Smart Campaign
Standards 2.0 Public Comment Report
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Introduction
A two month open comment period was held by the Smart Campaign Secretariat between September 1st and November 30th, 2015, in order to receive feedback from key stakeholders in the microfinance industry concerning the new version of the Standards of the campaign’s Certification Program, which will be launched in June 2016. For this open comment period, The Smart Campaign Secretariat hosted a series of 8 webinars, in 4 different languages, with a total of 67 attendees from different relevant institutions worldwide. Figure 1 presents an overview of the webinar attendance by language:

Figure 1. Webinar Attendance

Three different channels were set up to receive and compile feedback: First, online surveys where set up in 4 different languages (French, Spanish, English and Russian) where people could log in to select the indicators/standards they were most interested in and provide written comments for them; Second, an email account was set up, where people could mail in their comments directly if they found it more convenient; Finally, the Smart Campaign Team proactively sought to get feedback from key stakeholders, by sharing with them an excel file with the new standards and asking them to mail it back to them with any relevant observations or comments added. Figure 2 summarizes the level of use of the three alternative channels to send feedback to the campaign:

Figure 2. # of Responses by Channel
Overview of Respondents

A total of 149 individual pieces of feedback where received. Out of all these, 29 of the ones that were received through the online surveys were left almost completely blank (with just a few incomplete comments with no detail provided), and therefore were not considered for the rest of this report, which is based on the other 120 submissions only. NOTE: this does not consider all the people that contributed to the compiled submission received from SPTF, which included comments and feedback from more than 25 different experts and multi-stakeholders.

Countries we received feedback from:

We received feedback from 56 different countries spread across 6 different continents: Africa, Asia, Oceania, Europe, North and South America. The top 5 countries we received feedback from were: United States (19), India (12), France (6), Phillipines (5) and Kenya (4). All other submissions from other countries where 3 or less, as shown on Figure 3:

![Figure 3 –Responses received by Country](image)

Type of Stakeholders

Out of the 120 pieces of feedback we received from different organizations, 33% came from Financial Institutions (39), 16% from Microfinance Associations (19), 13% from Investors/Funders (16), 13% from Technical Assistance Providers (15), 3% from Regulators/Policymakers (4), and 22% of other types of stakeholders, which included Rating Agencies, Independent Consultants, Expert Advisory Groups, consulting Firms and NGOs focused on promoting financial inclusion. Figure 4 presents a summary of these results:
Level of Involvement with the Smart Campaign Principles and Standards

The level of involvement self-reported was very high. Over 76% of respondents (85) reported having a high level of engagement with the Client Protection Principles, and using them actively in their everyday work. 18% (20) answered that they supported and agreed with the standards but did not actively apply them everyday, and only 6% (6) admitted not being familiar with the standards at all, as shown in Figure 5:

Figure 5 – Level of Engagement with Smart Campaign Principles
Feedback Received
The rest of the document attempts to summarize all the different pieces of feedback received, into as few relevant points, changes suggested and comments possible, per indicator. The following guidelines were taken into consideration while aggregating and summarizing this feedback:

- Different comments related to the same point where summarized into a single bullet point.
- Incomplete or incompressive comments were deleted.
- Comments where scraped of any reference to a particular MFI’s performance
- Comments where formatted to avoid first person point of views, i.e. “I think that…”
- A Response count is reported, including every single person that made a comment for a particular indicator or standard’s “general comments” box.
- The most current version of each indicator/standard is also included for quick reference.

Eligibility Requirements
Eligibility Requirements for financial institutions that mobilize voluntary savings

One of the new topics covered by version 2.0 is client protection in voluntary savings accounts. For that purpose, the Smart Campaign proposed four eligibility requirements that institutions that mobilize voluntary savings must meet before undergoing Client Protection Certification.

1. The financial institution must have legal and regulatory permission to collect voluntary savings.
2. The financial institution is not currently under administration or judicial management and/or in the process of liquidation.
3. The financial institution has a net capital to total asset ratio of 8% or higher.
4. The FI has liquid assets to total deposits ratio of 15% or higher.

Feedback received:

Eligibility Requirement #1: (Response count: 25)

- This needs to be included somewhere in the new indicators too.
- Bundled savings and insurance products should always be voluntary and add value to client.
- 100% Agreement. Certification for illegal structures would encourage non-compliance with regulatory frameworks, which is undesirable.
- For Africa: This ratios must meet the standards provided by the BCEAO.
- This may present difficulties for many MFIs in Cambodia as many are not licensed to take voluntary savings, but do anyways. It also seems that the NBC (our central bank) is very reserved in issuing new savings licenses.
- Please better clarify that this is only applicable for FIs that take savings and that those that don’t can continue to seek certification without complying with these requirements.
- Many FIs are interested in doing Smart Assessments and not necessarily Certifications. Will these eligibility requirements be applicable there too? Please clarify.
- What about countries without specific regulation? Will their MFIs not be permitted to seek certification?
- You should also put in place a deposit insurance reserve requirement for FIs
- Specify that this voluntary savings should be separate from committed savings used for loan collaterals by many MFIs. Money guarantees for loans stored as “savings” should not be applicable for these requirements.

Eligibility Requirement #2 (Response count: 18)

- Important so that all FIs ensure the principle of minimum financial balance
- It is highly unlikely that an institution under temporary administration or liquidation will be interested in seeking certification anyway, so this requirement might not be necessary
- In that case, it is likely that all credit and savings operations will be frozen, so might not be applicable in practice

Eligibility Requirement #3 (Response count: 21)

- Agreed. This will allow the institution to always maintain a healthy cash flow.
- To some it seems fair and perfectly attainable.
- To others it seems very low and they suggest raising it.
- Very similar to local regulation requirements.
- Cooperatives, MFI’s and NGOs have to be much better capitalized. Requirement should be higher for them, and 8% for banks
- Given that some local regulations demand a ratio higher than 8%, maybe the requirement could be changed to “8% or local requirements if higher”.
- A note should be added to describe briefly why this threshold was selected (8%)
- Africa: The concern is that there’s a lot of village savings organizations and rural MFIs that do not meet this criteria.

Eligibility Requirement #4 (Response count: 22)

- Specific Requirements should be added for MFIs providing insurance as well: (1) If your company is bearing the risk of insurance products that you offer for sale, are you licensed to do so by the insurance regulator (below in 1.2.5 but legality should be a precondition)? (2) if you are selling insurance products on behalf of a regulated insurer, you must be legally allowed to be an insurance agent (individually OR as a company).
- Include a definition of what assets should be considered as “liquid” for consistency, as these can vary from one country to another.
- This is narrow-sighted and does not consider the full picture. Debt to Equity Ratio should also be considered if the intention is to protect clients’ savings.
- Two additional requirements suggested: 1) institutions without regulatory permission to collect savings should not collect cash collaterals of more than 30% of their outstanding loan portfolio. 2) If the institution sells capital shares to clients (i.e. cooperatives), it should have legal and regulatory permission to do so.
- The requirement should be “15% of local regulation requirements if higher”, since for many countries the local requirement is much higher.
- Why weren’t the Basel III Liquidity requirements used as benchmark?
Principle 1: Appropriate Product Design and Delivery

Standard 1.1 - The institution supports the design of suitable products.

General Feedback: (Response Count: 23)

- Add the phrase “... to clients’ needs” at the end. Change “suitable” for “appropriate”. Change “supports” with “is committed to”.
- The wording is too vague/general. Make more specific.
- This standard should be more indulgent on the type of documentation required to prove it. Submitting a document describing how products are designed, evaluated and monitored should be enough.
- Include a standard definition for “appropriateness of products”, including key aspects to consider.
- Include evaluation on the appropriateness of delivery channels too, not just products
- A requirement to draft a document detailing a process to operationalize this, and signed by the board, should be enforced to incorporate product suitability into the Fi’s business practices. “Documented policy for suitability”. Otherwise it is not truly auditable.
- What happens in the case of products that are designed/provided by third parties?

