Implementing an Industry Code of Conduct at Pakistan Microfinance Network (PMN)

In an increasingly competitive microfinance market, the Pakistan Microfinance Network (PMN) helps its members offer the best financial services and customer service. In this effort, PMN formally launched its Consumer Protection Initiative in January 2009. The initiative centers on improving consumer protection practices through a voluntary Code of Conduct for Consumer Protection and a call center for receiving and responding to client grievances.

The public launch of the Code of Conduct signaled to clients, policymakers, and microfinance institutions (MFIs) that PMN’s members are committed to responsible finance. A PMN client call center complements the Code of Conduct by empowering clients to voice their complaints and concerns, and focusing institutions on the needs of their clients.

The PMN Consumer Protection Initiative comes at a critical time when the pressures of competition in the Pakistani microfinance market have led many MFIs toward weaker consumer practices. Though the initiative is still in its early stage, PMN believes that improved client protection practices will allow member MFIs to build a reputation for excellent customer service and transparency.

THE FIRST STEP: DEVELOPING A CODE OF CONDUCT FOR MEMBERS

The PMN Code of Conduct is based on six core values of consumer protection (and closely aligned with The Smart Campaign’s Client Protection Principles):

1. For guidance on developing an institutional code of ethics, see the Smart Campaign’s “How to Develop an Institutional Code of Ethics”: http://www.smartcampaign.org/tools-a-resources/2/84
1) Transparency; 2) Fair Practices; 3) Dignified Treatment; 4) Privacy & Fair Disclosure; 5) Governance; and 6) Client Satisfaction. In addition to providing PMN’s members with a common vision and direction for consumer protection, the Code offers practical guidance on how MFIs can improve consumer protection practices.

BEYOND THE CODE: IMPLEMENTATION STRATEGY

With the new Code of Conduct in place, PMN is now focusing on implementing the Code through a four-part approach: 1) Disseminating the Code; 2) Standardizing Pricing & Disclosure Policies; 3) Monitoring Compliance with the Code; and 4) Implementing a System for Redress of Client Grievances.

1. DISSEMINATING THE CODE

PMN is disseminating the Code of Conduct to three types of stakeholders: 1) the staff of its member organizations, 2) the clients of its member organizations, and 3) Pakistani policymakers. In order to reach MFI staff and clients, the Code was translated into Urdu (Pakistan’s national language) and into the four provincial languages. PMN produced the Code in poster form, for display in members’ branch offices. PMN also developed a short training module on consumer protection for its member MFIs to use when training their staff. Training topics include: the core values of client protection; its importance for the Pakistani microfinance industry; what client protection means for MFI staff; and the business case for client protection. To ensure good use of the training module, PMN first delivered it to members’ senior management teams and to others who will conduct trainings for individual MFIs.

PMN is still developing its strategy for disseminating the Code to microfinance clients, while prioritizing cost effectiveness and simplicity in messaging. PMN’s preferred medium of communication is creative print material, such as flyers, stickers, calendars, and simple handouts (e.g., a checklist of client rights) to be inserted in the loan package that a client receives. Messages will educate clients on their rights, but will also clarify their responsibilities and obligations as users of financial services.

Although MFIs and clients are the primary audience for the Code of Conduct, PMN will also promote the Code among policymakers to encourage the creation of improved client protection regulation. PMN will discuss and promote their Code of Conduct when they speak with and write to the Central Bank of Pakistan and other policymakers.

2. STANDARDIZING PRICING & DISCLOSURE POLICIES

Although the Central Bank of Pakistan regulates the pricing and disclosure policies of the country’s microfinance banks, non-regulated MFIs (NGOs, cooperatives, etc.) determine their own policies, making it difficult for clients to compare products and prices between institutions. Using existing regulation as a starting point, PMN is developing a common method of pricing disclosure for all types of financial institutions—both regulated and non-regulated.

Specifically, PMN is working closely with regulators and member institutions to develop and
adopt a common approach for calculating product prices (including fees), and quoting prices (as flat, effective, or annual percentage rates). A standardized approach will determine how the cost of a product is disclosed to the client—for example, whether or not repayment schedules are provided in addition to a full disclosure of the interest rate. This is something that the Central Bank does not currently require.

