



## **CLIENT PROTECTION CERTIFICATION**

*Report for The Small Enterprise Foundation (SEF)*

*Limpopo, South Africa*

*Certified December, 2019*

Mission Conducted by Micro-Credit Ratings International Ltd. (M-CRIL)

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*“Certified financial institutions have demonstrated their commitment and practice to treat the people they serve fairly. They contribute to a microfinance industry that prioritizes client care.”*

*- Isabelle Barrès, Director, the Smart Campaign*

This document was prepared by M-CRIL, an accredited certifier of the Smart Campaign’s Client Protection Certification Program. It contains excerpts of analysis from a certification mission conducted at SEF. SEF became client protection certified in December 2019.

Certification missions entail a streamlined desk review of institutional policies and procedures followed by an on-site due diligence visit that includes extensive staff interviews and focus group discussions with clients. The certifier looks for evidence of adherence to the [Client Protection Principles](#) as evidenced by meeting [standards](#) associated with each principle in institutional policies, procedures, systems, organizational culture and staff behavior. In order to become certified, an institution must meet all of the client protection standards. Only organizations that pass certification will be made public. Certification status is valid for up to four years, however after two years the organization must undergo a surveillance audit to check for continuing adherence to the standards.

This summary presents selected excerpts from the certification mission analysis, which in total covers 25 standards of care. The evidence presented is not exhaustive but rather meant to illustrate what the certification standards of care look like in practice and to highlight specific practices by this institution. We encourage readers to reference the [client protection standards](#) when reading this report. For more information about the certification program and a list of certified organizations please visit the Smart Campaign’s website <http://www.smartcampaign.org/certification>.

If you have any questions or concerns about this report please contact:

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## Selected Examples of Practices

### Client Protection Principle 1 – Appropriate Product Design and Delivery

- SEF offers both group and individual loans with first loan maximum ticket size of R 2,500.
- All Development Facilitators (DFs) undergo a total of 6 months of training which includes 2 weeks of classroom training, in order to prepare DFs to understand clients' requirements.
- Client satisfaction data is gathered annually; the reasons are presented to the management and to the board. Feedback gathered from the client is used in improving services.
- SEF has set a modest growth of under 15% per annum in term of number of clients.
- The incentive structure doesn't promote aggressive sales and comprises of two components namely portfolio quality and client retention rate.

### Client Protection Principle 2 – Prevention of Over-indebtedness

- SEF uses value of the client's business and ability to save each fortnight as proxies for determining the loan amount that can be extended to clients.
- Subsequent loans (second cycle onwards) can be a maximum of 1.4 times the current loan subject to conditions related to regular savings and business value. If clients are unable to save regularly (and fulfil other conditions), their subsequent loan size will be the same as the previous loan.
- Repayment capacity is refreshed at each loan cycle.
- Clients are permitted to repay their loans at any point during the loan tenure without any penalty. However, the subsequent loan can be taken only when the rest of the group members are through with their tenure. This process ensures that there is a cooling off period between loans.
- Analysis of all clients' businesses and repayment capacity is carried out by SEF staff and the same is discussed during centre meetings.
- Red flags are raised at the branch in case more than R 30,000 are in arrears or more than R 20,000 in arrears for 30 days or more. When 3 red flags are raised at a branch, it leads to a special audit.
- Monthly commissions paid to DFs are a function of portfolio quality (groups in arrears) and client retention.
- Annual incentives are dependent on operational performance (bad debts, number of clients), social performance (drop-out rate for all clients and poor clients, average savings per client and clients in a business) and overall organisational performance.

### Client Protection Principle 3 – Transparency

- The product details and related terms and conditions are communicated to the clients' multiple times by the staff prior to disbursement.
- All the essential terms and conditions are communicated to the clients through a loan application form (doubles up as contract) and a loan card which cover all the key facts associated with the loan.
- Clients have five business days to review the loan agreement and the terms and conditions associated with it.
- All information that can help potential clients be a part of SEF is provided to them during the pre group formation meetings as well as during the group training.
- Auditors during its regular audits of branches checks for completeness of the loan card, matches the balances on loan card with bank passbook and availability of client protection cards with all members.

## Selected Examples of Practices

### Client Protection Principle 4 – Responsible Pricing

- The interest rate pricing practices of SEF are responsible and in line with the National Credit Act. Interest rate charged is 32.5% per annum (declining). The NCA prescribes a cap of Repo Rate + 27% per annum which is 34%.
- Loan interest (including arrear interest) stops accruing only after 30 days of arrear.
- SEF doesn't charge any prepayment penalty from the client.
- Key performance indicators - Loan Loss Expense Ratio (LLER), Operating Expense Ratio (OER) and Return on Assets (ROA) are reasonable given its legal structure and operating environment.

### Client Protection Principle 5 - Fair and Respectful Treatment of Clients

- SEF's Code of Ethics is designed to ensure fair and respectful treatment of SEF's clients by its staff. It outlines and defines the values that it expects its staff to uphold and the behaviour to display while interacting with clients.
- All staffs sign a declaration undertaking to abide by all contents of the CoC.
- The policies in the Human Resource manual do reinforce the standards identified in the Code of Ethics.
- Performance evaluation of staff includes evaluating adherence to areas such as client service and culture.
- SEF considers rescheduling the loan of a client in case the client is suffering from an extreme or long-term illness. Furthermore, loans are also written off in case of a client's death.
- The Social Survey Officers (SSO) telephonically administer a survey to a minimum of 20-30 clients every trimester to evaluate the "Client Service Score". This survey helps gather responses from clients on whether they were treated in a fair and respectful manner.
- Under no circumstances, collateral is taken from the client.

### Client Protection Principle 6 – Privacy of Client Data

- According to Privacy of Client Data Policy, there are penalties for exposing client data to the third party.
- According to their position within the organisation and their specific work-related needs, SEF personnel are given access to various data resources. When a personnel leaves the organisation, an exit checklist is followed to ensure that those users' access rights have been fully revoked.
- Physical files of clients are indexed and stored in a warehouse (managed by a third-party vendor) while electronic data is encrypted and protected from theft through various IT security measures in place.
- Back up of client data is taken every 15-30 minutes and synced. These back ups are stored on magnetic tapes.

### Client Protection Principle 7 – Mechanisms for Complaint Resolution

- Clients have the option of calling the dedicated customer care number to register a complaint. This service is managed from the head office.
- A service standard of seven days is defined to resolve all complaints. There is a well defined escalation matrix with three levels of escalation which indicates which type of complaint needs to be escalated to whom.

## **Selected Examples of Practices**

- After clients have registered a complaint with the customer care support, the Customer Support Operators (CSOs) are expected to call them within 24 hours and provide them with an update of what has been achieved until then.
- Feedback from clients is routinely gathered using multiple channels. On the basis of this feedback, following changes have been effected in the recent past namely monthly repayment pilot, larger loans programme, individual liability programme, goal card programme and financial education programme.