Indicator level feedback:

Indicator 1.1.1 - Policy (approved by board) is in place for defining, assessing and monitoring product suitability. (Response count: 27)

- Suggested change: The institution has a written policy, approved by the board, in place for defining, assessing, and monitoring appropriate product development. Add “…and this guides all procedures covering product sale and customer servicing by the institution.”
- How strict is this? Please specify. Does this mean that the board must approve a system of market research, pilots (for assessing) pre-launch and satisfaction surveys (for monitoring) post launch or something else?
- Do we need a formalized policy for product development, or would an action plan for product design including all these things be enough?
- Please define what board you are referring to. Some FIs have more than one: management board, supervisory board, advisory board, etc.
- How does this indicator account for regulations in certain countries that limit the freedom to create certain products, for example with interest caps (like in Ecuador) or mandating fixed loan terms (like in India)?
- Many FI’s, even large ones, have a practice of doing this indeed, but don’t have it documented as a policy. Please provide a sample that we can share with MFIs that have this gap.

Indicator 1.1.2 - An effective training program is in place for staff and third parties to fully understand the suitability policy, as well as features of the products that they offer to their customers and the implications of these features on the financial lives of customers. (Response count: 18)

- Suggested change: “The institution provides training for staff and third parties to...” Change passive voice to active voice.
- Rewording: “An effective training program is in place for staff to obtain the skills needed to perform their role in operationalizing the suitability policy for each product”. While appropriate
product design is beyond the purview of the field staff, ensuring appropriate delivery of the product for each client (given each client’s unique requirements and situation), will rest on the staff and on the technology adopted. Staff are to be adequately trained to equip them to perform their role in operationalizing the board-approved suitability policy. The Smart Campaign audit is to look for how clear and effective the training modules and processes are.

Indicator 1.1.3 - The institution seeks client feedback for product design and delivery. (Response count: 18)

- Change “seeks” for “uses”. Or “seeks and uses”.
- We recommend promoting this back to the level of a standard. In that case, indicators 1.1.5 and 1.1.6 would come under this standard. If you keep this as an indicator instead of a standard, the SPTF will need to create a non-CP Essential Practice that says this same thing. That will be a problem because the indicators would have significant overlap.
- The intention here should be to make sure there is a channel that can be easily accessed through which clients and staff can communicate their suggestions, ideas, and so on, and which is formally monitored by the institution. Suggest rewording to include this.
- Indicator is much clearer now. Merger of the 7.4 sections makes the analysis easier, consistent with the actual product development section.
- Frequency should also be mentioned. Ideally how often should customer feedback be gathered? All MFIs take feedback into consideration to a certain extent, but what really matters is: how often? It is also important to do it both during the design phase and after it has been launched.

Indicator 1.1.4 - There is an internal control process to verify uniform application of policies and procedure related to product suitability. (Response count: 17)

- Not clear why the internal audit department would be well-suited to provide comments or suggestions about the appropriateness of a product (since verifying this involves a certain level of subjectivity). Seems more like a job for the strategy or risk department.
- Rewording: “There is an internal control process to verify uniform application of policies and procedures that oversee all suitability-related aspects of product recommendation and sale.”
- Recommendation: clarify that the intention here is not to place a check on how good the board-approved policy is but to check for how well it is being implemented in the manner in which it has been envisaged by the board. For instance, if the suitability policy indicates that the MFI will give flexibility to client to choose frequency of repayment for a loan that has been considered suitable, then the internal control must check whether the flexibility is indeed given to the customer, and the audit is to check for this.
- Suggested addition for guidance notes: “The FI can produce evidence of corrective measures taken in case of partial or incorrect implementation of the policies and procedures to ensure an adequate compliance in the practice.”

Indicator 1.1.5 - Management reviews key results (i.e., client engagement, internal control, performance indicators) related to product/ service design and delivery. Measures for improvement are discussed, implemented and monitored (records exist). (Response count: 21)

- There’s a lot in this indicator and the multiple parentheticals make it cumbersome. To have all these ideas in one indicator means if they fail any of them they fail the whole thing – is that
what you want? If you don’t want all the items in the first parenthetical to be mandatory you need to change it to “e.g.” instead of “i.e.”

- Change “client engagement” to “client satisfaction” to make it clearer. Client engagement is too vague.
- Is it a sale analysis that is required? Do we need them to produce a sort of analysis by product, area, sector, etc. to analysis where and which products are more on demand and in case fine tune the offer? Or are client satisfaction surveys or exit surveys enough?
- Also mention that key results (as defined) should be systematically collected/measured at least annually

Indicator 1.1.6 - Credit products are designed to match client cash flow and require principal to be paid down regularly. (Response count: 22)

- Consider: Insurance products should also be designed to fit cash flow; otherwise clients might end up being better without it.
- Please clarify if this should also include adding more flexibility to repayment schemes, in order to adjust to clients with irregular income flows.
- The problem with this in practice is that most MFIs (both big and small) that do group lending delegate this task to the client groups themselves and don’t really do a cash flow analysis on each individual client. For example, in India and LAC, almost none of the MFIs do this.
- Include in guidance: “…with the exception of bullet repayment for agro loan or other loans with specific purposes as education loans with grace periods, investment, etc.” Especially does not apply to agricultural loans.
- This indicator is contradictory: why should client have to pay always principal if he/she has irregular cash flows? There might be some periods where they can only afford to pay interests.

Indicator 1.1.7 - Documented process is operating to ensure that fair collateral practices are followed. (Response count: 32)

- Suggested change to make it more straight-forward: “The institution has a documented process for checking staff application of the institution's fair collateral practices.”
- For 1.1.7.1: Suggested change: “The institution defines a list of assets or goods that cannot be pledged as collateral. The list should be based on local norms and should include items that would create severe hardship or total loss of income earning ability for the client.”
- For 1.1.7.2: Based on regular practices in MFIs, this should increase to 25% or 35%. Verifiable resale prices of used farming equipment, cars, etc. in developing countries is far from an exact science. Only allowing a discount of 20% may put some lenders at serious financial risk.
- For 1.1.7.3: Change: “A provider that is not licensed to collect voluntary savings does not require more than 10% of the loan principal amount in cash collateral (i.e., mandatory savings) and does not collect "mandatory" savings from clients that do not have outstanding loans.”
- Many comments suggest 10% is too prohibitive. Many suggestions received to change to 20%, 30% or even 50%. Others suggest rewording it only as “a reasonable amount”.
- Even if only through Cash collateral, the emphasis should be to promote a saving culture among low-income populations. Some comments also suggest prohibiting cash collateral instead altogether, as they might not be necessary in group lending.
- This indicator should also prohibit the use of over-collateralization (i.e. MFIs that demand two collateral for the same loan).
Indicator 1.1.8 – There is a system to track insurance claims ratio, renewal ratio, coverage ratio, complaints, and promptness of claims handling and complaints resolution. (Response count: 25)

- Should also monitor lapses and reasons, as well as rejections by insurers of claims payments.
- We need a quotation by indicator (claims rate, renewal rate and penetration rate), otherwise, the indicator would be too complex.
- It may not always be the case that the MFI has connection with the insurance broker that services them. Should they request these as periodical reports from them, then?
- Please specify that this indicator is only applicable to MFIs that have bundled products with insurance included.
- Emphasis should be placed not only on tracking this data, but also on using it proactively to improve products. For example, are reports being done periodically and shared with key management?
- Also include that the only insurance that can be compulsory is for debt coverage, but all other ones (life, health, funeral, commercial, etc.) should always be voluntary.
- Two things are getting mixed up here - with regard to insurance - one, performance of the insurance product like insurance claims ratio, renewal ratio, coverage ratio- (eg: 1.1.5 above) and complaints and claims handling. It is better to leave the performance indicators to 1.1.5 and the complaints to these last principle indicators, to reduce redundancy.
- Suggestion: Include also minimum standards of performance for processing insurance claims and handling complaints, as it is done in other topic areas elsewhere in this document.
- This indicator still does not address any product design features of microinsurance that should be considered to ensure “product suitability”. Suggest adding another one related to this.

