Client Protection Good Practices in Europe and Central Asia

THE WINNING INSTITUTIONS

AccessBank, Azerbaijan provides financial services for micro and small businesses and low- and middle-income households (the average loan size is USD 2,900). It is one of the largest private banks in the country, and is the leading microfinance bank, with over one-third of the market share.

Adie, France offers microcredit and financial counseling services for microentrepreneurs. Adie’s 27,500 clients consist of microentrepreneurs from many walks of life, including youth, migrants, and the unemployed. Adie provides clients with business loans and business support during and after the creation of the client’s enterprise.

EKI Micro-credit Foundation, Bosnia and Herzegovina targets primarily low-income clients, women, and clients in rural or semi-urban areas. EKI has over 43,000 clients and an outstanding loan portfolio of over USD 80 million.

KazMicroFinance (KMF), Kazakhstan offers credit services in rural and urban areas. KMF serves over 34,000 active credit clients, offering them a range of loan products, including business and agricultural loans—50 percent of KMF’s clients live in rural areas.

PREVENTING CLIENT OVER-INDEBTEDNESS

AccessBank, EKI, and KMF use careful loan analysis to prevent over-indebtedness among clients.

AccessBank loan officers are required to analyze a client’s financial situation for each loan, regardless of how many loans the client has already taken and repaid. Loan officers complete simple balance sheets and cash flow statements during a visit to the client’s business and home. These analyses must demon-
strate that the business is profitable, generates sufficient cash surplus to meet monthly repayment requirements, and that the loan will have a positive impact on the business.

During the home visit, the loan officer verifies that the client’s standard of living corresponds with the client’s reported business profit. The loan officer also analyzes the total family expenditures and the family’s income from other sources to ensure the family is not burdened with debts they cannot afford. Monthly installment payments cannot exceed 75 percent of a client’s monthly household surplus.

Additionally, the AccessBank Internal Audit department reviews a random sample of loan applications to check lending policy compliance. Auditors, many of whom are former AccessBank loan officers, visit the businesses and homes of clients to check figures and verify information given in the original loan analysis to be certain that figures are not exaggerated. Each branch is also fully audited twice a year to ensure that lending does not exceed policy limits and to review the quality of loan officer analysis.

Finally, together with the Azerbaijan Microfinance Association (AMFA), AccessBank has initiated a One Client, One Lender campaign, which seeks voluntary agreement among microfinance lenders that a single institution will manage the debt levels of an individual client. The campaign has raised awareness of the risk of overindebtedness among microfinance practitioners in Azerbaijan and is now conducting research to understand multiple lending in the country.

EKI conducts a similar client evaluation before credit is granted, and like AccessBank, limits installment payments to 75 percent or less of a client’s household surplus. Additionally, the EKI Credit Manual stipulates that credit will not be granted to households with more than two outstanding loans. EKI consults national Credit Bureau reports for this and other important data, and consults with other Bosnian MFIs to share client information. This data exchange helps pre-
vent Bosnian institutions from lending to overindebted clients.

KMF requires loan officers to visit the business location of both the client and the guarantor. During the visits, the loan officer uses the “Five C’s” (Character, Capacity, Capital, Collateral, and Conditions) and several forms—a household balance sheet, an income statement, and a cash flow statement—to evaluate the client.

Additionally, KMF’s cross-check analysis examines the following: business seasonality and competitive position, local inflation, access to suppliers, abnormal conditions, the applicant’s reputation and leadership role in community, residence status, type of dwelling (property, quality), support for a loan and business from family members, psychological and emotional stability, years of business experience, and credit history (including loans from formal sources, plus money-lenders, family, suppliers, and relief funds). KMF cooperates with the First Credit Bureau for information exchange about a client’s credit history.

TRANSPARENCY

Adie and EKI communicate clearly with clients in an effort to be transparent about the price, terms, and conditions of their financial products.

Many of Adie’s clients have little prior experience with formal financial service providers. Recognizing that clients need sufficient time with their loan officer in order to understand Adie’s financial products, the institution verbally reviews the loan contract with the client and the guarantor (if applicable) prior to closing the sale.

Additionally, the Adie Credit Guide provides staff with communication guidelines that explain how to work with non-native French speakers and illiterate clients. The Credit Guide also details the information that the loan officer must present to a prospective client—including a short presentation about Adie, the loan amount available to the client, the interest rate, and collateral requirements. The loan officer must also present the prospective client with a preliminary loan offer that clearly indicates the total loan cost, in writing.

In an effort to make loan contracts accessible to clients with different levels of education, Adie’s contracts are written in clear and simple language, and the institution offers a simplified contract for low literacy clients (e.g. France’s Roma population). All contracts are reader-friendly, with large font and no fine print.

In addition to receiving full information from the beginning of their relationship with Adie, clients also receive this information in multiple forms along the way. Marketing brochures provide details on the cost of different loans, including interest charges, insurance premiums, minimum balances required on savings, and transaction accounts and fees. Adie also offers this information on their website.

Beyond communicating prices in a way that clients can understand, Adie makes it possible for clients to compare Adie’s offer with offers from other financial institutions. Although Adie is only required to quote the effective interest rate on one of its products (individual credit), the institution displays the effective, nominal, and real interest rates on the loan contract for all products. Upon loan disbursement, the client receives an amortization table displaying installment dates and amounts, separating the loan principle and interest. These measures help ensure that clients understand their loan and their obligations from the start.

Like Adie, EKI provides clients with both the nominal and effective interest rates by including them on all EKI promotional materials as well as the institution’s website. This pricing information is not printed in small font or in footnotes, but in a prominent position on the materials.

EKI also uses a standard loan contract for all clients, which contains information about interest
rates, application fees, and monthly installments. It also shows the amortization schedule with the principal, interest rates, and fees separated. Additionally, EKI loan officers are obliged to use a standardized checklist of information that must be discussed with the client prior to loan disbursement. Both the loan officer and the client sign the checklist as verification that the information has been discussed and the client understands the product, the terms of the contract, and his/her rights and obligations.

EKI trains staff at all levels on effective communication techniques. Trainings are tailored to the responsibilities of the staff—for example, branch managers receive different training than cashiers. EKI’s Internal Audit team checks the effectiveness of this training through interviews with clients, during which clients are asked about their satisfaction with the communication methods of their loan officer and other staff.

**FAIR & RESPECTFUL TREATMENT OF CLIENTS**

KMF employs a Code of Business Ethics that governs the behavior of staff and promotes an institutional culture of high ethical standards. The key tenants of the KMF Customer Service Standards emphasize:

1. Respect, politeness, patience, and tolerance toward clients.
2. Accessible, timely, transparent information.
3. Transparent and responsible pricing.
4. Protection of client confidentiality.
5. Quality and flexibility of services.
6. Staff professionalism and competency.
7. Timely reaction to non-standard situations and mechanisms to address clients’ complaints.
8. Avoidance of over-indebtedness.
10. Effective discourse with clients.

Additionally, the KMF Customer Service Standards contains a tool to measure customer service quality. KMF believes that staff put the standards and the code to good use, citing a high client retention rate and high levels of client satisfaction (based on survey results) as evidence.