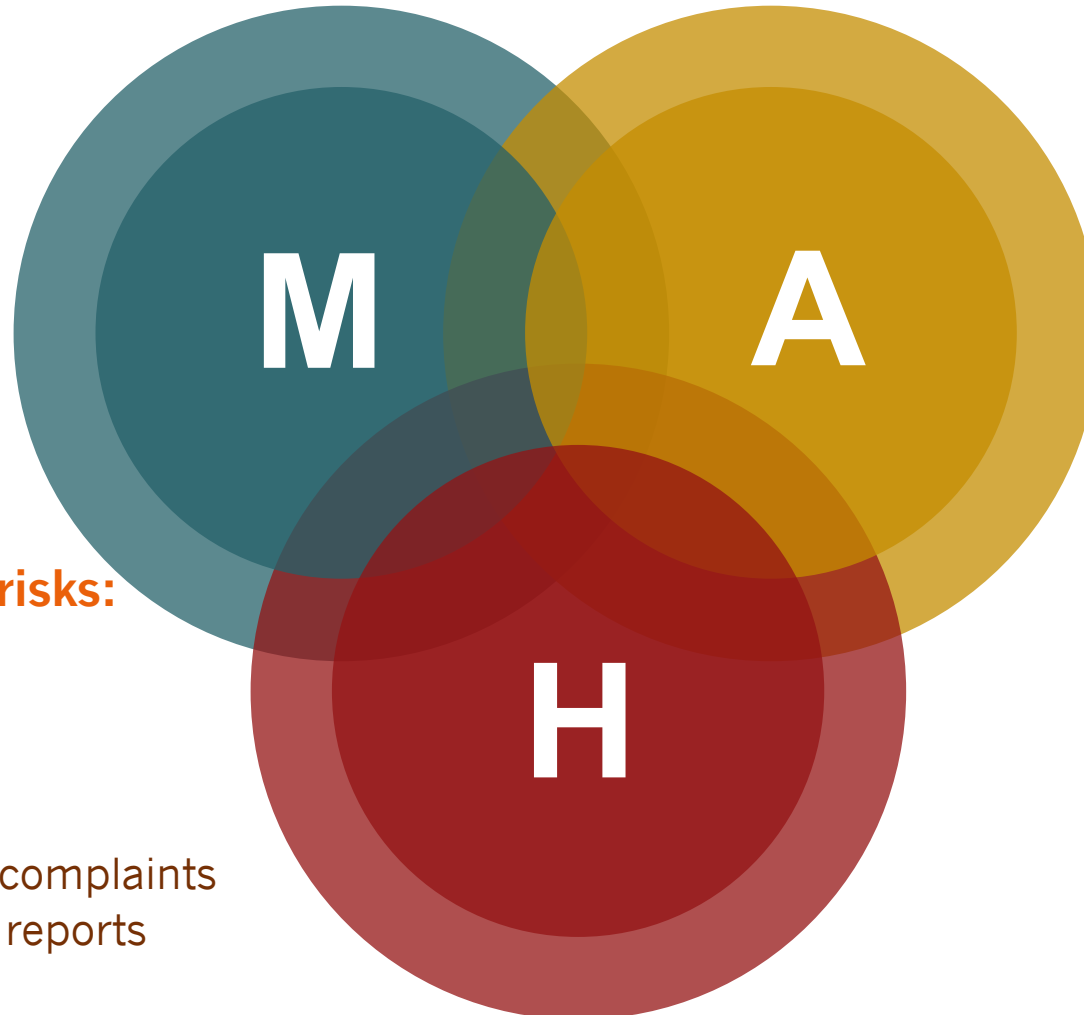
Management

Assesses risks and provides possible solutions.



Analysis of the following CP risks:

- Over-indebtedness
- Unfair treatment
- Lack of transparency
- Privacy
- Client dissatisfaction and complaints
- Data privacy and security reports
- Fraud and corruption



Internal Audit

Performs checks and advises on controls

Human Resource

Supports the implementation

Internal Audit checks and controls

Internal audit and/or risk management integrates the following criteria into regular monitoring activities

Internal audit should ask CP related questions during client visits

Transparency with clients

Collateral seizing and appropriate debt collection practices

Complaints handling, including review of a sample of cases

Client repayment capacity, loan approval analysis, prevention of aggressive sales

Compliance with code of conduct; prevention of fraud and corruption

Client data misuse and fraud



Ensure that all employees are trained on client protection (and social goals)

Trains employees on client protection, in line with their roles and responsibilities.