Standard 1.2 - Products and services are delivered responsibly

General Feedback: (Response count: 18)

- “Suggested change: The institution delivers products and services responsibly.” Make this standard specific to the institution and then create a new standard on third party providers. This prevents cases of discrimination and reinforces the institution's credibility.
- Please clarify: Is "responsible delivery" just limited to avoiding aggressive sales techniques (for credit)? If linked to 1.1 (Products and services are delivered to fit clients’ needs), then this would be equal to Not aggressive + diversified according to variety of demand.
- The proposed standard is virtually meaningless as it is. It could be used to describe any/all of the CPPs. This is because indicators 1.2.4, 1.2.5, and 1.2.6 seem to be the "leftovers" and they don't really fit together. Suggestions: 1) Create a new standard/EP on third party providers (The institution selects responsible third-party agents and providers) and use indicators 1.2.4, 1.2.5, and 1.2.6 under it.
- A possible additional indicator could be setting a cap on the maximum incentives a loan officer can get. Unlimited incentives have resulted in major problems in some MFIs.
- This indicator should also encourage a reasonable gap between lending rates and interest on deposits. Some institutions, especially mainstream banks, have such a wide margin between these, working more for shareholders than clients. Social oriented MFIs should not to adopt this.
- Main concern is that this does not adequately cover frontline staff and third parties, such as agents. As there are new actors when we consider DFS, we need more neutral language that broadens beyond the microfinance sector. And we need to consider how these agents and 3rd parties are monitored today, and whether it is sufficient for client protection standards.
Indicator 1.2.1 - Policy and documented process are in place to impede aggressive sales techniques and forced signing. (Response count: 18)

- Suggested change: add “...of contracts” at the end, to be more specific. Signatures are indeed voluntary and should not be enforced.
- Include as guidelines (among others): avoid practices like sending unsolicited credit cards to the clients' residence, automatic credit renewals (without a new contract), or using pre-payment and refinancing as an active marketing technique. (to explain what aggressive sales are)
- Add: "...are in place to monitor sales techniques and impede aggressive sales...". Or maybe a separate indicator that says there is a system to track agent behavior with regards to sales techniques overall.

Indicator 1.2.2 – Key staff is trained not to use aggressive sales techniques and to respect clients’ right to refuse products. (Response Count: 14)

- Edit for active voice: “The institution trains key staff not to use aggressive sales techniques and to respect clients’ right to refuse products.”
- Include all staff too, not just key staff. Include third-party provider staff and agents explicitly too.

Indicator 1.2.3 - There is a mechanism in place to raise 'red flags' about aggressive sales and activate internal control/ actions. (Response count: 18)

- Edit: “The institution has a mechanism of rigorous and regular monitoring of front line staff that can raise 'red flags' about aggressive sales and activate internal controls.”
- This seems repetitive in the current structure despite the fact that the indicators are checking on different pieces of the same standard. This one has been revised based on DFS expert feedback.
- Guidelines need to better define this indicator. Is mystery shopping enough? What else?
- This could also be part of the verification conducted in 1.2.1 (of policies and processes)

Indicator 1.2.4 - Third party providers are selected taking into account the Client Protection Principles. (Response count: 18)

- Suggested notes to provide more specificity: “When selecting third party providers, the institution considers the provider’s client protection practices and does not contract providers that harm clients.” However, it is still too vague (most comments received mention this). How is “taking into account CPPs” evaluated?
- This indicator should be added as a new standard, and a lot more indicators added to it over time, as the industry and the interactions between MFIs and third party providers continue to evolve.
- It should also be specified that this will only be evaluated for the third providers’ specific activities and services provided for the MFI.
- As it is, it’s too generic. This will make it difficult to implement and verify. Better specify which are the providers considered and which specific requirements are needed.

Indicator 1.2.5 - All insurance products offered are underwritten by a licensed insurer. (response count: 14)
• In many cases, credit life covering ONLY the loan P/I/F is covered directly by MFIs, which might be even better for clients as the cost is only a fraction of that charged by the insurer. This could be, and is in a number of MFIs, treated as a type of reserve for possible loan losses. Is this considered a bad practice (having in-house insurance funds) under this indicator?
• Suggested change: “All of the insurance products offered by or through the institution are underwritten by a licensed insurer.”
• Not possible for DR of Congo, where insurance is a state monopoly. Problematic governance has impeded the introduction of insurances in the microfinance sector.

Indicator 1.2.6 - There is a system to track agent liquidity and availability. (Response count: 21)

• Suggested change based on feedback from DFs expert meeting: “The institution has a system to monitor agent liquidity and network availability, which includes an on-site visit.”
• This indicator needs more clarity on what is meant by “agent liquidity and availability”. Most comments were about not understanding what this indicator meant.
• Not clear which kind of requirements are for the agent. For example, shall we ask for Financial Statements?
• What about customer handling/service by agents e.g. to curb issues such as agents charging fees to clients that they are not supposed to charge? This is a common problem in using DFS.
• Could we expand this more or include a new indicator that considers agent performance/compliance with standards and the basics of service quality?

Principle 2: Prevention of Overindebtedness

Standard 2.1 - The institution conducts appropriate client repayment capacity analysis before disbursing a loan.

General Feedback (Response count: 9)

• DFS and the introduction of digital credit changes the whole ball game here. If the scope of these principles is limited to double bottom line institutions, then this may apply well, but there are lots of new actors looking at digital credit models, which opens up a lot of questions around whether scoring and monitoring is being done responsibly. Therefore, many institutions using digital credits might not be able to meet this standard.
• Capital appreciation of loan demands can become complicated, but still useful to test repayment capacity.

Indicator 2.1.1 - The institution's policies support good repayment capacity analysis. (Not applicable to salary-based lending). (Response count: 25)

• Suggest adding guidance note: The institution has a policy on 1) the maximum threshold for the number of loans an individual can have at one time from multiple providers, and 2) the maximum debt threshold per individual i.e., the total amount of debt from all sources. For loans with a group guarantee, the due diligence procedures for group members are spelled out in materials provided to loan officers and group members allowing them to check the repayment capacity of each borrower. For group loans in without group guarantees, the institution carries out a repayment capacity analysis for each borrower.
• Why is this not applicable to payroll lending? Debt threshold linking net salary to installment amount is also the appropriate method to determine repayment capacity for employed workers.
• Can you add guideline on what the maximum debt threshold should be?
• Not sure the analysis should consider "guarantor income and expenses"; formulate so that the analysis should consider business and family income and expenses. Also, the last guideline makes a (good) difference compared to 1.0: please add "the analysis considers the business net income, the family expenses and all the household debts."
• Define debt threshold for clarity to MFIs. What about in the case of group lending? In that case, a detailed cashflow analysis is not feasible and is not required by most MFIs. So, this indicator should differentiate between the level of cashflow analysis required for individual loans and group loans.
• For guidance: It is also important that staff have easy access to this policy in branches and on the field to refresh themselves, as people will not always ask their supervisor for a copy since this admits their lack of understanding.
• Suggestion for 3rd cc: change the word "highlight" to "identify." Suggested rewording for 4th cc: (e.g., senior loan officer, branch manager, credit committee).

Indicator 2.1.2 - Policy requires timely reporting to credit bureaus and use of credit reports in approval for all loans. When effective credit bureaus are not available, data sharing with competition is required as feasible in local context. (Response count: 13)

• Change “data sharing with competition is required” for “highly recommended”, as in some local contexts these might not be feasible. There are also some markets where doing this could provoke other MFIs to aggressively go after your good clients in order to steal them. So requiring it in all cases where credit bureaus are not available might be setting the bar too high for some countries. Another aspect is that competitors may not be willing to do this, and this is outside the scope of control of the MFI.
• Chance “competition” for “competitors”

Indicator 2.1.3 - Documented processes for group formation and loan approval ensure the prudent self-selection of members and the development of groups that function well. (Response count: 9)

• Suggested change: “The institution has documented processes for group formation and loan approval that encourage the prudent…” Processes can't "ensure" something but a process can encourage something to happen.
• Add: “long and comprehensive group formation process, made of several meetings to ensure prudent self-selection…”

Indicator 2.1.4 - There is an effective training program in place to ensure that all relevant staff are fully trained on repayment capacity analysis and credit approval policies.

