



Policy on Client Protection Principles (CPP)

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1. Introduction

As the microfinance sector has come under intense scrutiny than ever before, responsible finance initiatives have picked up pace. Hundreds of organizations from across the industry have come together in a Campaign called the “SMART Campaign”, endorsing 7 core Client Protection Principles (CPP) for microfinance and committing to implement specific improvements in policies, products and practices. ASAI also endorsed the CPP and is taking concrete actions to encourage its stakeholders adopt appropriate client protection policies and practices.

Implementing the CPP is essential to ensuring that the future growth of microfinance is driven by its social mission and is beneficial for its clients. A committed focus to client protection is particularly needed now as some microfinance markets tackle problems of multiple lending and client over-indebtedness.

The following policy is a set of guideline for ASAI to adhere to its commitments towards its clients for a healthy business relationship and an improved service delivery.

2. Definition

CPP comprises of 7 core principles to commit to, in order to ensure that microfinance clients are dealt with in a responsible way. They are:

- a) Appropriate product design and delivery
- b) Prevention of over-indebtedness
- c) Transparency
- d) Responsible pricing
- e) Fair and respectful treatment of clients
- f) Privacy of client data
- g) Mechanisms for complaint resolution

CPP describes the minimum protection that microfinance clients should expect from their providers and also what minimum protection a microfinance institution should maintain to serve the best interest of its clients. While the principles are universal, their meaningful and effective implementation requires careful attention to the diversity within the provider community and conditions in different markets and country contexts.

3. Policy Statements

3.1. Appropriate Product Design and Delivery

ASAI shall take adequate care to design products and delivery channels in such a way that client characteristics have been taken into account and they do not cause clients any harm

ASAI has responsibility to exercise good faith in designing products that are suitable for the clients and to not take advantage of client inexperience and/or underdeveloped markets. It should take active steps to consider the characteristics of target clients during the design process. Products should function as advertised, provide value for money, and not be deceptive in design.

3.2. Prevention of Over-indebtedness

ASAI shall take adequate care in all phases of their credit processes to determine that clients have the capacity to repay without becoming over-indebted. In addition, ASAI shall implement and monitor internal systems that support prevention of over-indebtedness.

Over-lending is perhaps the client protection problem most likely to cause significant harm, both to individual clients and to ASAI. Practical experience and behavioral research indicates that borrowers often have difficulty judging their loan repayment capacity. Therefore, ASAI has a duty to ensure that it does not take advantage of these tendencies.

3.3. Transparency

ASAI shall communicate clear, sufficient and timely information in a manner and language that clients can understand, so that clients can make informed decisions.

Transparent communications enable clients to take responsibility for their own financial decision making. When clients have clear, sufficient and timely information about product options, they are equipped to decide what products are best for them and to accept the consequences of their decisions.

Because microfinance clients typically have low levels of education or literacy and may be unfamiliar with formal financial products and their terms and conditions, it is the responsibility of ASAI to ensure that they communicate with clients in a way that clients can understand, such as using plain language, using the local vernacular, and in some cases communicating orally or in pictures. It is especially important to highlight the need for complete information on interest rates and fees, which may need to be communicated in multiple times, places and formats.

3.4. Responsible Pricing

Pricing, terms and conditions shall be set in a way that is affordable to clients while allowing for financial institutions to be sustainable. ASAI shall strive to provide positive real returns on deposits.

ASAI should price its products and services in a way that contributes to the long-term financial health of its clients while meeting its own needs for financial sustainability. It should strive to achieve efficiencies that allow prices to be as affordable as possible and deliver reasonable value-for-money.

3.5. Fair and Respectful Treatment of Clients

ASAI shall treat its clients fairly and respectfully. It shall not discriminate and shall ensure adequate safeguards to detect and correct aggressive or abusive treatment by its staffs, particularly during the loan sales and debt collection processes.

Every direct interaction between clients and staff should be characterized by honesty, fairness, and respect. Because of their low socioeconomic status, low income clients may often receive poor treatment when interacting with mainstream business organizations. This is not acceptable for pro-client financial service providers like ASAI.

3.6. Privacy of Client Data

The privacy of individual client data shall be respected in accordance with the laws and regulations of individual jurisdictions. Such data shall 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.

The confidentiality of personal information is a right that protects privacy and individual liberties. Privacy of personal financial information is particularly important because it helps to prevent losses due to theft and fraud. It can also help individuals build assets by protecting them against appropriation or pressure from friends and family. The increasing complexity of the technology used to manage client data creates a particular challenge for ASAI to maintain the privacy of client data. Clients also have a responsibility to safeguard the confidentiality of financial information that they hold and to correct any inaccurate data held by their financial institutions.

3.7. Mechanisms for Complaint Resolution

ASAI shall have in place timely and responsive mechanisms for complaints and problem resolution for its clients and shall use these mechanisms both to resolve individual problems and to improve its products and services.

Dissatisfied clients and their complaints are inevitable. ASAI should address these problems quickly and effectively. ASAI should ensure that clients are aware of their right to complain, that they know how to complain and that the process is easy for clients to use. ASAI should track complaints in order to improve their products and services.

4. Implementation

ASA International recognizes the critical importance of CPP implementation. It realizes the potential impacts that today's business challenges will have, if client protection issues are left unaddressed.

ASAI believes that it has responsibilities towards its clients beyond legal and regulatory requirements, thus it acknowledges the SMART recommended action steps:

- a) ASAI shall incorporate CPP into its investment policies;
- b) ASAI shall endorse CPP;
- c) ASAI shall encourage current and prospective investees to discuss and endorse the Principles and take material action to implement the Principles;
- d) ASAI shall develop, test, and refine criteria and procedures to assess investee implementation of the Principles during screening and due diligence processes;
- e) ASAI shall integrate the Principles into financing or shareholder agreements, as appropriate;
- f) ASAI shall monitor implementation of the Principles by investees through mandatory reporting, regular monitoring and evaluation;

Following implementation of the above, ASAI shall report its progress to investors and other stakeholders

5. Client Responsibilities

- a) Microfinance clients are also responsible for educating themselves about their financial requirements and working with ASAI to ensure that they select the products that suit their needs and take their financial capacity into account. Microfinance clients should understand that they are not compelled to take any products that do not meet their needs;
- b) Clients are also responsible to provide full and accurate information about their financial situation, and to inform ASAI if they are having difficulty repaying the loan;
- c) Clients are expected to behave responsibly in their dealings with ASAI, which above all means honesty in representing themselves, good faith efforts to comply with the terms of product use and non-abusive behavior towards ASAI staffs and agents.

6. Implementation Challenges

- a) **Understanding the current market environment**
In order to assess the level of market saturation and potential for over-indebtedness investors have become more aware of the problem of over-lending. Organizations are developing strategies to help them better understand the current market environment as an integral aspect of making investment.

b) Assessing over-indebtedness levels

Investors are now very aware of the need to ensure that Principle 1—avoidance of over-indebtedness—is being implemented by MFIs.

c) Be aware that investor return expectations and financing conditions can create pressure for unsustainable growth

The evidence from overheated, high-growth microfinance markets, that some of the pressure to achieve very high growth rates lead to over lending and over-indebtedness. Investors' expectations of scale and market share and their short time frames for growth and profitability may create incentives for unsustainable and even irresponsible practices.

d) Transparency and responsible pricing

A minimum responsible pricing relies on full disclosure by the seller to enable a customer to make informed decisions.