

THE CLIENT PROTECTION PATHWAY

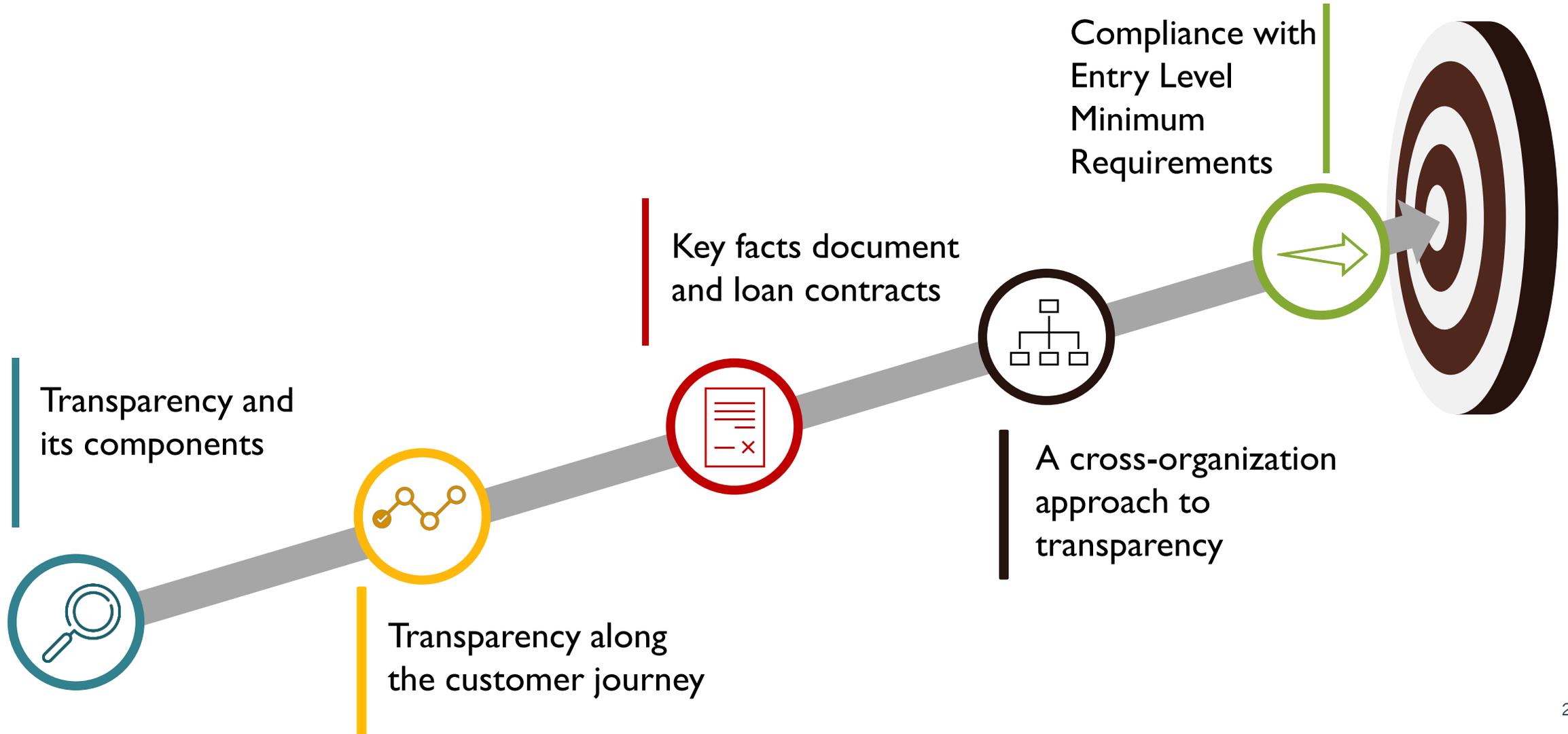
ENSURING TRANSPARENCY

IMPLEMENTATION SERIES 3

 cerise + SPTF



Our Goals



THE CLIENT PROTECTION PATHWAY

ENSURING TRANSPARENCY

TRANSPARENCY AND ITS COMPONENTS



What is 'Transparency'



Transparency in business is **the basis for trust** between a **firm and its investors, customers, partners, and employees.**



TRUST is a key factor in **product uptake** and importantly, **customer engagement.**

We often think of transparency in financial services as communicating terms and conditions

We need to go beyond – and look at how transparency can create trust

What the date* tells us



5 transparency and disclosure related aspects that most organization need to improve relate to



A key facts document



Information on the insurance claims process



Information on loan contracts



Communication on the cost to client



Insurance information at the time of enrollment

*Review of client protection certification organizations

Defining 'Transparency' in financial services



Providers will communicate clear, sufficient and timely information in a manner and language clients can understand so that clients can make informed decisions.

