MECHANISMS TO IMPROVE CLIENT PROTECTION PRACTICES IN RWANDA

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AMIR Association of Microfinance Institutions in Rwanda

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LEARNING BRIEF:
Mechanisms to Improve Client Protection Practices in Rwanda

This learning brief was developed by The SEEP Network, in partnership with The Association of Microfinance Institutions in Rwanda and the Mastercard Foundation.

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About The Association of Microfinance Institutions in Rwanda (AMIR)

AMIR is the only umbrella body for microfinance institutions in Rwanda that seeks to build a flourishing microfinance sector through Advocacy and Information, Research and Development, Responsible Finance, Performance Monitoring and Capacity Building. AMIR was created in 2007 with 32 founding members. Currently its membership has reached 343 licensed microfinance banks, limited savings and deposit taking companies, and credit and savings cooperatives. Its membership represents more than 97% of the microfinance sector in Rwanda and serves close to 2.8 million customers. As a very strong partner to the Government of Rwanda and a member of the private sector federation, AMIR hopes to promote an enabling environment by facilitating collaboration amongst a wide range of private and public sector stakeholders by 2020. www.amir.org.rw @AMIR_Rwanda.

About The SEEP Network (SEEP)

SEEP is a global learning network. We support 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 life. 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 worlds' poor. SEEP members are active in more than 170 countries worldwide. www.seepnetwork.org @TheSEEPNetwork.

About The Mastercard Foundation

The Mastercard Foundation works with visionary organizations to provide greater access to education, skills training and financial services for people living in poverty, primarily in Africa. As one of the largest private foundations its work is guided by its mission to advance learning and promote financial inclusion to create an inclusive and equitable world. Based in Toronto, Canada, its independence was established by Mastercard when the Foundation was created in 2006. For more information and to sign up for the Foundation's newsletter, please visit www.mastercardfdn.org. Follow the Foundation at @MastercardFdn on Twitter.

The Responsible Finance through Local Leadership and Learning Program is a four-year program being implemented in Rwanda by the The SEEP Network, in collaboration with the Association of Microfinance Institutions of Rwanda (AMIR) and the Mastercard Foundation. The program's goal is to scale the application of consumer protection principles for low income financial service customers by promoting an enabling environment through collaboration among a wide range of private and public sector stakeholders. This learning brief was developed as part of the program's learning agenda.

This learning brief provides an overview of the needs experienced by MFIs in Rwanda in introducing and embedding client protection practices in their operations. It draws on the *Smart Campaign* methodology, including the *Smart Campaign consumer protection assessments*, and upgrade action plans undertaken with 6 of the largest Rwandan Microfinance Institutions (MFIS) and Savings and Credit Cooperatives (SACCOS) with close to 600,000 clients in 2017. It is structured according to the seven Client Protection Principles (CPPs).

THE CLIENT PROTECTION PRINCIPLES [1]

These principles articulate the standards of care that clients should expect to receive when doing business with a financial service provider. They are designed to allow customers to derive greater economic benefits from financial services while promoting trust and transparency in the sector.

- **Appropriate product design and delivery**
- **Prevention of over-indebtedness**
- **Transparency**
- **Responsible pricing**
- **Fair and respectful treatment of clients**
- **Privacy of client data**
- **Mechanisms for complaint resolution**

1 The Smart Campaign, The Client Protection Principles, http://www.smartcampaign.org/about/smart-microfinance-and-the-client-protection-principles

CPP 1 APPROPRIATE PRODUCT DESIGN AND DELIVERY

Financial service 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.

The MFIs included in this study meet a number of standards under this principle – they offer a product mix that meets a wide range of clients' needs and do not use aggressive sales techniques. However, most MFIs lack formal systems to collect data from existing, dropout and dormant clients to inform appropriate product design and redesign. Addressing this requires institutions to:

1. **Develop a formal, proactive and systematic mechanism to collect client feedback.** This can take a number of different forms:
   - **a.** Conduct annual or bi-annual client satisfaction surveys with a sample of clients (preferably 30%), both active and dormant. This can be done at all branches at the same time for the small to medium MFIs, or rotated among branches at different points in the year for large MFIs.
   - **b.** Introduce an exit questionnaire to be used by frontline staff on client dropouts to capture the reasons for exit.
   - **c.** Gather and capture ongoing qualitative data from existing clients in a systematic way. Field staff are particularly important in this process given their direct interaction with clients on a day-to-day basis. Leverage existing forums where client voices are heard, for example SACCO annual general meetings (AGMs).
2. **Formalize the procedure on how to store and use the client feedback to design or improve products and services to match identified clients' needs and improve the constraints.** Some MFIs use an excel spreadsheet or an online dashboard to capture the data, which can be compiled in a substantive management report twice a year.