The training covers at minimum the following topics:

- Repayment capacity analysis and the credit approval process
- How to avoid aggressive sales techniques, including how to respect clients' right to refuse products
- How to explain pricing, terms and conditions to clients and how to verify client understanding
- Debt collections practices and loan recovery procedures
- Confidentiality and data sharing policies and fraud risks, including common frauds, fraud identification, and fraud reporting
- How the complaints mechanism works, how to resolve complaints against third party providers, and how to treat clients respectfully during the process

Data collection and reporting to the board – Key questions



ARE WE PREVENTING CLIENT OVERINDEBTEDNESS?

ARE WE COMMUNICATING TRANSPARENTLY WITH OUR CLIENTS?

ARE OUR PRODUCTS AND SERVICES PRICED RESPONSIBLY?

ARE WE TREATING CLIENTS FAIRLY AND WITH RESPECT?

ARE WE MAINTAINING THE PRIVACY OF OUR CLIENT DATA?

ARE WE RESPONDING TO CLIENT COMPLAINTS?



ARE WE PREVENTING CLIENT OVERINDEBTEDNESS?

PAR reports
(by client type, product type, PAR trends
over time)



Multiple borrowings and penetration
rates



Write-offs, early payoffs, refinanced
and rescheduled loans



Incentives paid to field staff (for new
client acquisition, portfolio size growth)



Loan officer productivity



Audit reports from client visits
(repayment capacity assessment)



ARE WE COMMUNICATING TRANSPARENTLY WITH OUR CLIENTS?



Audit reports
from client visits



Results of satisfaction
surveys/interviews/focus
groups



Complaints/questions
from clients
about product terms and
conditions

ARE OUR PRODUCTS AND SERVICES PRICED RESPONSIBLY?

- Effective annualized interest rates for all products
- Effective annualized interest rates for key products of peers (closest competitors)
- Efficiency ratios and targets, with trends
- Efficiency ratios for peers
- Operational self-sufficiency ratios
- Profitability ratios and targets (ROE, ROA)
- Loan loss expense ratio
- Percentage of financial income from fees, pre-payment penalties, and trends on these percentages
- Insurance claims (to compare insurance cost to clients with actual claims)

ARE WE TREATING CLIENTS FAIRLY AND WITH RESPECT?

1. Results of client satisfaction surveys/interviews /focus groups

2. Audit reports from client visits

3. Reports on collateral seizures, including after how many days overdue collateral is seized

4. Analysis of client complaints related to staff behaviour

5. Field staff salaries broken down into % of fixed and variable

6. Employee attrition analysis

7. Employee satisfaction surveys

8. Reports on disciplinary actions taken against employees

ARE WE MAINTAINING THE PRIVACY OF OUR CLIENT DATA?

If appropriate,
reports on changes
to users' access
rights

Results of client
satisfaction
surveys/interviews
/focus groups

Reports on system
security, as requested
from management IT
audit reports

Audit reports
from client visits

ARE WE RESPONDING TO CLIENT COMPLAINTS?



Record of client
complaints

Results of client
satisfaction
surveys/interviews
/focus groups



Reports analyzing
trends from the
complaints record

Audit reports from client visits,
with results of what complaints
clients have, and whether client
complaints were resolved
satisfactorily (if clients used the
complaints mechanism)



Types of report to the board



A ready tool is available for assessment and reporting to the Board...