• Suggested change: “The institution has an effective…” and also add afterwards that “The institution provides periodic refresher and upgrading training to relevant staff.”
• Add to guidance notes: Staff is overall aware of the repayment capacity process. The induction training material is comprehensive and provides all the relevant information on how perform the analysis. The post-training questionnaire, ensures adequate verification of staff understanding of the process.
• Specify a minimum frequency for refresher/upgrading trainings. Perhaps annually?
Indicator 2.1.5 - There is an internal audit and/or internal controls department verifies compliance with the policies and systems used to prevent client over-indebtedness (i.e., repayment capacity analysis, maximum number of loans and maximum debt threshold and use of credit bureaus). (Response count: 18)

- Add: "...by rigorous or random sampling", because otherwise, if the auditor grabs the top 5 files off the loan officers desk and reviews them, they will pass this indicator. Perhaps we want to specify what type of sampling would need to be done and the size in order to pass. Maybe asking for 5% of all clients based on a representative random sample is asking too much but leaving it entirely to the institution’s distraction may be too lax.
- For 2.1.5.3: This seems hard to verify and more like high practice than minimum standard.
- The FI should be allowed to produce evidence of corrective measures taken in case of partial or incorrect implementation of the policies and procedures to ensure an adequate compliance in the practice. It is possible (especially cause FIs will be incentivized to do so by CPC) that policies and controls are in place, but that the product suitability mechanisms still don’t work for a variety of unrelated reasons.
- An annual exercise appears quite infrequent. Each branch should be covered once every three months; also some norms for sample size of the audit would be good to include. It would help to give some metric for the number of loan files checked. Or else, it will be easy to check this box, but coverage and scope of audit are the most important things.
- Independent internal audit should also not be goaled on sales or other targets to ensure no conflicts of interest.

Standard 2.2 - Risks to overindebtedness are closely monitored and acted upon.

General Feedback (Response count: 15)

- Suggested change: “Senior management and the board closely monitor the risks leading to overindebtedness, and take corrective actions to prevent them”.
- This should also try to cover non-formal sources of borrowing by the group members, even if they cannot be formally evidenced. But even if just by asking, it would be useful to know.
- Analysis should be done by client segment, in cases where the problem is specific to a certain type or types of clients
- 2.2.3 is too prescriptive yet still not always addresses the issue, and 2.2.4 is not clear as-is

Indicator 2.2.1 - There is a mechanism in place to raise 'red flags' and activate internal control actions when risk of systemic overindebtedness arises in the market. (Response count: 17)

- "Raise red flags" may be too jargony and may not translate well. Maybe we need to replace it with something a little more traditional like "trigger additional review".
- In 2.2.1.b., instead of requiring FIs to implement a process which curbs this types of prepayments (anticipated payments), what should be done is to require the FI to analyze what the motive for the prepayment is and based on that determine whether a risk of overindebtedness really exists or not for each client in particular. If that is the case, then of course the FI should deny opening a new credit. However, at least in Bolivia, the current banking regulation would prohibit us from implementing anything that limits any client's ability to prepay partially or completely any debt they have with a given FI. Bolivian law defends any client’s right to do so. Might be the same in other countries too.
It is better to say that: “There should be clear guidelines for prepayment of loans (including defining when the clients are permitted to do so) and the repayment capacity analysis of clients should be taken up in these cases too.”

In India, for example, prepayment mechanism are used in practice to overcome a regulation which is very stringent and against clients's requirements, since loans above Rs. 15,000 have to have over 2 years tenure.

You are asking MFIs to have a proper 'risk department' here. It should be a recommendation once MFIs have grown to maybe 20-25k clients.

Indicator 2.2.2 - The institution’s management and board of directors monitor the risk of client over-indebtedness in the market and in the institution’s portfolio at least quarterly. (Response count: 8)

- In some areas, the data on "the risk of over-indebtedness for consumers in the market" is not available. In this case, it would be good to clarify "when information exists".
- By the wording of the indicator, it is implied that management should always conduct individual monitoring checks on all clients every quarter. However, we believe that management’s role should only involve supervision checks at an aggregate level. Individual monitoring of clients should be the responsibility of loan officers and branch managers directly, not upper management.

Indicator 2.2.3 - The institution establishes a policy on sustainable target growth rates, approved by the board, for all branches/regions and all product types, considering the institution’s growth capacity and the markets being targeted to ensure both financial sustainability and client well-being. (Response Count: 13)

- How is "sustainable" defined? Subjectively by the organization? This entire indicator requires a bit more explanation / guidance.
- Slight wording changes: “The institution has a policy on sustainable target growth rates, approved by the board, for all branches/regions and all product types, considering the institution’s growth capacity and target markets, to ensure both financial sustainability and client well-being.”
- There is no such thing as a “sustainable target growth rate”; the implicit assumption that growth ambitions fuel over-indebtedness might very well be true, but growth is also a positive business strategy. Therefore it makes more sense for MFIs to look at overall levels of debt amongst their clientele, rather than their own growth plans. If they can manage the former, the latter will take care of itself.

Indicator 2.2.4 - The institution monitors whether its internal capacity and corporate culture are keeping pace with institutional growth in number of clients, and it enhances that capacity as needed. (response count: 12)

- Not clear what needs to be checked and what the relation is with the principle - does it refer to staff capacity and orientation? Please clarify.
- Need more explanation. Define internal capacity? How to track the "corporate culture"? "Culture" is a difficult term to define in organizations’ context and it is too burdensome for microfinance companies. Would suggest dropping reference to "corporate culture".
• It is a good thought but not quite a standard - everyone will say they do this, and you can't really measure performance against this statement

Standard 2.3 - The institution incentivizes quality loans.

General Feedback (Response count: 10)

• Please define portfolio quality - what does this comprise? (PAR > 30 > 10%? Low defaults? Low client complaints?)

Indicator 2.3.1 – Policy and documented process are in place to determine targets and incentives. (Response count: 11)

• Why does it need to be a significant portion of staff? Would recommend simply saying that the targets are achievable.
• Suggested rewording: Policy and documented process are in place to determine loan officer targets and incentives for credit staff.

Indicator 2.3.2 - A risk-based approach is used to monitor sales and caseloads. (Response count: 25)

• Addendum to the indicator: This is the kind of parenthetical that should go in a tip box (like what SPI4 does) rather than in the text of the indicator. It makes an already cumbersome indicator even harder to parse. Also it's unclear how risk category in this case is tied to the number of loans per loan officer. Is it just that caseload is a risk or is it that higher credit risk clients and products should be monitored more closely? And therefore should have lower caseloads to support increased monitoring? Risk is so broad it can be many things. Is it the same benchmark for group and individual loan sales?? It seems like they should be different.
• Maybe the benchmarks should be separate of the indicators, to avoid confusions. Inclusion of the risk categories and definitions in the indicators makes the indicators too cumbersome.
• For 2.3.2.1. Suggested change: “The institution has defined what caseload represents a high risk for client harm and monitors higher risk situations more closely.” [Suggested benchmark: Monthly sales of more than 20 loans per loan officer for individual lending and 50 loans per loan officer for group loans fall in the high risk category and are more closely monitored.]
• We do not believe that benchmarks should be part of the compliance criteria. They need their own separate level within the hierarchy of the GSQ and the SPI4. This will allow assessors to record the institution's (non)compliance with the benchmark on a separate line in the spreadsheet. The parenthetical with the description of risk categories should go in a footnote as it is referenced in several indicators and including it in the indicator itself makes the indicator hard to read. This needs to be much clearer for the assessors to be able to apply it effectively. We do not think the color categories should be obligatory (and therefore they should be removed from the text of the cc). What is obligatory is that the MFI categorizes its risk, such as define a caseload that represents a high risk for client harm, and monitors higher risk areas more closely. But this can be met without having a color coded system.
• 2.3.2.2. *Suggested change*: “…at least 50% of total salary and must constitute a living wage.”
• The numbers mentioned seem to be too prescriptive and having the same cut off for both individual and group lending seems off e.g. not taking into account loan officer skill or market context.
• We understand that when you say "number of cases" you actually mean "number of operations". Is this correct? If that is the case, then we suggest rewording it as "number of operations".

• For 2.3.2.a.: There are always certain circumstances where the level for these values might be considerably higher or lower. For example, whenever an FI enters a new area with high demand and low coverage, at least at the beginning, the FI will be able to have much higher origination margins per loan officer. Therefore, the disbursed amount should also be considered here, and not only the number of operations. In case we ever come across an FI with different thresholds as the ones defined here, even if they do make the appropriate follow-up, how should they be graded?

• 20 loans per loan officer for group loans is a bit stringent. Also this depends on the model of the institution (e.g. separate marketing and collection staff, repayment frequency) and at what stage the MFI is. This would be difficult to implement due to different operating structures. 1. Various institutions have different repayment frequencies; hence the number of borrowers per loan officer will vary greatly for an institution with monthly, fortnightly, weekly or multiple repayment frequencies. 2. Additionally, in some institutions the sourcing and collection are done by different staff. These institutions will have higher targets.