Transparency in practice



There are 2 sides to the transparency coin:

- Disclosure of relevant information
- Ensuring that information is disclosed in a manner that allows the customer to understand it

Transparency is a prerequisite for a responsible price!

KEY COMPONENTS

- ◇ Use clear language
- ◇ Provide complete information on costs as well as terms and conditions
- ◇ Offer communications at the right time e.g., **BEFORE** the client has to sign anything
- ◇ Inform clients of relationships with third parties
- ◇ Inform clients of their rights
- ◇ **CONFIRM CLIENT UNDERSTANDING**

General principles of communication to clients



What

- Clients must receive complete **information about costs and terms** of all products, including bundled and/or obligatory ones.
- Information should be **comparable** and legible to clients given their language and literacy, and permit them to make an informed decision.

When

- Contractual information must be provided **proactively** to the client **before** any commitment is made e.g. signing.
- The customer must have **sufficient time to review** information before signing.
- It is the institution's responsibility to ensure the client's **full understanding**.

How

- **The staff is trained** to convey information clearly and thoroughly and ensure customer understanding.
- Information is provided:
 - *Orally and in writing*
 - *Through various channels – at least two are required*
 - *In the public domain and readily available*

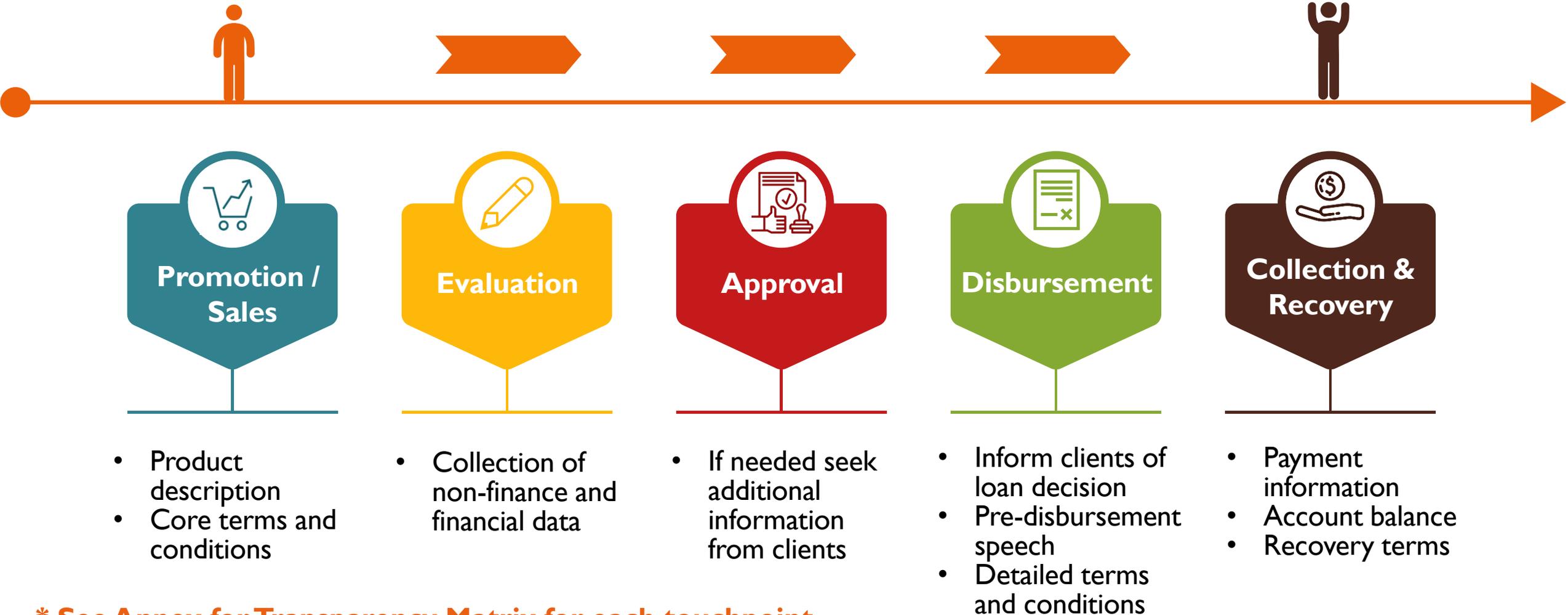
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ENSURING TRANSPARENCY

