

SEMINAR ON CAMBODIA'S MICROFINANCE AMID GLOBAL FINANCIAL CRISIS

MFI Client Protection



*By: Mr. Bora OmSeng
Board of Director, CMA*



MFI Client Protection

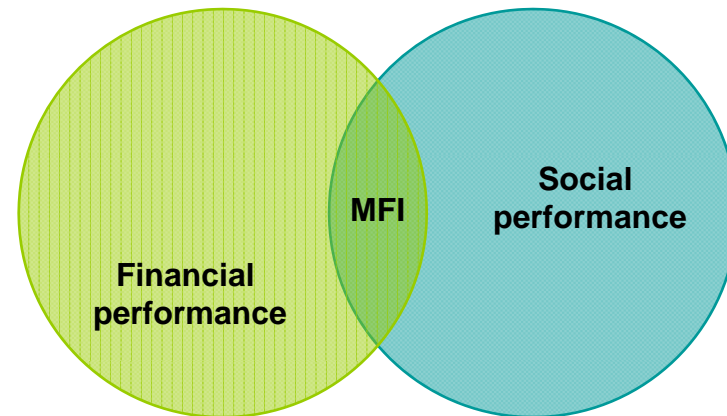


*By: Mr. Bora OmSeng
Board of Director, CMA*



Why Microfinance Exists?

- **Double bottom line:**
 - Financial objective
 - Social objective





What is Client Protection for Micro-finance?

Client protection for microfinance encompasses all the means necessary to:

- ✓ safeguard the interests of Clients
- ✓ and empower them to know their rights and make wise, educated decisions.



Client Protection Principles

- 1. Avoid Over-indebtedness***
- 2. Transparent Pricing***
- 3. Appropriate Collections Practices***
- 4. Ethical Staff Behavior***
- 5. Mechanisms for Complaints Handling and Resolution***
- 6. Privacy of Client Data***



1. Avoiding Over-indebtedness

Providers will take reasonable steps to ensure that:

- ✓ Credit will be extended only if borrowers have demonstrated an adequate ability to repay
- ✓ Loans will not put the borrowers at significant risk of over-indebtedness.
- ✓ Non-credit financial products (such as financial education) extended to low-income clients as appropriate.



1. Avoiding Over-indebtedness

- **A system in which:**
 - management is aware of the issue,
 - credit bureaus are consulted,
 - incentives emphasize portfolio quality at least as much as growth,
 - credit capacity is assessed conservatively,
 - products are flexible and appropriate,
 - oversight is carried out, and
 - cooperation from clients and local authorities.



2. Transparent Pricing

The pricing, terms and conditions of financial products (including interest charges, insurance premiums, all fees, etc.) will be transparent and will be adequately disclosed in a form understandable to clients.



2. Transparent Pricing

2a. Transparent Pricing

- ❖ Prices, terms, fees, and conditions are fully disclosed;
- ❖ management creates a culture of transparency,
- ❖ efforts are made to ensure client understanding of product terms,
- ❖ marketing is not misleading,
- ❖ contracts include payment schedule and complaints information.



2. Transparent Pricing

2b. Fair Pricing

- ❖ The institution is financially sustainable and does not receive subsidies,
- ❖ prices are transparent and competitive,
- ❖ passes the benefits of efficient operations on to customers,
- ❖ mutual long-term beneficial relationship.



3. Appropriate Collections Practices

Debt collection practices of providers will not be abusive or coercive.

- ❖ Organizational Code of Ethics for staff and agents,
- ❖ consequences explained prior to signing,
- ❖ no abusive or coercive practices,
- ❖ clients treated with dignity even in default,
- ❖ restructuring is done carefully,
- ❖ court proceedings respected,
- ❖ collections practices monitored by internal audit.



4. Ethical Staff behavior

- ❖ Staff of financial service providers will comply with high ethical standards in their interaction with microfinance clients
- ❖ Providers will ensure that adequate safeguards are in place to detect and correct corruption or mistreatment of clients



4. Ethical Staff behavior

- ❖ Organizational culture of ethics,
- ❖ Employees become certified in the Code,
- ❖ Ethics included in induction and training,
- ❖ Staff represent the institution with pride,
- ❖ Staff rules offer case examples,
- ❖ Ethics included in evaluations,
- ❖ Process for internal complaints and sanctions.



5. Mechanisms for Complaints Handling and Resolution

Providers will have in place timely and responsive mechanisms for complaints and problem resolution for their clients.

- ❖ A mechanism exists,
- ❖ Clients are informed of their right to complain and,
- ❖ How trained staff receive and channel complaints,
- ❖ Resolution is prompt,
- ❖ Oversight regularly
- ❖ Information used to improve products and services.



6. Privacy of Client Data

The privacy of individual client data will be respected, and such data cannot be used for other purposes without the express permission of the client



6. Privacy of Client Data

Privacy of Client Data

- ❖ Privacy policy in place,
- ❖ Staff trained on confidentiality and data security,
- ❖ Minimal information shared with third parties,
- ❖ Clients trained on how to safeguard their information.



Reflection of Client Protection in Cambodia

- Limited non-financial products such as financial literacy to clients
- Increasing trend of multiple loans in some areas (*over-indebtedness*)
- Reasonable level of *transparent pricing practice*
- Acceptable level of *collections practice*
- Acceptable level of *staff behavior practice*
- Acceptable mechanism for *complaint handling and resolution*
- Good treatment of clients' data privacy



Why Client Protection Important for Micro-finance in Cambodia?

- ✍ Clients benefit from microfinance industry in many ways:
 - ✓ *Increasing awareness of financial literacy which enables them to manage their money more wisely*
 - ✓ *Having access to better financial products & services, and protections.*
 - ✓ *Higher probability for clients' success*

- ✍ Long-term sustainability for MFIs: both social and financial objectives.

- ✍ Fair competition in microfinance industry



Recommendations for Client Protection in Cambodia

- ✍ Building awareness of importance of client protection among relevant stakeholders: microfinance practitioners, clients, regulators, investors, and support organizations.
- ✍ Incentives for MFIs to encourage applications of client protection.
- ✍ Monitoring and assessment tool of client protection to be in place and implemented.
- ✍ Reward system for client protection to be in place and implemented