• No differentiation between methodologies and officer capacity? The ‘20’ listed seems to be too prescriptive. Too prescriptive in terms of caseloads and dependent on market context.

• Does 20 refers to both new/existing clients? 20 is both for individual and group borrowers? This should be also considered: i) age of the branch ii) loan tenure/repayment frequency (e.g. in India), iii) business model (e.g. some institution might have separate sale staff...in that 20 loans per months is very little, no? Also, The traffic light might not apply on India

• Add Guideline: Prudent limits refer to qualitative procedures for automatic loan renewals or increases. The FI should have procedures in place to ensure that clients are not repaying loans early (with money borrowed from a moneylender, for example), in order to take a larger loan. This practice of "bicycling" or "juggling" loans, i.e. using one loan to pay off another, increases the risk of over-indebtedness. It also blurs the credit history, giving the impression of a good repayment, when in fact the client may be borrowing elsewhere to pay off loans.

• Will these figures be applicable to all possible country contexts? Shouldn't the exact threshold (200, 350, 300 and so on) be determined by organizations following principles? We don't agree with setting hard numbers such as this without regard to the country context of the MFI.

• 100% of comments received expressed rejection of the “20 loans” threshold set in this indicator. Please clarify why it is considered that more than 20 loans should be put in red category, what were the criteria for establishing the number per loan officer?

• The number of loans mentioned as flags need to be in the context of the branch vintage and also market competition.

• Why put specific figures of Green, yellow, red? Should it be an indication, depending on type of loans, profile of clients, market dynamic? Or is it based on statistical evidence (in this case, please put the source: (*based on Mix analysis) for example

• Too prescriptive and not relevant in some markets as well as in some methodologies. For example, our MFIs have always had more than 500 clients in group lending and we do not believe it increases over-indebtedness at all.

Indicator 2.3.3 - Reasonable portfolio quality is monitored and maintained over time. (Response count: 16)
• Suggested change: “Portfolio quality is monitored and reasonable portfolio quality is maintained over time.”
• 2.3.3.1: Add a pop up or tip box to explain how total credit risk is different from PAR.
• Unclear to most people who commented. Manby understand credit risk as the probability of default of a particular loan, yet however this indicator seems to be more related to looking at the non-performing loans/portfolio at risk.
• Need to define credit risk precisely. Credit risk is not only represented by PAR and write-off figures but also by concentration in specific geographies, loan purposes, industries, etc.

Indicator 2.3.4 - Management reviews key results related to overindebtedness. Measures for improvement are discussed, implemented and monitored (records exist). (Response count: 11)

• Remove parentheticals here and consider doing so everywhere else. If the institution will fail the indicator based on what's inside the parentheticals, then the information should be in the body of the indicator. Parentheses should be used to provide examples and even then, should be used sparingly.
• How is this different from point 2.2.2 above where the board and management is required to review client over-indebtedness at market and institutional level? Both sound very similar.
• Suggested rewording: Management reviews key results related to over-indebtedness. Measures for improvement are discussed, implemented, monitored, and records exist for these actions.

**Principle 3: Transparency**

**Standard 3.1 - The institution fully discloses pricing, terms and other information**

*General Feedback: (Response count: 10)*

• Regulation plays a big role in fostering pricing transparency

• Get rid of the parenthesis on “full disclosure, through appropriate channels, and with accurate and timely information” or delete the content in parenthesis since it provides examples

• To avoid situation where loan amount and terms change between application and sanction, one potential indicator can be “the client has the opportunity to see a sanction letter prior to disbursement of loan and has an opportunity to decline the loan offer before disbursement”

• Another indicator could be effective rate in case of application or prepayment penalty. Clients should be told about changes in the effective interest rate in case of prepayment resulting on account of shortened tenure and payment penalty imposed

• Review the indicators based on digital models to make it clearer

*Indicator level feedback:*

Indicator 3.1.1 (Response count: 21)

• Institution which provide insurance linked with credit should adjust take in account the reduced risk that comes with insured clients
• Institutions require savings to be federally insured (where applicable)
• Wording not specific enough, change to “documentation provided before signing the contract informs clients of cooling off period, etc.”
• Is cooling off period mandatory? may be difficult to implement in some markets and if it’s not available, does it need to be spelt out?
• Institutions should be required to inform if savings are federally insured (where applicable)
• Change in wording to “agents and third parties who exact fees on clients directly are required to disclose fees to clients – at a minimum verbally” to ensure that the expectation/ ask is fair
• Moreover, should the we use the word “minimal” to suggest the different levels of compliance that exist throughout the document
• To further emphasize the clear communication between institution and clients, change of the wording to include “documentation available to the client”
• Clarify if applicable these indicators are applicable to linked or bundled products, as fees at times are not clearly differentiated
• Recommendation and clarification of indicator applicability to illiterate populations or large groups
• Verbal communication does not ensure that the prices are disclosed correctly to clients. One alternative may be including in writing and displaying key information, such as agent location
• Ideally the communication is in simple and local language
• Wording suggestion in 1.1.1.2. “whether those terms can change over time”
• “Loan documentation and forms clearly state price” indicator applicable to digital financial models

Indicator 3.1.2 (Response count: 18)

• Cut or alter the indicator referring to decreasing interest rate. First it is not clear how many competitors (1 or all); it becomes a subjective matter. Moreover, declining interest rates create confusion (when most clients understand flat interest rate better)
• Clients do not understand interest rates in terms of APR
• The deduction of first payment transparently seems a bad practice; why not say that it does not keep with the standards? This indicator would also be applicable to digital financial services
• Institutions can opt for a constant interest rate while conforming to regulations
• Should there be specific standards addressing savings/insurance in this section?
• Is the expectation of a very transparent and explicit communication from MFIs realistic? As it’s often not in their best interest to do so
• Need for clarification around whether institutions should disclose APR/EIR or base it off the market environment, especially in countries where NGO dominated microfinance industry (e.g. Philippines) where there are only flat rates
• One institutions provided their example of informing clients potential change in interest rates due to currency devaluation (in cases where currency exchange may affect loans)
• If interest rates are not accrued, however fees accrue- are institutions in line with this principle?
• Define pessimistic scenario

Indicator 3.1.3 (Response count: 11)

• It is too specific, instead of “branch manager” it should refer to institution, for example “approach the institution” – depending on context branch manager may not be appropriate
level, especially when thinking of DFS and mobile money
- This indicator could fall under 3.1.1.
- The process of rescheduling is mentioned, but in practice it’s not adequately emphasized
- To ensure clients’ awareness on the rescheduling policy, should it be communicated both verbally and in written?

Indicator 3.1.4 (Response count: 5)
- Taking in consideration non-MFI outlets, is there room to include agents in this section?
- In the examples, add agent location as well
- Should MFIs still disclose information on pricing even if government regulation does not make it compulsory?

Indicator 3.1.5 (Response count: 9)
- Suggested editing to “Each client and guarantor receives a contract, and/or an individual passbook with contract terms and signature, even if the contract is between a group and the financial institution. The institution ensures that there are no blank terms in documents signed by clients and guarantors— including but not limited to the contract and the promissory note”
- Add promissory note, as this section is often what is left blank
- How do you accommodate DFS in this section, when the transaction via sms?
- Translation in vernacular languages would facilitate full understanding

Indicator 3.1.6 (Response count: 9)
- Language change to clarify principle “Clients regularly and on demand receive clear and accurate information on the status of their account balances, and receipts are provided for all transactions”
- 3.1.6.3 Suggested wording change of the final sentence “Clients are permitted to review the account activity upon request”
- Confirmation of transaction should be mandatory expect for DFS, however, communicate account balances to each member in every group meeting may be ambitious
- Suggested rewording of the 3.1.6.1 “Client receives a receipt via email, paper, or a text message (SMS) once a transaction is performed, no matter what channel is used.

Standard 3.2 - The institution communicates proactively with clients in a way that they can understand

General Feedback: (Response count: 9)
- Is this similar too transparency indicators?
- Is the designation of digital financial services referring to digital payments only or does it take in consideration all other digital services?
- Would providing clients a summary document with the critical information be helpful?
Indicator 3.2.1 (Response count: 6)

- A formalization of a checklist with all the information that staff members are required to communicate would ensure a uniform application of the best practices.