TRANSPARENCY ALONG THE
CUSTOMER JOURNEY



Credit customer's journey – Provider touchpoints *



* See Annex for Transparency Matrix for each touchpoint

Transparency policies and processes for Loan products



Information to disclose	Information format	Timing of disclosure	Other considerations
<ul style="list-style-type: none"> • Total loan amount • Pricing, including all fees • Total cost of credit • Disbursement date • Loan term • Repayment schedule • Other information 	<p>Key Facts Document - summary document that highlights key product information</p> <p>(Not a contract – which also must be provided)</p>	<p>Prior to:</p> <ul style="list-style-type: none"> • Client signing the initial loan contract • Loan renewal 	<p>Upon signing:</p> <ul style="list-style-type: none"> • provide clients with a signed copy of contract with no blank spaces. • This applies to group products as well as individual

- Grace period
- Penalties for arrears or prepayment
- Compulsory savings
- Bundled products
- Member or guarantor obligations (if any)

- Collateral requirement and collateral seizing procedures
- Restrictions on loan use
- Cooling off periods
- Cancellation rights
- Consequences of late payment and default

A note about the evaluation stage



Important to note that

- This evaluation step is for gathering and verifying client financial and non-financial data.

But it can also be a critical step for engagement with clients:

- On more specific product terms and conditions
- On over-indebtedness prevention

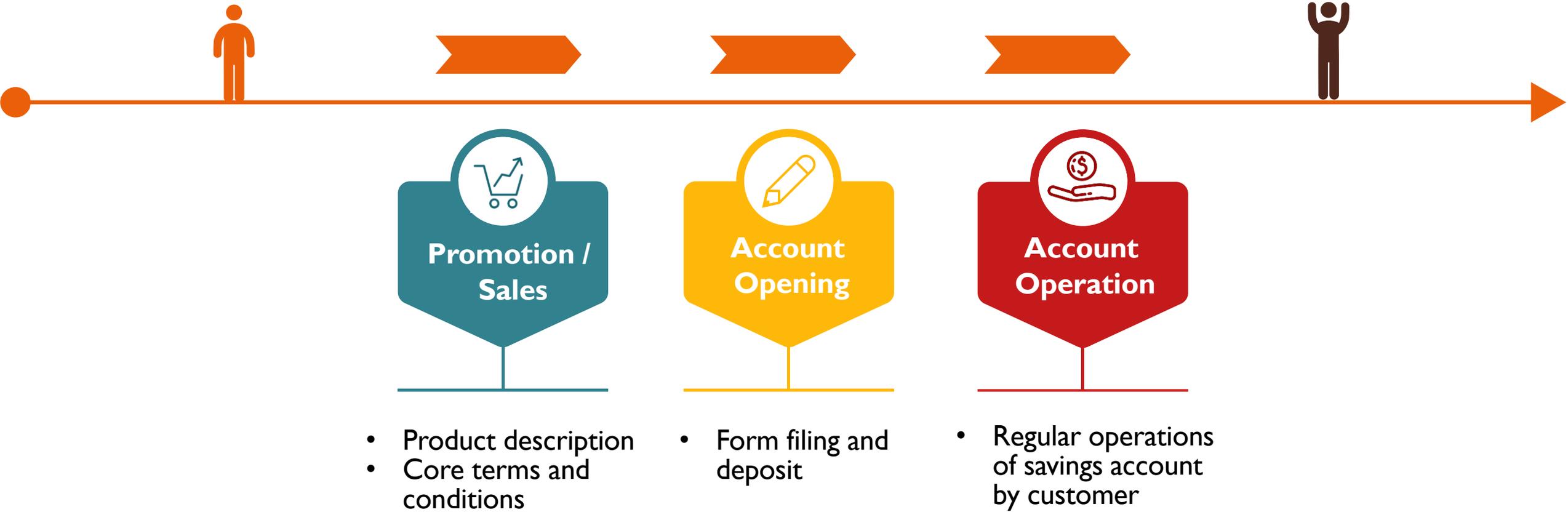
Transparency runs both ways – FSPs must be transparent – client must also be transparent