   Key decision-makers (e.g. operations managers, commercial officers, branch managers) should be mandated to review this information and incorporate it into key strategic and operational decisions.
3. **Train staff on how to gather and use client feedback data**, particularly at branch level. Some MFIs have a marketing department that can manage client feedback loops and analyze the emerging data, while others rely on branch managers to do so.

Good Practice Guides and Examples

- Collecting and Using Exit Survey Data
- Appropriate Product Design and Delivery at Musoni

CPP 2 PREVENTION OF OVER-INDEBTEDNESS

Financial service 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.

The MFIs included in this study appropriately assess a client's repayment capacity before disbursing a loan, which helps prevent clients' over-indebtedness. However, there are two main areas where MFIs could improve:

1. **The design of performance targets and staff incentives that ensures a balance between productivity and portfolio quality.** More value is often placed on productivity targets, such as number of clients, number of accounts, total savings, and loan disbursement amounts. MFIs can compile weighted averages of different targets that ensure a balance between these and quality targets, such as portfolio at risk (PAR) and loan loss ratios, and these can be used to track performance and as a basis for incentivizing staff. While the requirements of the Central Bank are to be adhered to at all times, the weightings applied to each ratio will differ from one MFI to the next, depending on the nature of their portfolio.

2. **The assessment and monitoring by Boards and Management of client over-indebtedness at the sector level.** In addition to having policies in place to prevent client's over-indebtedness, the application of which is checked upon by an internal auditor, as well as systematically reporting to and using information from the credit reference bureau when making lending decisions, Board and management reports should include reports on over-indebtedness with comments from the risk management and internal audit functions. Industry associations and regulators can also help facilitate sector wide forums and information-sharing on client over-indebtedness at a sector level.

Good Practice Guides and Examples

- Avoidance of Over-indebtedness: Guidelines for Financial and Non-financial Evaluation
- Balanced Incentive for Frontline Staff: A Tool for Financial Institutions
- Smart Operations: Responsibilities of different roles in the prevention of client over-indebtedness
- Smart Note: Facing Over-indebtedness at Partner Microcredit Foundation

CPP 3 TRANSPARENCY

Financial service providers will communicate clear, sufficient and timely information in a manner and language clients can understand so that clients can make informed decisions.

The communication with clients by the MFIs included in this study is both transparent and client-friendly. Communication channels make use of English and Kinyarwanda and the language used is simple and easy to understand. However, there is a lack of transparency in the communication of product pricing. Improving this transparency requires MFIs to:

1. **Include all pricing details in marketing materials, contracts and any other channels in the public domain (e.g. website, banking halls)**, such as collateral appraisal fees, administration fees, penalty fees and interest, and whether those change over time.

2. **Train staff on how to communicate the total cost of credit**, and the details of what it is comprised of, to clients before issuing a loan contract.

New regulations [2] have been introduced in Rwanda related to key facts statements and disclosure for loan, savings and insurance products. This requires all banks, MFIs and e-money issuers to provide clients with a key facts statement in a standardized template that details all terms, services and costs related to these types of products. This allows clients to compare offerings from different providers and make more informed decisions.

Good Practice Guides and Examples

- Transparency in Promotions and Sales: A Checklist for Financial Service Providers
- Putting Transparency into Practice: Communicating about Pricing
- Smart Note: Transparent and Responsible Pricing at Mi-Bospo
- Essential Documents for New Clients

2 https://www.bnr.rw/fileadmin/user_upload/Regulation_determining_key_facts_statements_and_disclosure_for_accounts.pdf

CPP 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.

In general, the prices offered by the MFIs included in this study are considered very fair – they are non-discriminatory and fees are not excessive. However, pricing is largely set by benchmarking against prices offered by peer MFIs, rather than the use of a standardized technical formula to establish interest rates. Improving the use of technical formula requires MFIs to:

1. **Build the capacity of Boards, Management and staff to set prices** to ensure MFIs are striking the right balance between fairness to clients and profit generation for the institution.
2. **Draw on existing resources regarding standardized technical formula.**

Good Practice Guides and Examples

- MFTransparency's Calculating Transparent Pricing Tool
- Smart Operations: Responsibilities of different roles in responsible pricing
- Responsible Pricing: The State of the Practice

CPP 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.