In addition, PMN will advocate for the members to adopt the price estimation tools developed by international experts like MFTransparency and the SEEP Network, so that all members calculate their prices using the same method. Eventually, pricing standardization will be developed for other financial services such as savings and insurance.

3. MONITORING COMPLIANCE WITH THE CODE

PMN has neither the authority nor the resources to closely monitor each member MFI for their compliance with the Code of Conduct. Yet, PMN wants to enable members to assess their own progress toward adopting the values as a way of helping members put the Code into practice. In lieu of an enforcement mechanism for the Code, PMN provides existing internal and external auditors with a questionnaire-based tool\textsuperscript{2} that allows them to measure compliance by scoring an institution against the different values in the Code of Conduct. The Code itself reinforces the use of this questionnaire by requiring MFIs to monitor their own compliance; the questionnaire gives MFIs a concrete way to live up to the requirement, while also generating valuable information for the institution’s management and for PMN.

After this tool has passed through the pilot and refinement stages, PMN will also encourage key stakeholders to use the tool in their appraisals of MFIs. These stakeholders include: the Central Bank of Pakistan, microfinance rating agencies, investors, donors, and the PPAF (the Pakistan Poverty Alleviation Fund—the main apex funding body for the sector). PMN will work with members to cover the cost of incorporating the new tool into their audit systems, and will analyze members’ use of the tool and performance against the tool’s indicators one year after rollout.

Figure 1, above, demonstrates how the PMN Board of Directors and member institutions will

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\includegraphics[width=\textwidth]{figure1}
\caption{Use of Data Generated by the Compliance Questionnaire}
\end{figure}

\begin{itemize}
\item **PMN BOARD OF DIRECTORS**
  \begin{itemize}
  \item Track member compliance with Code of Ethics
  \item Refine Code over time
  \item Identify weak client protection practices in the sector
  \item Prioritize support to address gaps in practice
  \end{itemize}

\item **PMN MEMBER INSTITUTIONS**
  \begin{itemize}
  \item Identify weak client protection practices
  \item Prioritize activities for addressing weaknesses
  \item Track progress toward full compliance with Code of Ethics
  \end{itemize}
\end{itemize}

\textsuperscript{2} This tool was developed by Pakistan Microfinance Network (PMN), based on the Smart Campaign’s “Getting Started Questionnaire.” It was adapted to the PMN’s Code of Conduct.

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use the information generated from the compliance questionnaire. Data from the questionnaire will not only help PMN monitor compliance with the Code of Ethics, but will also help the Board and MFI members identify client protection weaknesses and prioritize activities to address these deficits. The compliance questionnaire will also help PMN and its member institutions track progress toward full compliance with the Code.

4. IMPLEMENTING A SYSTEM FOR REDRESS OF CLIENT GRIEVANCES

The final step in PMN’s consumer protection implementation strategy is the creation of an independent platform for the redress of client grievances—a mechanism by which clients can make complaints and register questions about their financial services. PMN will establish a call center for receiving client complaints so that clients can seek a fair resolution to their grievances. Additionally, the platform will help mitigate risk in the Pakistani microfinance industry by raising red flags on systemic problems among member MFIs.

When a client registers a grievance, a trained member of the PMN staff will work with the implicated MFI to investigate the complaint and compile a report for the Central Bank of Pakistan’s consumer protection department (for regulated MFIs) or PPAF (for non-bank MFIs). Decisions and follow-up actions will be the responsibility of the Central Bank and PPAF, respectively, as each of these agencies have existing means for handling client complaints. Additionally, PMN will work with member MFIs to build or strengthen their institutional mechanisms for collecting and addressing client grievances.

PMN will take advantage of existing systems—the consumer complaint departments of the Central Bank and PPAF—in order to avoid unnecessary duplication of work. Additionally, the system will prevent real or perceived conflict of interest by channeling problems through these neutral external agencies.

For additional information, contact Aban Haq at PMN: ahaq@pmn.org.pk

By: Aban Haq
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