Reminder and recap is an important part of this step



(In ALL the steps in fact)

Saving customer's journey – Provider touchpoints *



* See Annex for Transparency Matrix for each touchpoint

Transparency policies and processes for savings products



Information to disclose	Information format	Timing of disclosure	Other considerations
<ul style="list-style-type: none">• Fees• Interest rate and how amounts will be calculated• Minimum and maximum balances• Withdrawal limits • Other limits/conditions to accessing savings• Whether/how savings will be used in case of loan default	<p>Written document:</p> <ul style="list-style-type: none">• Often term and condition sheet	<p>Prior to:</p> <ul style="list-style-type: none">• Depositing the money	<p>Make the same effort to educate clients about the savings products, whether they are sold as voluntary, mandatory, or bundled.</p>

Insurance customer's journey – Provider touchpoints *



- Product description
- Core terms and conditions



- Form filing
- Premium payment
- Policy certification generation



- Claims filing
- Claims settlement

* See Annex for Transparency Matrix for each touchpoint

Transparency policies and processes for insurance products



Information to disclose	Information format	Timing of disclosure	Other considerations
<ul style="list-style-type: none"> • Premium • Events covered • Individuals covered • Amount and term of coverage • When and how to file a claim 	<p>Written document:</p> <ul style="list-style-type: none"> • Policy certificate 	<p>Prior to:</p> <ul style="list-style-type: none"> • Prior to enrolment in the insurance plan • Upon renewal. 	<p>Make the same effort to educate clients about the insurance products, whether they are sold as voluntary, mandatory, or bundled. Also explain to clients the importance of informing beneficiaries of their coverage under the client's insurance products</p>
<ul style="list-style-type: none"> • Required documentation to prove damage • Any major exclusions • Terms related to cancellation and prepayment • Cancellation rights 	<p>After signing. Provide all information in writing or verbally, before signing.</p>	<p>When a client initiates a claim, provide information on prospective benefits</p>	

Payment/Transfer customer's journey – Provider touchpoints *



- Product description
- Core terms and conditions



- Collection of non-finance and financial data



- Information from and to receiver

* See Annex for Transparency Matrix for each touchpoint

Transparency policies and processes for payment/transfer products



Information to disclose	Information format	Timing of disclosure
<ul style="list-style-type: none">• Amount paid by sender in their currency• Estimated exchange rate• Amount to be received in the destination currency• Fees and taxes• Instructions for collecting money• Cancellation conditions• Instructions for resolving errors• Transaction confirmation	Written document	<p>Prior to transfer:</p> <ul style="list-style-type: none">• All information before initiating a transaction. <p>Immediate:</p> <ul style="list-style-type: none">• Transaction confirmation immediately following a transaction