Indicator 3.2.2 (Response count: 17)

- A formalization of a checklist with all the information that staff members are required to communicate would ensure a uniform application of the best practices.
- Specify how to achieve and measure clarity of purchased financial services for people with low financial literacy.
- There is room to consolidate the CC under this indicator, especially the first three.
- An alternative is to have the first cc be “Clients are informed on the institution’s product offerings” since the first two would come from the process of communicating with clients.
- Change the wording for an active voice “institutions informs clients ..” or “institution makes clients aware”.
- Is there any need to communicate savings accounts terms in this section?
- Is the cc: “clients are informed on the institution’s product offerings” referring to different products provided by the institutions? Does it apply to insurance?
- “Member obligations regarding solidarity payments ...” 1. Solidarity is spelled wrong 2. It seems redundant. If required, member obligations regarding solidarity payments should be communicated “prior to sale and at the time of disbursement”.
- It is worth considering that the verbal communication aspect is challenging to the DFS model.
- One institution expressed the need for staff training to learn how to verify clients understanding.

Indicator 3.2.3 (Response count: 8)

- The indicator just calls for a process but the edited version requires that the process is effective. Which option reflects Smart's desired state?
- Change wording to “an internal control process verifies the constant and uniform application of policies”.
- How to measure for effectiveness. It is possible that policies and controls are in place, but that the product suitability mechanisms still don't work for a variety of reasons.
- It is a vague indicator. Alternative wording: "There is an internal audit and/or internal controls department that verifies compliance with the policies and systems ..."

**Principle 4: Responsible Pricing**

**Standard 4.1 - The institution is managed effectively to offer responsible pricing**

**General Feedback: (Response count: 13)**

- It is too vague. The management aspect detracts from the responsible pricing. It should specifically say “institution offers responsible prices” - because institutions may offer
be managed inefficiently but still offer responsible pricing.

- Subjective language in the indicator. One solution is to use the idea of “materiality” from the field of financial audit, which is a threshold established between the external auditors and the institution prior to the auditors’ visit and is determined together in advance
- Currently not suitable as an Essential Practice for Universal Standards. Alternative: “institution's pricing strategy reflects long-term sustainability for both the institution and the client, and is not excessively profit oriented in the short term”
- One potential indicator could be whether operating expense ratio is close to industry standard

Indicator 4.1.1 (Response count: 19)

- Indicators are subjective. We need quantitative definitions for “approaching sustainability” and “efficient”
- Suggested quantitative benchmark “institution is OS, or within 5% of achieving OSS. Alternatively, the institution can demonstrate a positive trend toward OSS over the past three years”
- “Efficient” and “approaching sustainability” need to be defined for assessors for a consistent and uniform assessments
- Measuring “efficiency” against comparable institutions, i.e. institutions that have integrated financial and non-financial services tend to look less “efficient”, therefore, should be compared with similar
- Modify to “the institution is efficient, sustainable and the prices cover costs”
- Focus on "reasonable costs" as well. Include reasonable wages for top management

Indicator 4.1.2 (Response count: 14)

- Quantitative indicator for an “acceptable portion”
- The percentage of beneficiaries should be 10% or 15% in order to add value to clients
- How do you interpret this indicator for institutions that invest in additional services (health, education) that may not reflect as an investment of profit since its part of their business models?

Standard 4.2 – Interesting rate and fees are not excessive and non-discriminatory

Indicator 4.2.1 (Response count: 13)

- Non-discrimination is widely linked to “access to service”, therefore, this criteria shouldn’t be narrow
- Pricing should be based on MFTransparency tool
- Any guideline on margin, RoA?
- Does cover cost refer to global cost or cost per product? Need to clarify
- Remove “price cover cost”
- Is this relevant to digital credit?
- Include “institution’s interest rates are neither excessive nor discriminatory”
• Include regulatory adherence overarching these benchmarks

Indicator 4.2.2 (Response count: 22)

• Rewording to “fees are not excessive for the use of financial services or digital channels (e.g., money transfers, cash-in, cash-out, loan disbursement, loan repayment, top-up)”
• We may consider a caveat for these benchmarks for places where quantitative thresholds are set by regulators (i.e. in LAC, maximum fee levels are set by regulators)
• Consider changing to aggregate mandatory fees and charges below 2.5%, if clients want, they could go above the voluntary product cost
• Change percentage of any prepayment penalty so it does not exceed 2% of the outstanding principal
• Clarify “entrance fee” or “initiation fee” to insurers
• The 2.5% for upfront fee is justifiable (not excessive). Still difficult to determine 2.5% as applicable to all. Does the fee include insurance/DFS or does it only cover administrative cost?
• The pre-payment penalty is a tool to discourage early loan closure, therefore 5% is a low figure. Non-payment of interest may mean a loss of revenue for an MFI?
• What are these quantitative benchmarks based on? Isn’t 5% too high?
• How are excessive fees for DFS defined?
• Why is entrance fee to insurers in this section? Is it referring to insurance providers and partners?
• Rewording to “there is no up-front “entrance fee,” “exclusivity fee” or “initiation fee” required by insurers”
• Should the 2.5% max be applied above a certain loan amount? I.e. loans of $50-100 could only collect $1.25-$2.50 in fees
• Some countries have specific regulation around when interest stop accruing, which should be taken in account. Institution should at minimum meet or exceed the regulations
• Too prescriptive. Why not just say that the APR (including all fees, penalties etc.) is not more than 2X or 3X of the commercial banking rates in the country?

Indicator 4.2.3 (Response count: 10)

• Specify “regularly”- how should cost be analyzed? Quarterly? Annually?

Indicator 4.2.4 (Response count: 12)

• Take in account that (in the distant future) group segmentation for insurance pricing will be common. Although they it may seem discriminatory, it will reflect the risk more accurately and be advantageous for low-risk population
• This indicatory does not make sense
• Rewording of the indicator to reflect discrimination (instead of incentives). Some institutions (including commercial banks) offer a lower rate to benefit women or disabled populations
• Specific and redundant. It’s covered in 5.2.1. Does this deserve a separate indicator?
• Rewording to “Policy defines that ethnicity, gender, sexual orientation, religious belief, political opinions, or disability will not be when taken into account”

Principle 5: Fair and Respectful Treatment
Standard 5.1 - Clients are treated in a fair and respectful manner.

General Feedback: (Response count: 10)

• Active voice- rewording: “The institution treats clients in a fair and respectful manner”
• It’s necessary to include indicators to help evaluate the level of women’s participation in the activities of the MFIs and the amount of loan granted to women (relative to portfolio)
• The internal rule and codes of ethics should also intervene at this level
• Suggested rewording “The institution's policies, staff training, and monitoring are clear on how staff must treat clients fairly and respectfully”
• Need to alter language for DFS to include agents and 3rd parties
• Specify “regularly”- how should cost be analyzed? Quarterly? Annually?

Indicator 5.1.1 (Response count: 13)

• Consider adding intimidation or threat. As well as communicating with other family members (beyond the client)
• How do you define public humiliation of a client?
• There should be regular review, at least annual
• What level of board (advisor, management or supervisory?) It is acceptable to get the code of conduct be approved only by management board?
• Rewording of 5.1.1.2 “the following behaviors are always prohibited (at a minimum) and sanctions are specified in writing: using abusive language; using physical force etc.,”
• 5.1.1.2 Move the detail to a pop up or tip box in the Excel too. All this is already detailed in 5a1.4 of the SPI4 and 5.2 below

Indicator 5.1.2 (Response count: 9)

• Consider rewording “the staff sign a document by which they acknowledge that they will abide to the institution’s standards of professional conduct and not engage in the prohibited behaviors mentioned in the code of conduct (or equivalent)”
• Should clients also sign?