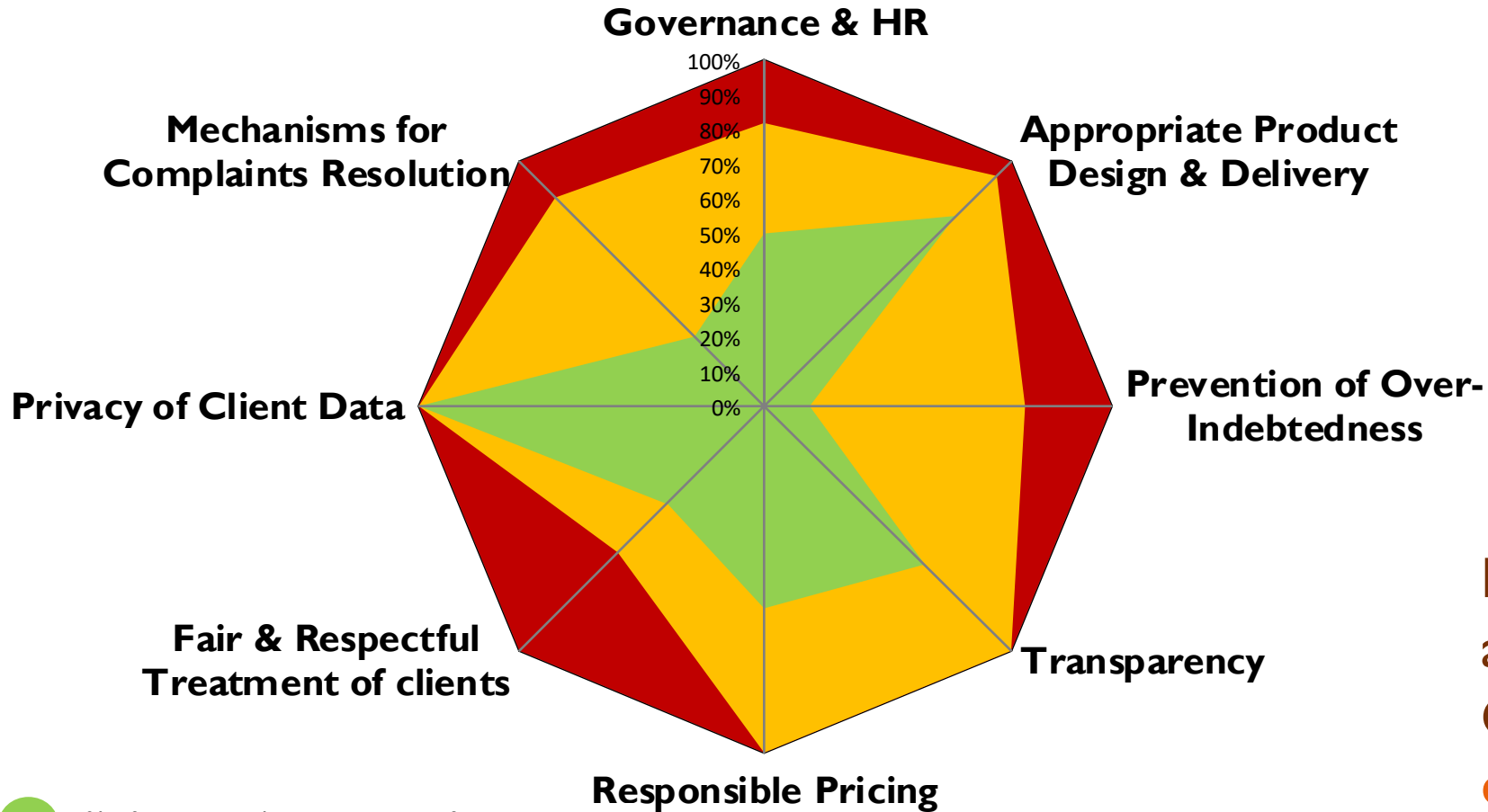
 **cerise + SPTF** have developed a tool



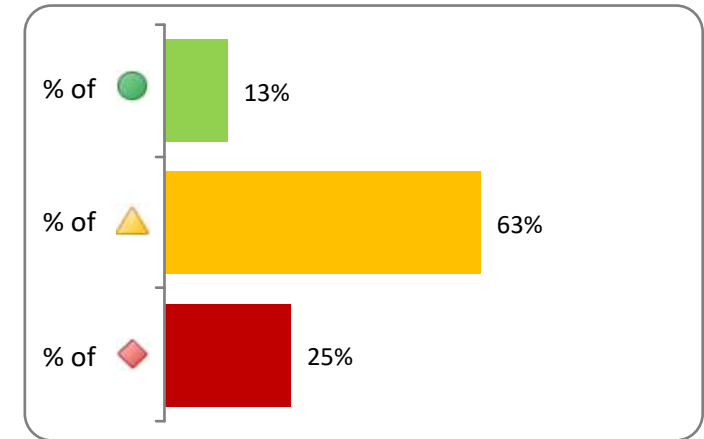
Client Protection Self-Assessment Tool (CP SAT)

<https://sptf.info/client-protection/the-client-protection-standards-and-the-self-assessment-tool>

Client Protection Self-Assessment Tool (CP SAT)



Prevention of Over-Indebtedness



Based on this data, Board can ask more question related to OID:

e.g.: what indicators are in red?
 What is management action to change red to green?