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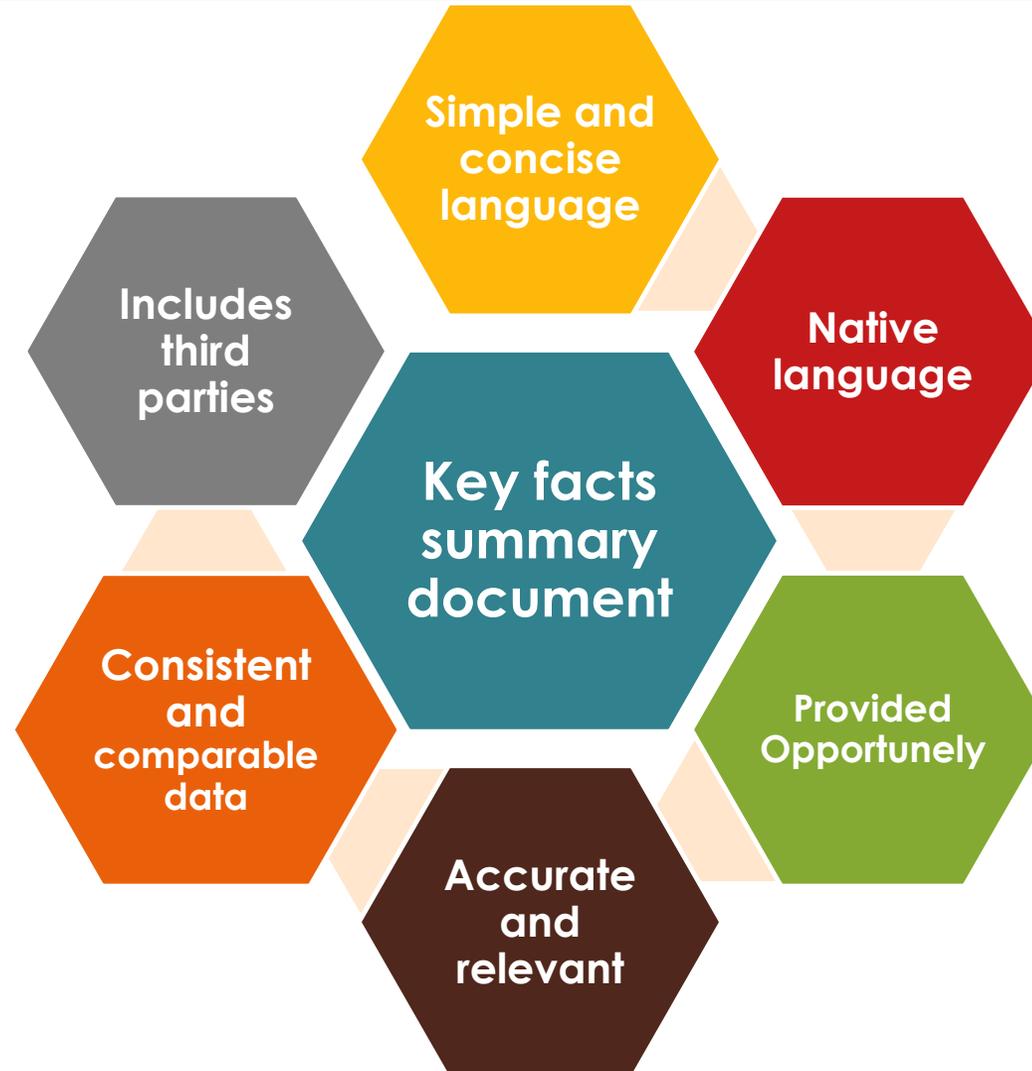
KEY FACTS DOCUMENT AND LOAN CONTRACTS



Key Facts Document



- **It is a summary documents that captures the most important terms and conditions (T&C).**
- **It provides an easy reference of the T&C**



Our goal should be...



Can an FSPs clients confirm this?



I can easily understand the interest rate and compare it with other institutions.



I know the amounts of my fees and when the payments are due.



I've never had unexpected costs: late fees, prepayment fees or active account fees, changes in my interest rate or in the terms of the loan.



The institution has explained my responsibilities for delinquent group members.



I can easily find out the amount of my outstanding debt and my savings account balance.



I always have the opportunity to ask questions during my interactions with the institution.

Sample Key Facts Document (I/IV)



Our simple key facts document has three sections:

Client information and basic loan conditions | **Proposed loan cash flow and costs** | **Risks and general terms**

Client information and basic loan conditions

KEY FACTS DOCUMENT

Bank:	InCash Nigeria
Branch:	Kafe District
Address:	Park Street 123, Abuja
Telephone:	01 55 66 77 99
Loan Officer:	Mercy
Product	Working Capital Loan

Client Information

Name:	Salif Keita
Address:	Cloud Street 999, Abuja
Telephone:	01 99 88 77 66
ID Number:	9,88,76,543

Payment conditions

Disbursement Date:	1-Jan-20
Maturity Date:	1-Sep-20
Installments :	161\$
Grace period:	1 month principal