Indicator 5.1.3 (Response count: 7)

• Suggested rewording to “the institution has an effective and continuous training... “
• How about training of third parties?
• One institution shared its experience of including role plays during training

Indicator 5.1.4 (Response count: 5)
• One institution’s experience of conducting client satisfaction surveys through call center contacts clients (10% of disbursed loan selected randomly) to ask few questions related to the satisfaction with the service received at the branch

Indicator 5.1.5 (Response count: 13)

• Rewording “the institution describes the sanctions that it will impose on third-party providers for violation of its code of conduct”
• This indicator is covered under 1.2.4, it might go better under principle 1
• SPFT suggests that the depth of this indicator be either: “senior management considers the third party providers commitment to protecting” or “an agreement exists between the institution and the third party provider”
• Does it include third parties with whom FI may not have formal contract, for example widely engaged local chiefs in Cambodia?
• It seems too difficult to implement
• Reword the indicator to “documented processes exist to align/ influence the ethical behavior of any contractors and third parties with the institution’s Code of Ethics”
• 5.1.5.3 reword to “the sanctions that will be taken in case of violations of the institution’s Code are described, especially for those behaviors that can result in termination of employment or the agreement with third party providers”

Standard 5.2 - The institution does not discriminate in client selection or treatment

General Feedback: (Response count: 10)

• Vague rewording to “clients are neither denied access nor treated differently based on non-financial characteristics”
• MFIs that have only women clients, how would this be covered under this indicator?
• Perhaps the age-caps can be removed? As most MFIs stop lending once clients is over the age of 65 or 70
• How do you communicate these indicators for agents or third parties?

Indicator 5.2.1 (Response count: 14)

• Repeated phrase- in 5.2.1.2 use phrase “protected categories” (like the ILO)– put it on page 2 with the other definitions and take this long phrase out of all the indicators
• Alternative: “policy defines that clients' terms and conditions for products will not differ based on any protected categories (except for age for insurance)”
• Consider rewording “the staff sign a document by which they acknowledge that they will abide to the institution’s standards of professional conduct and not engage in the prohibited behaviors mentioned in the code of conduct (or equivalent)”
• Since a significant portion of microfinance organizations target exclusively women, gender should not be a parameter
• This concept is being repeated, in the codes of conduct section, non-discrimination was already addressed
• The word ARE was omitted “policy and documented process are in place to avoid discrimination”
Standard 5.3 - The institution has defined in specific detail what are considered to be appropriate debt collection practices

*General Feedback: (Response count: 6)*

- Credit policies clearly define collection practices, we currently use simplified collection procedures of OHADA
- Are these relevant to digital credit? The list could be simplified further

**Indicator 5.3.1 (Response count: 14)**

- The note in the indicator makes it long and difficult to understand. Suggest dropping the note from the indicator (since its included in 5.1.1( or add a footnote
- May consider changing to include "third party" in addition to contractor. Some FI's have claimed that people are not contractors unless a written contract exists

**Indicator 5.3.2 (Response count: 11)**

- Clarify what constitutes a sufficient time “sufficient time”
- There is an overlap with principle 1.1.7
- What about encouraging clients to sell or take out a loan? It also disincentives loan rescheduling in valid cases

**Indicator 5.3.3 (Response count: 10)**

- The first two 5.3.3.1 and 5.3.3.2 are too similar; could be combined into one. Alternative: the institution offers a training module for all staff involved in collections during induction. The training includes all elements of the collections policy, covering topics such as negotiating techniques, understanding customers, managing tensions, and reaching an amicable agreement rather than enforcing the guarantee in the case of default
- Should specify who needs the training, It should be required for BMs above and staff that are involved in remedial collections
- The terms are boarder so it’s clear for FI that anyone associated with collection activities of any type for the FI is trained. Include "the same training is provided to third parties involved in any part of the collection process for the FI"- to avoid FI claiming that people who 'facilitate' collections and are incentivized based on collections are not contracted collections staff

**Indicator 5.3.4 (Response count: 10)**

- What does tireability mean? In general, aim to avoid jargon
- Why is the word “willingness” in quotes? Write off instead of "exceptional forgiveness" since the phrasing can be too loaded

Standard 5.4 - The institution implements policies to promote ethical behavior and prevent fraud.

*General Feedback: (Response count: 6)*
The distinction among product types is confusing. The principle seems credit focus but the breakdown of indicators encompasses savings, insurance and DFS products. Are these all digital products or just payments?

Indicator 5.4.1 (Response count: 4)

- None

Indicator 5.4.2 (Response count: 4)

- None

Indicator 5.4.3 (Response count: 15)

- 5.4.3.2 addressing data should be moved under principle 6
- There should be policy on how data shared with credit bureaus and insurers can be used in a manner that is appropriate
- Focus on preventing fraud related to client funds, not just savings. There is room to acknowledge the role of agent fraud in this section

Indicator 5.4.4 (Response count: 6)

- None

Indicator 5.4.5 (Response count: 7)

- This is a generic management system indicator. It should be removed because it is vague and difficult to assess
- What key results should the institution monitor? What are key results of fair treatment?
- “Client engagement” is too vague

Standard 5.5 - Insurance claims are processed in a fair and timely manner

*General Feedback: (Response count: 7)*

- Is there a need to offer a dispute resolution avenue for insurance?
- Since insurance claims are settled by insurers, would these standards apply for MFIs? Instead require that MFI negotiates good processes for claims settlement with the insurance provider

Indicator 5.5.1 - All claims are settled within 30 days of filing completed submission (including all necessary information and documentation) or, if shorter, the time period required by local law.* (Response count: 12)

- In 5.5.1.1. use the word “claim” (completed claim) instead of “submission”
- Is 30 days reasonable across regions? It can maybe be increased to 45 days. Alternatively, there can be a threshold for internal processing time of 10 days for example
- Perhaps require that 95% of claims be processed in 30 days, in cases of exceptions (for example in cases of suspected fraud, it may take more than 30 days)
Indicator 5.5.2 - A system is in place to track claims rejection ratio and reasons for rejection. (Response count: 6)

- Is the emphasis on tracking mechanism or the ratios of such data?
- It becomes redundant in view of 5.5.3 since if clients are informed of rejected claims, it implies that institution tracks rejection ratio and reason

Indicator 5.5.3 - When a claim is denied, claimants are notified within 30 days.* (Response count: 9)

- Include claimants are notified of the rejection and reason
- Why 30 days?

**Principle 6: Privacy of Client Data**

**Standard 6.1 – Client data is protected**

*General Feedback: (Response count: 9)*

- Windhover Principles may add to this indicator.
- The two halves of this indicator confidentiality/privacy and IT security need to be well represented
- Smart’s role should not be to proscribe IT operations
- There’s a need to expand on who owns and protects client data? How to ensure that partners do not mishandle data? How to promote informed consent among clients with low financial and literacy capability?

Indicator 6.1.1 - Data privacy and security policy in place to govern the gathering, processing, use, distribution and storage of client information to maintain its confidentiality, safety and integrity. The policy covers current and former staff and third party providers that interact with the institution's IT systems. (Response count: 12)

- It is too vague. Wording "Client data is kept secure and confidential"
- What would be an example of actions to take when staff is terminated? Who would be taking that action?
- 6.1.1 does not cover current staff. Suggested rewording “A policy on data privacy and security is in place to govern the gathering, processing, use, distribution and storage of client information to maintain its confidentiality, safety and integrity. The policy covers current and former staff and third party providers that interact with the institution's IT systems”

Indicator 6.1.2 - There are processes, people, and systems in place (including secure IT) to protect the confidentiality, security, accuracy and integrity of customers’ clients' personal, transactional and financial information. (Response count: 12)

- 6.1.3.6 unclear, change the wording for “disaster/downtime recovery” It is too vague. Wording "Client data is kept secure and confidential"- broaden it to require a business continuity plan
- 6.1.3.3. Not sure it’s the systems that need back up, but rather the contents of the MIS or the daily transaction logs. It’s also too prescriptive
Daily backup may not be possible due to infrastructure; avoid prescriptive requirements

- Typo: clients’ customers’
- Define "external audit" – Is it referring to outsourced software development companies who also validate and check for security issues.

Indicator 6.1.3: The provider’s contract with third parties (e.g., insurer, agent network manager) requires respect of confidentiality of clients’ data (Response count: 5)

- None

Indicator 6.1.4: An effective training program is in place focused on client privacy, confidentiality, security, accuracy and integrity of customers’ personal and financial information and use of information systems (IT) (Response count: 9)

- Difficult to verify “effective training”; substitute with “technical training” instead
- Suggested rewording “an effective staff training program is in place on appropriate use of the institution’s IT system; maintaining client privacy and security; and ensuring the accuracy and integrity of customers’ personal and financial information”

Indicator 6.1.5: If client files are stored in physical format, they are in a secure location, within the branch or headquarters that has 1) restricted access only to selected persons; 2) is kept in a facility secure from theft and flood. (Response count: 8)

- Edit to “Employees cannot take client files or loan documents to their homes. The institution keeps records of the names of staff who request access to client files”
- Sounds similar to 5.4.2 on physical security of collateral
- This should not need to necessarily be a physical location since it can be outsourced. It should be documented in the policy and specified in detail which types of documents cannot be taken home
- Suggested rewording: If client files are stored in physical format, they are in a secure location, within the branch or headquarters that 1) has access restricted to only selected persons; and 2) is kept in a facility secure from theft and flood.

