SEEP Client Protection Market Diagnostic Tool

User Guide

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Contents

Acronyms

AMIR	Association of Microfinance Institutions in Rwanda
CGAP	Consultative Group to Assist the Poor
CP	Client (or consumer) protection
GHAMFIN	Ghana MicroFinance Institutions Network
MFA	Microfinance Association
MFI	Microfinance institution
PMN	Pakistan Microfinance Network
RFLL	Responsible Finance through Local Leadership

I.   Introduction

SEEP has developed a diagnostic tool that allows microfinance associations to comprehensively assess client protection in their markets. This tool allows for a self-guided diagnostic exercise, based on the CGAP methodology used to perform country evaluations of client protection (CP) in the microfinance sector.

The Main Objective of the Client Protection Market Diagnostic Tool

The main objective of the Client Protection Market Diagnostic Tool (also called the CP Diagnostic Tool) is to help develop an in-depth understanding of client protection rules, practices, and issues in specific markets. It will also assist microfinance associations and other stakeholders in assessing the adequacy of existing policies, laws, and regulations, and in defining or refining interventions related to client protection in the microfinance sector.

Who Can Use This Tool?

- Microfinance and similar associations of financial service providers.
- Funders and government agencies that support financial sector development.
- Other stakeholders interested in promoting consumer protection practices.

The CP Diagnostic Tool was specifically developed for use by microfinance associations. However, it can also be used by other players—policy makers, regulators, external consultants who want an overall view of client protection in the microfinance sector.

Although the tool includes explanations related to specific client protection concepts, it is advisable to have a good understanding of client protection issues before undertaking a CP market diagnosis. For more information about client protection, see www.smartcampaign.org and www.cgap.org.[1]

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1. Focus Note 73, "Responsible Finance: Putting Principles to Work," by Katharine McKee, Estelle Lahaye, and Antonique Koning, is particularly relevant.

II.   Development of the Client Protection Market Diagnostic Tool

The CP Diagnostic Tool was developed during the course of the Responsible Finance through Local Leadership (RFLL) program, funded by the MasterCard Foundation and managed by the SEEP Network. The goal of the RFLL program is to promote the responsible development of microfinance markets through strong local leadership by:

1. Building the organizational capacity of MFAs to consistently deliver high-quality, demand-driven services to local markets,
2. Creating more transparent business environments to support responsible finance,
3. Promoting the widespread application of consumer protection principles and practices, and
4. Developing a strong learning platform to scale and sustain industry development in Sub-Saharan Africa.

The SEEP Network felt that all microfinance associations could benefit from a diagnostic tool that would help them develop more effective interventions related to client protection. In fact, without a clear, in-depth diagnosis, associations tend to limit themselves to such broad activities as introductory training on consumer protection and CP inclusion in codes of conduct. However, once the basic principles are in place and understood by members, there is a need to focus on areas where consumer protection is weak and assist members in improving their practices in that regard. This is where a diagnostic tool is indispensable: by establishing the level of consumer protection in specific area (for instance, regarding pricing transparency, internal and external recourses, or debt recovery), the association is then able to decide where it should intervene, build members' capacity, and liaise with the regulator.

The CP Diagnostic Tool is based on the CGAP methodology used to conduct consumer protection diagnostic exercises in various countries, including Kenya, Senegal,[2] and the DRC. In designing this tool, the methodology was simplified, adapted, and automated. A rapid CP diagnostic exercise was conducted during RFLL training in Dakar in March 2012, leading all eight African associations involved in the program to work on a preliminary diagnosis of their individual markets.

The Ghana Microfinance Institutions Network's (GHAMFIN's) preliminary diagnostic was used to test the alpha version of the tool, and the tool was further tested on site by the Association of Microfinance Institutions in Rwanda (AMIR). CGAP, the Smart Campaign, and the Pakistan Microfinance Network (PMN) also provided feedback on the tool.

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2. For more on the Kenya and Senegal cases, refer to "Consumer Protection Diagnostic Study: Kenya," http://www.fsdkenya.org/pdf_documents/11-02-22_Consumer_diagnostic_study.pdf and "Étude diagnostique: Protection des consommateurs de services de microfinance au Sénégal," http://www.microfinancegateway.org/fr/library/%C3%A9tude-diagnostique-protection-des-consommateurs-de-services-de-microfinance-au-s%C3%A9n%C3%A9gal.