Loan conditions

Loan Amount in \$:	1,000
Loan duration	8 months
Nominal interest rate	1.5% / mth
Disbursement Fee:	3%

244 Days

FLAT

of loan amount

VAT on interests:	20%
Insurance:	0.05%
Security Deposit:	10%
Fees are upfront or deducted	Deducted

monthly - on loan balance

deducted from loan

Sample Key Facts Document (II/IV)



Proposed loan cash flow and costs

Period	Date	Disbursement	Principle Repayment	Loan Balance	Interest Repayment	Fees	Insurance	Taxes on fees or interest	Security Deposit	Payments due by client (incl. security dep)	Client's Cash-flow	Description
0	1-Jan-20	1,000.00	-	1,000.00	-	30.00	-	-	100.00	130	870	Disbursement
1	1-Feb-20	-	-	1,000.00	15.00	-	0.50	3.00	-	19	(19)	Installment 1
2	1-Mar-20	-	142.86	857.14	15.00	-	0.43	3.00	-	161	(161)	Installment 2
3	1-Apr-20	-	142.86	714.29	15.00	-	0.36	3.00	-	161	(161)	Installment 3
4	1-May-20	-	142.86	571.43	15.00	-	0.29	3.00	-	161	(161)	Installment 4
5	1-Jun-20	-	142.86	428.57	15.00	-	0.21	3.00	-	161	(161)	Installment 5
6	1-Jul-20	-	142.86	285.71	15.00	-	0.14	3.00	-	161	(161)	Installment 6
7	1-Aug-20	-	142.86	142.86	15.00	-	0.07	3.00	-	161	(161)	Installment 7
8	1-Sep-20	-	142.86	0.00	15.00	-	-	3.00	-100.00	61	(61)	Installment 8
TOTAL		1,000.00	1,000.00		120.00	30.00	2.00	24.00	100.00	1,176.00	-176.00	

APR is clearly mentioned

Total cost in absolute terms

Annual Percentage Rate (APR):	48.5%
Total Interest Paid:	120
Total Fees Paid:	30
Total Insurance Paid:	2
Total Taxes Paid:	24
Total Cost of Credit:	176

The APR indicates the cost for you to borrow 100 for one year. In this case, it would cost you 48.5\$ to borrow 100\$ and keep the entire 100\$ for one full year. The APR is an essential figure for you to compare the true cost of different loans.

The Total Cost of Credit is the total amount you pay for your loans. It is calculated by adding all costs you will need to pay over the period of the loan. Note that this is based on the terms defined above, and assumes that your installments shall be paid in time. Please remember that you will also have to pay back the sum you borrowed.

Detailed Cash flow is provided

Explanation of total costs

Sample Key Facts Document (III/IV)



Risks and general terms

For questions or complaints, call customer service at: 0800 123 456

Risks:

- ◇ If you delay repaying by more than 10 days, you will be charged 10\$ every 10d
- ◇ If you fail to repay your loan, you can lose your security deposit
- ◇ Failure to repay can harm your chances of accessing loans in the future
- ◇ In case of default, you will have to cover the costs of loan recovery

Signature of the client

Date

Further points to consider:

- ◇ Your data will be shared with the Credit Bureau and Tranquilo Insurance Ltd
- ◇ You have up to 5 days after signature to change your mind and pay back only loan
- ◇ You are entitled to prepay your loan after reaching the 2/3 of the loan term.
- ◇ InCash will keep your data confidential, secure and accessible to you

Signature of the branch manager:

What is included here:

1. Penalty
2. Collateral/security conditions
3. Data sharing
4. Cancellation rights
4. Loan pre-closure/pre-payment

Sample Key Facts Document (IV/IV)



Additional facts to include

Savings (if bundled)

1. Type
2. Withdrawal conditions
3. Whether applied to loan repayment
(regular repayment/bad debts)
4. Auto deduction conditions

Insurance (if bundled)

1. Policy number
2. Type (life/health)
3. Who to contact for claims

Use of agents

1. Names of partner agents
2. Fees/commission charged

Loan Contracts



Loan Contracts should provide details of all the Key Facts Documents + following information

Insurance

- Insurance company
- Type of insurance
e.g., life, general, health)
- Policy number
- Applicable duration
- Insured amount
- Premium and how is it paid
(monthly, upfront)
- Beneficiary names and
relationship
- Who to contact for claims



Savings

- Type of product
- Interest rate
- Withdrawal conditions and fees
- Closure conditions and fees
- Account maintenance
conditions and fees
- Renewal conditions (e.g., auto
renewal)
- Tax applicable
- Interest after tax
- Whether insured by govt.