Indicator 6.1.6: There is an internal (or external) control process to verify privacy protection in the IT system. (Response count: 3)

- None

**Standard 6.2 – Clients are informed and give consent to share their data.**

**General Feedback: (Response count: 7)**

- Suggested rewording: “Clients are informed about how their data will be shared and give their consent”
- Recognize that consent data has proven to be tricky (CGAP’s research on behavioral biases that affect informed consent)
Indicator 6.2.1: T Policy in place to describe how to talk to clients about client privacy (Response count: 5)

- None

Indicator 6.2.2: The privacy and data security policy are effectively communicated to staff, third parties and all clients, in plain language and not hidden in legalese or in small print (Response count: 6)

- Suggested change “The confidentiality and data security policies are effectively communicated to staff, third parties, and all clients, in plain language; they are not hidden in legalese or small print”
- Should be requested in the absence of national legislation

Indicator 6.2.3: Policy in place to identify beneficiaries upon an account holder’s death (Response count: 8)

- Is this not applicable to the insurance under principle 5.5?
- Simplify this to clients need to clearly identify their beneficiary in case of death and include that this information should be given to the insurance company in the case where they register beneficiaries

Indicator 6.2.4: Contracts include a data privacy clause, describing how and when data can be shared. (Response count: 13)

- Cut this indicator because staff informs client of their rights at the beginning of product delivery – merge with principle 1
- What do “product contracts” refer to?
- 6.2.4.2 include “and explains” --“ staff read and explains the privacy portion of contract”
- It may be too prescriptive, how many clauses and contracts are read aloud? – alternative “staff inform clients on their right to privacy at the beginning of the product delivery process”

Indicator 6.2.5: Staff informs clients on importance of protecting Personal Identification Numbers (PINs) (Response count: 6)

- None

Indicator 6.2.6: Written client consent is required to share personal information with any external audience, including credit bureaus, insurance agents, collections companies, or for marketing material and other public content (Response count: 8)

- This could go under 6.2.4 as a compliance criteria
- Repetitive if clients informed about how their data will be shared before the transaction is complete
- How about privacy rules around which individuals can or cannot access client information (e.g. can a guarantor access it? can family members access it?)
Indicator 6.2.7: Group leaders are trained to safeguard group member information, particularly saving account balances, dates of loan disbursement, and information on repayment problems. (Response count: 4)

- None

Principle 7: Mechanisms for Complaint Resolution

Standard 7.1 – Effective client feedback mechanisms are in place and used

General Feedback: (Response count: 9)

- What does “used” in 7.1 refer to? Does it refer to institutions using it to improve products or that complaint handling mechanism were used by clients?
- Suggestion boxes should be place in accessible places. It's good to offer clients an ability to lodge a complaint with someone other than their main contact
- After clients lodge complaints, institutions should address concerns within a short period of time
- Complaint mechanism is different that client feedback (which is more relevant to principle 1)
- Completion of complaints feedback loop should also be looked in to
- This is more relevant for bigger MFIs. Smaller ones do not often have the capacity. Consider different standards for smaller MFIs

Indicator 7.1.1: Clients are informed about their right to complain and informed on how to do so. (Response count: 6)

- None

Indicator 7.1.2: There is a system to collect and analyze client satisfaction and reasons for client drop out/non-use. (Response count: 9)

- Client satisfaction and reasons for client drop out and reasons for non-usage of products are all sufficiently different and important that they can get their own indicators. Product usage and account dormancy may fall under principle 1
- 7.1.2 wording change to “there is a system to collect and analyze client satisfaction ..”
- "Mechanism for complaints" could be judged as sufficient to collect "client satisfaction" and reasons for drop out. Client may drop out and not use the complaints mechanism

Standard 7.2 – Clients are aware of how to submit complaints, and complaints are handled adequately.

General Feedback: (Response count: 10)

- There should be a 7.3 “Complaints are used to improve products and services” or are you considering that to be a social performance area now?

Indicator 7.2.1: A documented process is in place to describe how to resolve complaints. (Response count: 11)
- One month may be too narrow. Consider substituting to written policy outline the require settlement times, considering the nature and severity of the complaint
- Rewording to first cc: The complaints mechanism defines that complaints must be resolved within one month (some exceptions may be permitted due to complexity), and prioritizes complaints based on their severity

Indicator 7.2.2: The institution's dedicated staff induction training includes a session on how the complaints mechanism works, the roles of various staff members in the process and how to appropriately manage complaints until they are completely resolved (Response count: 5)

- None

Indicator 7.2.3: Dedicated complaints handling staff and third party providers are adequately trained on receiving, handling and resolving complaints (Response count: 7)

- Perhaps consider removing the word dedicated and make it any staff involved in compliant resolution?
- 7.2.2 and 7.2.3 are too similar and should be merged
- Too vague; define “adequately trained”

Indicator 7.2.4: Transactions unable to be completed or incorrectly completed are handled appropriately. (Response count: 9)

- 7.2.4.1 fragmented sentence
- Should spell out clearly that its referring to transfers
- Is this a “complaints” issue or would it fall under fair treatment/fraud protection?
- Too specific, it considers M-Pesa, but not other transactions within mobile money. Alternative: “If a funds transfer or similar electronic transaction is made to the incorrect account, mechanisms are in place to correct the error by either the agent, branch or provider”

Indicator 7.2.5: There is an internal control process to verify the constant and uniform application of policies and procedure related to the appropriate functioning of the complaints handling mechanism. (Response count: 6)

- Suggested edit to CC: Internal audit or other monitoring systems verifies a sample of clients (at least 10%) who have submitted a complaint to see if complaints have been resolved satisfactorily, and if the client has been informed of the outcome.

Indicator 7.2.6: Management reviews key results (i.e. % of complaints handled successfully) related to the effective functioning of the Complaints Handling Mechanism. Measures for improvement are discussed, implemented and monitored (records exist). (Response count: 6)

- Board reviews results of complaint handling mechanism during board meetings can be added as an indicator. This would help in judging how much proactive board of institutions towards concerns of clients and not just focused on financial performance of institution.
• Management should see zero complaints as a possible red flag for investigation. Is the system functioning properly?

**Additional comments – Overall Standards 2.0**

• Indicators and compliance criteria that seemed too prescriptive from the practitioner perspective and were not tied tightly enough to topics relevant to client protection but rather entered into telling the MFIs how to operate.

• We must number all the new standards to allow commenters to be accurate. I would like every standard to refer to a specific element. It is to avoid approximation and subjectivism.

• The whole delivery channel of mobile banking almost needs a whole set of CP standards on its own, given the specific vulnerabilities that it exposes in customers.

• CPPs need to distinguish between different types of actors within the market and figure out the applicable standards for each of them.

• In general, there is a lot of focus in "fair and respectful treat" on having codes of conduct, policy, etc. but very little about communicating any of it with clients, and/or monitoring it. Seems like the focus should be reversed, more on actual treatment first, and then looking at policy.

• Some sections (3.1, 3.2, 4.1, 5.1, 5.4) are much clearer and straightforward than others as if they were developed and written by different people/institutions, additionally in French some of the sections are clearer than in English.

• An overall comment is to change the passive voice to the active voice throughout the entire document. There are too many cases to offer edits. One example is the cc for 2.1.4. Passive: "Refresher trainings are given for relevant staff." Active: The institution provides refresher trainings for relevant staff.

• The Standards can be refined to differentiate by size: Tier 1 and “Others”. This is how regulators also operate, and it will ensure that the standards are realistic for all stages of the development of the industry.

• Very good and comprehensive; main concern is around the definition of D for these purposes. Are we considering D = digital payments or all digital financial services? This is really important for considering what applied to which products and which providers. Feedback could have been much more specific and thorough if these definitional questions were answered or clearer up front.

**Next Steps**

Comments and feedback taken from the Public Comment period have been taken into account and incorporated into the final version of the Client Protection Standards 2.0.