III.   Analysis Framework

The CP Diagnostic Tool employs an analysis framework based on the principles of client protection that should guide the conduct of financial institutions. These principles have been expressed in various ways by different institutions.

The Smart Campaign, which promotes client protection in the microfinance sector, defines seven core principles:[3]

1 **Appropriate product design and delivery.** Providers will take adequate care to design products and delivery channels in such a way that they do not cause clients harm. Products and delivery channels will be designed with client characteristics taken into account.

2 **Prevention of over-indebtedness.** Providers will take adequate care in all phases of their credit process to determine that clients have the capacity to repay without becoming over-indebted. In addition, providers will implement and monitor internal systems that support prevention of over-indebtedness and will foster efforts to improve market-level credit risk management (such as credit information sharing).

3 **Transparency.** Providers will communicate clear, sufficient, and timely information in a manner and language clients can understand so that clients can make informed decisions. The need for transparent information on pricing, terms, and conditions of products is highlighted.

4 **Responsible pricing.** Pricing, terms, and conditions will be set in a way that is affordable to clients while allowing for financial institutions to be sustainable. Providers will strive to provide positive real returns on deposits.

5 **Fair and respectful treatment of clients.** Financial service providers and their agents will treat their clients fairly and respectfully. They will not discriminate. Providers will ensure adequate safeguards to detect and correct corruption as well as aggressive or abusive treatment by their staff and agents, particularly during the loan sales and debt collection processes.

6 **Privacy of client data.** The privacy of individual client data will be respected in accordance with the laws and regulations of individual jurisdictions. Such data will only be used for the purposes specified at the time the information is collected or as permitted by law, unless otherwise agreed with the client.

7 **Mechanisms for complaint resolution.** Providers will have in place timely and responsive mechanisms for complaints and problem resolution for their clients and will use these mechanisms both to resolve individual problems and to improve their products and services.

CGAP diagnostics are based on the following three guidelines:

1 **Reflect transparency of costs and other conditions**, by clearly communicating key information at appropriate times—before, during, and after the conclusion of a financial transaction—and promoting healthy competition between financial institutions.

2 **Ensure fair and ethical treatment of clients**, including the way in which institutions treat not only their customers, but also issues related to credit (debt recovery, prevention and treatment of over-indebtedness), the safeguarding of deposits, and the protection of personal data.

3 **Offer internal and external recourse mechanisms**, which are effective in correcting errors, processing claims, and resolving disputes.

The CP Diagnostic Tool blends and incorporates these classifications, which focus on principles for which legal rules and regulations are critical.

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3. The Smart Campaign, "The Client Protection Principles," http://www.smartcampaign.org/about/smart-microfinance-and-the-client-protection-principles, accessed September 2014.

Table 1: *The Six Diagnostic Areas of the SEEP CP Diagnostic Tool and Associated Standards of Practice*