Many MFIs do not have a Code of Conduct in place to guide staff on accepted standards with regards to fair and respectful treatment of clients, or the documents are incomplete, inappropriate or still in draft format. Having a written and "living" Code of Conduct lays the basis for implementing appropriate debt collection practices by staff and third parties, the recruitment and training of staff, the promotion of ethical behavior, and the prevention of fraud and unfair discrimination of clients. Developing a Code of Conduct requires MFIs to:

1. **Develop, review and finalize a written Code of Conduct** to guide staff on accepted standards with regards to fair and respectful treatment of clients.
2. **Have the new Code of Conduct approved by the MFI Board** to ensure executive buy-in.
3. **Ensure the Code of Conduct includes sanctions for non-compliance**, which will assist in ensuing it is adhered to.
4. **Train staff on the Code of Conduct** and require them to sign it as a demonstration of commitment to the standards it contains.
5. **Align internal controls and human resource management to the new Code of Conduct** so as to embed the Code of Conduct in the organization.

Developing and embedding a Code of Conduct can be done with the assistance of a consultant, or can be done in-house, and can be facilitated by the industry association. It should be seen as the first step toward creating an ethical organizational culture, which is good for both clients and the business.

Good Practice Guides and Examples

- SEEP Network Code of Conduct resources
- How to Develop an Institutional Code of Ethics
- Client Protection and Ethics Codes: Examples for Getting Started
- Smart Note: Building Institutional Culture Around a Code of Ethics at Compartamos
- Code of Conduct E-Learning Module (Grameen Financial Services Pvt. Ltd.)

CPP 6 PRIVACY OF CLIENT DATA

The privacy of individual client data will be respected in accordance with local laws and regulations and will only be used for the purposes specified at the time the information is collected, unless otherwise agreed with the client.

Many MFIs do not have a written privacy policy that governs the gathering, processing, use, distribution and storage of client information. To address this, MFIs need to:

1. **Develop a simple but comprehensive policy on the security and privacy of client data**, which includes guidance around the gathering, use, distribution and storage of client information.
2. **Ensure the policy includes penalties on misuse or diverging of client data to third parties.**
3. **Implement internal controls/audit systems/checks on client data security**. This can include secure IT systems to protect the confidentiality, security, accuracy and integrity to client personal and financial data and an internal audit system to ensure compliance with the organization's institutional policies and procedures.
4. **Train staff on the policy and the associated practices** and develop a training manual that staff can use as a reference document after the training.

Once the policy is developed, the MFI should introduce tools to implement the policy, such as staff and loan contracts, a procedures manual, and informing clients about their rights with regards to the privacy of their data.

Good Practice Guides and Examples

- Smart Operations: Responsibilities of different roles in creating a privacy policy
- Smart Note: Customized IT at Caja Morelia safeguards client data
- Essential Documents for New Clients: Summary data privacy agreement

CPP 7 MECHANISMS FOR COMPLAINT RESOLUTION

Financial service 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.

Most MFIs experience significant weaknesses in the implementation of CPP 7. While many MFIs have some channels in place for clients to raise complaints, these are ad hoc and are not systematized. For example, suggestion boxes are placed in branches, informal client feedback is gathered during AGMs, a phone number is made available to clients for them to call if they experience any challenges, or a branch manager can be approached directly by a client. However, in all these cases, the complaints are not formally documented and analyzed, and the resolution of the complaint is not recorded. Improving the implementation of CPP 7 requires MFIs to:

1. **Develop a policy on client complaint resolution** that informs clients that they have a right to complain, how to submit a complaint and the required format thereof.
2. **Design and pilot a complaint resolution system** on how to submit, collect, document and resolve client complaints on timely basis. Obtain feedback from staff and clients from the pilot and use this to improve the system and roll out across the organization.
3. **Train all institutional staff on their responsibilities** related to the system and inform clients of how to make use of it.
4. **Implement internal controls/audit systems** to follow up on clients' complaints and check whether they are resolved satisfactorily.
5. **Make use of the consolidated client complaints and feedback** on a periodic basis to improve products, services and practices.

Good Practice Guides and Examples

- Smart Operations: Responsibilities of different roles in creating a complaints policy
- Smart Note: Responding to Client Complaints at Tameer Bank, Pakistan
- Complaints-Handling Manual (FONDESURCO)
- Complaints-Analysis Spreadsheet (Fundacion Delamujer)