

SPTF Social Investor Working Group September 9, 2020

Overview

Visit the Social Investor Working Group's [webpage](#) to find minutes from other SIWG meetings and details for our next call. Email Katie Hoffmann at katiehoffmann@sptfnetwork.org with any questions.

General announcements

- Anna Kanze's term as SIWG co-chair is ending, and SPTF will hold elections soon to fill her seat.
 - SPTF wholeheartedly thanks Anna for her work on the SIWG and on its Board of Directors.
 - The newly elected representative will serve as one of two social investor representatives on the SPTF Board of Directors and as the co-chair of the SIWG. The term is for two years, with the option to renew for an additional one to two years.
 - If you're interested in being a candidate for election, please email Jurgen Hammer at jurgenhammer@sptfnetwork.org
- SPTF paused membership renewals at the start of COVID, but it will resume them in the coming weeks. Visit our [membership page](#) for more information.

Future of client protection products considering Smart Campaign closure

- Top takeaways from investor feedback in past webinars and conversations:
 - Investors see continued need for standalone client protection (CP) evaluation products.
 - It is important that rating agencies' products be aligned and comparable.
 - Grading scales are preferable to a system of pass/fail; the latter provide a barrier to some FSPs.
 - CP endorsers should be required to periodically publish self-assessments.
 - Investors value the external verification involved with certification and external Smart assessments.
- SPTF has spoken with MicroFinanza Rating, Inclusion, MicroRate, M-CRIL and M2i about their plans for CP products. Overall, they:
 - See opportunities to provide flexible, market-driven CP products under their own brands.
 - Have mixed opinions on if there is a market for certification. They want to offer CP ratings regardless.
 - Are interested in aligning products with other raters through SPTF as a neutral coordinating body. SPTF and CERISE will organize a Rating Working Group to continue these discussions.
- On **client protection endorsement**. *Should endorsement require a self-assessment? If yes, how often should the self-assessment be updated to maintain the endorsement?*
 - Meeting poll: Participants generally agreed that endorsers should publish a self-assessment and that the assessment should be renewed approximately every 18 months to two years.
 - Several investors emphasized that a self-assessment would add credibility to an endorsement.
 - The self-assessments should be visible to the public, not only to SPTF, CERISE and investors.
 - SPTF should publish a list of endorsers – with or without self-assessment – on a webpage online.
 - Some investors noted the benefits of a more gradual pathway: endorsement first, then self-assessment within a specific timeframe. We do not want to discourage endorsement. The self-assessment could be light/accessible (5-10 indicators) and be able to be adapted to the FSP.
 - A logo/brand for endorsement (similar to what Smart Campaign had) could incentivize FSPs. Many were motivated by the benefits of being associated with the Smart brand. Logo could be available only to those who do self-assessment.
- On **client protection certification**. *Do you prefer a grading scale for CP products instead of pass/fail?*
 - Meeting poll: Investors almost unanimously agreed that a grading scale is preferable to pass/fail.
 - Pass/fail created too high a bar and discouraged many FSPs, which was one of the reasons for a lack of a market for certification (along with a lack of incentives and the cost/time involved).
 - From an investor perspective, it would be helpful if grades specify which of the CP criteria an FSP doesn't adhere to and why.
 - Each Client Protection Principle is important, and it will be important to make sure grading doesn't allow FSPs to "cherry pick" among them. There should be a minimum standard required on every principle to get a certain grade level. Otherwise, averaging could allow some FSPs to still get a decent grade if they're heavily focusing on some principles but completely ignoring others.

- A move to grading from pass/fail will mean there need to be incentives for FSPs to keep improving.
- **On client protection vs. social performance.** *Should client protection evaluations only focus on client protection, or should they also include other elements, such as governance?*
 - Meeting poll: Investors were mixed on whether CP evaluations should include additional elements. Those who thought they should include other elements listed governance and risk criteria as examples.
 - Some noted that combining elements with the CP evaluation could lead to cost savings, as well as a more robust assessment.
 - Some noted that CP evaluations could include risk criteria, so it becomes a “do no harm” rating. It could also be an ESG rating, which would be more appealing to mainstream institutions.
 - Others cautioned that adding elements to a CP evaluation could overlap too much with the SPI Online.

Update from the reasonable covenants sub-group

- Earlier this year, several investors indicated it would be helpful to align on covenants regarding COVID. SIWG formed a sub-group to draft guidelines based on the [reasonable covenants document created in 2016](#).
- The sub-group did not aim to redefine the covenants themselves, as they are already accepted by the industry; instead, it looked to provide more clarity on how COVID was affecting rescheduling and restructuring, how to manage breaches, and how to responsibly monitor and collect data. It also aimed to provide tools and resources for forecasting and stress testing.
- The sub-group has published a draft, which is available [here](#).
 - The draft is meant to be a working document. It is being shared with the wider SIWG for feedback and buy-in, as well as with other groups, such as the MIV9.
 - The document is meant to provide suggestions or guidelines that can help in discussions with investees. There are many reasons for exceptions, but this will ideally provide common ground and simplify the process of reporting and quality checks with respect to these covenants.
 - Please send any feedback on the draft to Anna Kanze at akanze@grassrootscap.com within the next two weeks. The sub-group will aim to finalize the document by the next SIWG monthly call.

Updates on the COVID-19 Client Interview Tool

- There are 37 financial service providers in 28 countries using the [Client Interview Tool](#) to understand the differences among their clients and make informed decisions on how to assist their clients during the pandemic.
- SPTF has been hosting a [webinar series](#) with users of the tool to discuss insights gained from the data and how FSPs are using that to respond to clients' needs during COVID.
- SPTF will conduct virtual roundtables in October (for FSPs who are using the tool) and November (for investors use the tool or are interested in using it). More details will be announced soon.