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GOING DIGITAL AND CLIENT PROTECTION



Client protection in DFS – an example (I/II)



Complaints Mechanism

The Client Protection Manual has one standard, three essential practices, and many indicators about client complaints, and all still apply

7: Standard

The provider receives and resolves client complaints

7.E.1: Essential Practice

The provider has a complaints mechanism that is easily accessible to clients and adapted to their needs.

7.E.1.1: Clients have a way to submit complaints to persons other than their loan officer/product officer and that person's supervisor.

7.E.1.2: The provider has at least two complaints channels that are free of charge and accessible to clients.

7.E.1.3: The provider informs clients how to submit a complaint.

4.E.2: Essential Practice

The provider resolves complaints efficiently

7.E.2.1: The provider's complaints policy identifies levels of severity and requires that severe complaints are escalated immediately to senior management.

7.E.2.3: The provider resolves client complaints quickly.

4.E.3: Essential Practice

The provider uses information from complaints to manage operations and improve product and service quality.

7.E.3.2: Management reviews complaints reports and key performance indicators (e.g., average time to resolve, percent resolved) and takes corrective action to resolve systematic problems leading to complaints.

Client protection in DFS – an example (II/II)



Complaints Mechanism

Additional standards in the DFS context



DIGITAL



The FSP must assist customers who have a complaint even when it relates to an issue that only the partner organization can fix.

Train customer service employees on how to respond to customers who voice complaints related to services offered by a partner. The response cannot be passive, such as “call X phone number to reach Partner Org’s complaints service,” but must be active in helping the customer achieve resolution.

Client protection in DFS (II/IV)

Complaints Mechanism
The Client Protection Manual has one standard, three essential practices, and many indicators about client complaints, and all still apply

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	7.E.2.3: The provider resolves client complaints quickly.
	7.E.3.2: Management reviews complaints reports and key performance indicators (e.g., average time to resolve, percent resolved) and takes corrective action to resolve systematic problems leading to complaints.

At the outset of a partnership, establish who will be your point of contact within the partner organization, to help you resolve complaints by your own customers, but that are related to services provided by the partner.

Encourage your customers to come to you with complaints about partners.

Train customer service employees on how your partner’s complaints mechanism works.

Train agents on how to respond to complaints. [NB: Some customers prefer to complain to agents.]

Equip the complaints mechanism to register complaints by agents.

Importance of governance in DFS



Regulation is a flawed lever to change behaviour with respect DFS in the financial inclusion sector - technology evolves faster than regulation. Regulation follows innovation



“The first cars didn’t have seatbelts.”

The most immediate sources of influence are investors and the board of directors

For responsible DFS standards to be implemented, we have to build commitment to self-regulation.



“Need to put people in management and boards who have the best interests of the customers and are ideally like them in some way.”

Some ways to start building the DFS client protection practice (I/II)



The board should enable experimentation and manage risks with product design. For example, it sets aside a percentage of money as risk capital and does not hold that to the same risk standards.

Have a board committee that oversees risk management related to digital innovation and activities

Share reports on algorithm function with senior management, credit department, the risk management team, and the board of directors; discuss results and identify potential bias

Increase awareness of the board on cybersecurity issues

Clarify role of the board and management responsibilities related to data security

Some ways to start building the DFS client protection practice (II/II)



Report data on security activities (e.g., hack attempts, measures taken, new gaps or risks identified) to the board at minimum quarterly

Board should review pricing strategy for DFS



“The best practice should be that pricing is not uniform across the board. It’s calibrated to that person’s risk level.”

Assess digital skills of target segments – ask for more data on digital skills



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