| Diagnostic Area	Standards of Practice
1. Client Protection Overview	**Rules, regulations, and self-regulation covering consumer protection exist and apply to the institutions in charge of enforcing them.** This section does not cover detailed rules on specific areas. Instead, it considers whether any overall client protection framework exists.
2. Transparency and Pricing	**MFIs clearly communicate key information on their products to clients, and supporting rules and regulations exist in this regard.** Institutions in many countries charge not only interest rates on their loans, but also fees and other charges that add to the total cost. These costs need to be fully disclosed to the client. Transparency in pricing is also a crucial aspect of client protection for other products, such as deposits, savings accounts, transfers, and insurance products, if MFIs provide them. Concerns in this area include (1) whether laws and regulations limit pricing in any way, (2) standardized ways to calculate product pricing, especially for credit, (3) the disclosure of price, (4) understanding of pricing by clients, and (5) competition on pricing among financial institutions.
3. Fair Treatment and Discrimination	**MFIs ensure that all clients receive fair and ethical treatment and that there is no discrimination.** All clients should be treated with respect. This includes avoiding any discrimination based on gender, ethnicity, age, religion, etc.
4. Protection of Borrowers and Depositors	**MFIs ensure that borrowers do not become over-indebted and respect the dignity of their clients while collecting late payments.** Credit bureaus and other information-sharing mechanisms that allow MFIs to check on clients' credit records are important tools to prevent over-indebtedness. **Rules and regulations are in place to ensure that depositors are protected against any risk of losing their savings:** Adequate, prudent supervision is key. Beyond that, a deposit protection mechanism can increase depositors' safety.
5. Recourse Mechanisms	**Clients are informed of and have access to readily available recourse mechanisms to find solutions to their grievances.** The formalization of recourse mechanisms within each MFI is necessary. If solutions are not found internally, external, non-judicial recourse mechanisms must be put in place. Rules should specify the minimum measures that MFIs should take to ensure that clients have access to efficient recourse mechanisms. These rules should also encourage the systematic use of recourse-related statistics to improve client protection.
6. Data Protection	**Clients are protected against any misuse or misappropriation of information collected by MFIs related to their person, family, finance, or business.** Some form of legislation or regulation should be in place covering the gathering, processing, use, storage, and distribution of clients' information. In practice, it is important to know if MFIs are sharing information with other entities and if clients are aware of it.

IV. Description of the Client Protection Market Diagnostic Tool

The Excel-based, user-friendly CP Diagnostic Tool has three main sections:

1. **Introduction:** Basic information and diagnostic objectives.
2. **Data Input:** A questionnaire for each of the six diagnostic areas.
3. **Results & Analysis:** Summary Table Results and a succinct draft narrative report detailing the results of the consumer protection diagnosis.

The tool can be used in English, French, Spanish, and Portuguese. The preferred language can be selected in the **Menu** tab.

Figure 1:   CP Diagnostic Tool - Menu Screen
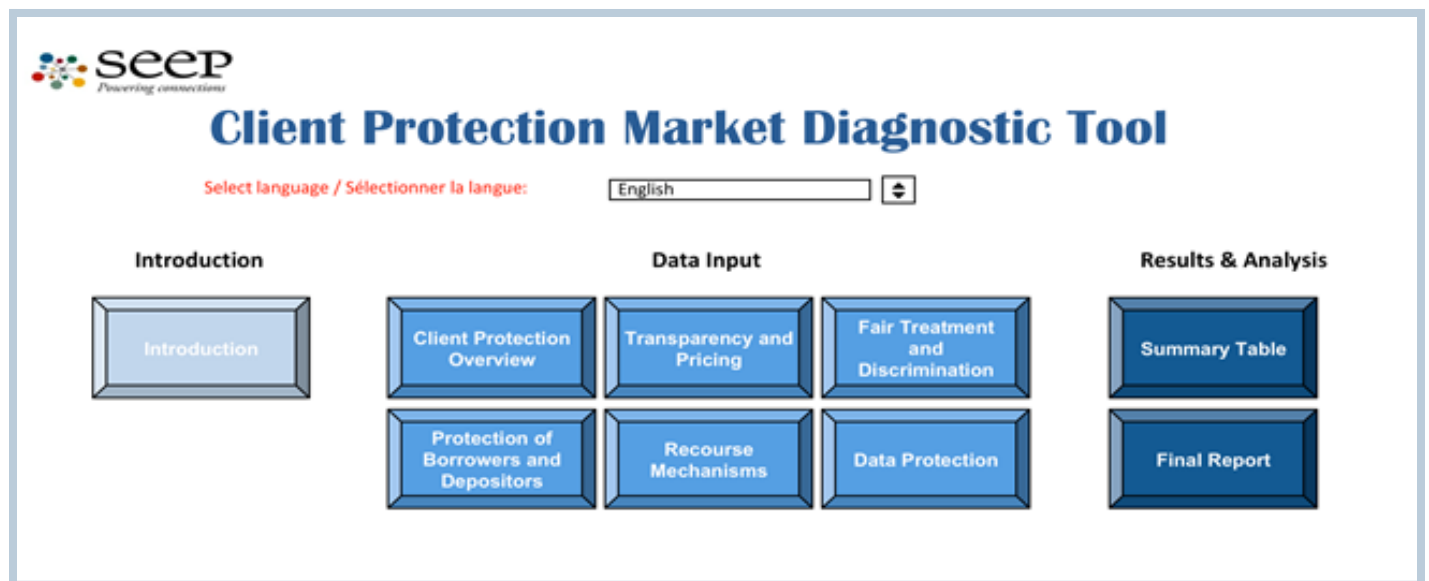
Section 1: Introduction

In this section, in addition to basic information such as country, name of the microfinance association, and assessment date, the analyst will enter:

- The main objective of the diagnostic, and
- Any secondary, or more specific objectives.

This information then will appear in the narrative report as entered.

Section 2: Data Input in the Six Diagnostic Areas

This section is built around questionnaires designed to help the analyst evaluate the specific standards of practice in each of the six areas of the client protection market diagnostic:

- Client Protection Overview
- Transparency and Pricing
- Fair Treatment and Discrimination
- Protection of Borrowers and Depositors
- Recourse Mechanisms
- Data Protection

Figure 2:   CP Diagnostic Tool - Data Input Menu Screen
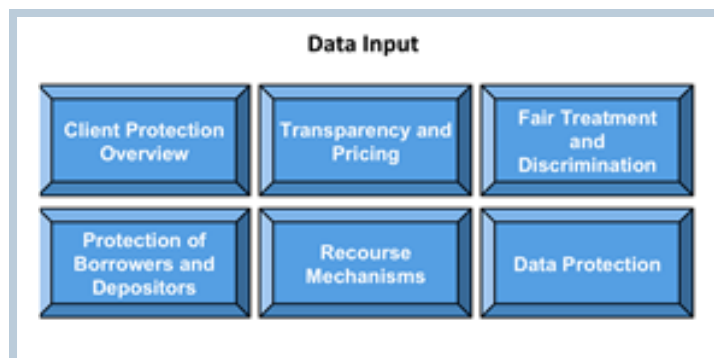
For each question, the analyst will need to select an assessment/response from a drop-down menu of available options already pre-defined in the tool. In cases where several answers might be valid, the analyst can select multiple answers by clicking the relevant boxes.

In addition to needing an assessment/response, several questions require that the analyst add more qualitative details in specifically designed text boxes (such as the name of the specific law related to client protection). For most questions, the tool includes the option to provide comments and explanations in a text box under the question, if the analyst has additional helpful details about the area being assessed. These comments/explanations will appear in the automatically generated report (see section 4 below). The analyst also has the option of adding his or her own working notes in the **Explanation** column. These will not appear in the automatically generated report.

Figure 3:   CP Diagnostic Tool - Area Data Input Details Screen

It is mandatory to enter an assessment/response for each question, in all six areas. However, the tool will automatically skip some questions when needed—for instance, if there are no rules on limiting pricing. Once all the areas are completed, the results of the diagnosis will be available.

Section 3: Results & Analysis - Report

The first part of this section includes a **Summary Table**, which is produced automatically from the answers provided. It offers a snapshot of the market diagnostic results. Within each of the six areas evaluated, readers can determine the status of systems and legal framework, industry practices, and clients' experiences, categorized as:

- Meets basic conditions,
- Work in progress, but needs improvement, or
- Inadequate.

Figure 4:   *CP Diagnostic Tool - Results & Analysis Menu Screen*

Results & Analysis

Summary Table

Final Report
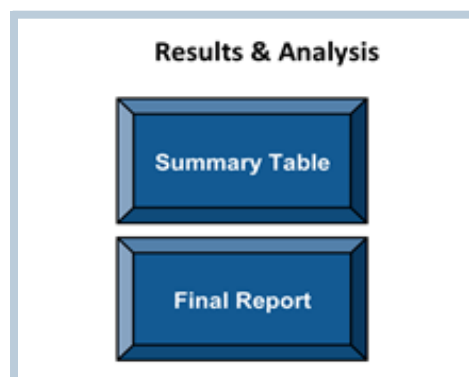
Figure 5:   *CP Diagnostic Tool - Sample Summary Table*

Consumer Protection Areas	Systems & Legal Framework	Industry Practices	Clients' Experiences
Client Protection Overview	◐	N/A	N/A
Transparency and Pricing			
Credit Products	◐	◐	●
Deposits & Other Products	◐	○	◐
Fair Treatment and Discrimination	●	○	○
Protection of Clients			
Borrowers	●	◐	○
Depositors	●	◐	●
Recourse Mechanisms	◐	◐	◐
Data Protection	○	○	●

Legend

● Meets basic conditions
◐ Work in progress, but needs improvement
○ Inadequate

Client Protection Market Diagnostic Draft Report

The second part of the results and analysis section includes a Draft Report, which automatically summarizes the details and qualitative analysis entered by the analyst in each of the six areas. **It is important to note that the report produced is only a first draft. The analyst should read the suggested report text thoroughly and then complete, edit, and transpose the draft text to an MS Word or similar type of document to create a final report that can be shared with other parties.**

Please refer to Annex 1 for a Report Outline.

V.   Process

The Client Protection Market Diagnostic Tool uses a three-step process. In the first step, objectives are set and a schedule of stakeholder interviews is developed. The second step involves data collection, including a review of the documents, stakeholder interviews, and the analyst's own observations. In the final step, the analyst fills in the questionnaires in each of the six areas and generates the final report.

Step 1	Preparation
	Set objectives for the diagnostic. Develop a schedule for stakeholder interviews.

Step 2	Data Collection
	Documents review Stakeholder interviews Analyst's own observations

Step 3	Assessment and Report
	Analyst fills in the questionnaires in each of the six areas and generates the final report.

Suggested Stakeholder Interviews:

¤ **Central Bank**

¤ **Ministry of Finance or other government entity in charge of microfinance policy**

¤ **Other relevant government stakeholders with a role/influence in financial inclusion**

¤ **National Agency for Client Protection, if any, or a similar organization/department**

¤ **Board members of relevant associations of financial service providers, such as microfinance associations, bank associations (if banks provide microfinance services), etc.**

¤ **Representatives from credit bureaus, if these exist in the market**

¤ **Managers from representative microfinance service providers (ideally, a representative sample from all types of service providers)**

¤ **Clients (ideally, a representative sample from all types of financial service providers)**

Note that it would be helpful to review the tool questionnaire before any stakeholder interviews begin, as a reminder to cover all topics. Also, consider using the "mystery shopper" technique, whereby the analyst or other team member pretends to be a client asking for information about products from providers.

Suggested Documents to Review

¤ **Country's rules and regulations with respect to client protection in financial services**

¤ **Codes of conduct/ethics**

¤ **Product lists available publicly at different financial service providers**

¤ **Any available financial sector reviews/reports/ assessments**

¤ **Client loan/savings accounts contracts and any other forms clients receive when applying for a product**

¤ **Other relevant client records from financial service providers**

¤ **Client credit reports from credit bureaus, if these exist in the market**

¤ **Internal documents of financial service providers related to product pricing, product advertisement, delinquency management, depositor protection**

Annex 1:   Report Outline

Introduction

i.   Client Protection Overview

ii.   Transparency and Pricing

    a.   Part 1—"Transparency & Pricing"

    b.   Transparency and Pricing, Part 2—"Credit Products"

    c.   Transparency and Pricing, Part 3—"Deposits, Savings and Other Products"

iii.   Fair Treatment and Discrimination

iv.   Protection of Borrowers and Depositors

v.   Recourse Mechanisms

vi.   Data Protection

Acknowledgments

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4. For examples of CGAP consumer diagnostic studies, see the documents referenced in footnote 2.

5. http://smartcampaign.org/about/smart-microfinance-and-the-client-protection-principles.

About SEEP

SEEP is a global learning network. We explore strategies that create new and better opportunities for vulnerable populations, especially women and the rural poor, to participate in markets and improve the quality of their lives.

Founded in 1985, SEEP was a pioneer in the microcredit movement and helped build the foundation of the financial inclusion efforts of today. In the last three decades our members have continued to serve as a testing ground for innovative strategies that promote inclusion, develop competitive markets, and enhance the livelihood potential of the world's poor.

SEEP members work together and with other stakeholders to mobilize knowledge and foster innovation, creating opportunities for meaningful collaboration and, above all, for scaling impact.