Rights and
responsibilities of all
parties

Grounds for contract
termination

Insurance and savings may not be bundled, if sold separately, policy documents/T&C sheets should contain these details

Loan pricing transparency



Most commonly found on contracts and repayment schedules



Interest

Fees

- All these make up the total cost for the customer and should be clearly explained to the client prior to disbursement
- How this is communicated is very important. It should be in a manner and language clients can understand

These costs all need to be in contracts and repayment schedules



Insurance

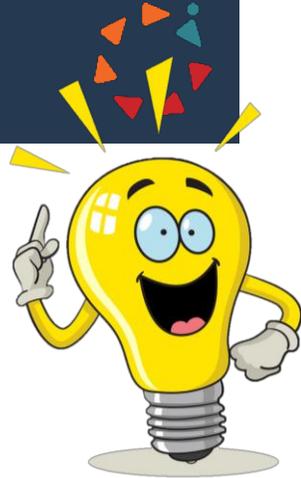
Security deposit

Commission/Other Fees

Tax

Loan rescheduling is more common now in response to COVID-19. This increases costs for clients. How it increases costs and by how much is essential to explain

Resources for you



1. The Universal standards for Social Performance Management: [Implementation Guide](#)
 - Dimension 4 Standard 4B: Page 141 to 147
2. www.sptf.info:
 - a) Access the **resources page** for 4B - <https://sptf.info/dimension-4/standard-4b>
 - b) Under the tools and template section of the page:
 - Transparency in Promotions and Sales: A Checklist for Financial Service Providers
 - Essential Documents for New Clients
 - Sample of loan agreement and loan contract summary
3. Resource on pricing: <https://cerise-spm.org/en/spi4/resources-spi4/apr-resources/>
 - Key concepts and definition
 - APR estimation tool (with tutorial)

THE CLIENT PROTECTION PATHWAY

ENSURING TRANSPARENCY

A CROSS-ORGANIZATION APPROACH TO
TRANSPARENCY



Responsibility across many departments of an FSP



Operations

- Ensuring appropriate and timely disclosures
- Avoiding aggressive sales

Board/Governance

- Monitoring implementation of practice

Complaints Handling

- Managing complaints related to incorrect or insufficient information
- Inquires are an opportunity to provide more information to clients

Training

- Support operations to train staff on what, how and when to communicate with clients

Internal Audit

- Monitoring the implementation of policy and practices,
- Including checking on client awareness/understanding via client interviews



Ensuring timely disclosures

- Performs the critical function of communicating the key messages to customers along various touchpoints



Avoiding aggressive sales

- Provide customer at least one day for review of terms and conditions prior to sales.
- Avoid product bundling or be transparent on bundling of products (e.g. loans+insurance)
- Declare total cost of credit to clients so they are able to 'shop' around and compare
- Ensure that they provide information on customer's 'right of refusal' prior to sale.
- Options and process for filing complaints



Inform client prior to making changes to products

- Inform clients before making changes to the terms and conditions specified in their contracts – e.g., if the interest rate paid on savings changes, before insurance policy expires, so that they have the opportunity to renew the policy.



Client interviews should cover customer knowledge/awareness/understanding of:

Loans

- Basic product terms
- Documents to clients,
- Pre-closure/payment,
- Collateral,
- Bad debts management and expected staff behavior

Savings

- Which product
- Basic product terms
- Documents to clients
- Withdrawal options
- Account closure

Insurance

- Benefits
- Duration
- Premium details
- Claims process
- Document to clients

Complaint (channels available, contact information)

Remember: Its not possible to expect clients to remember all the information, but they should know where they can get the information if they need to.

Board, Training, Complaints Handling



It is important that the findings of the IA are acted on:

- Audit findings should be reported to the **board and senior management** periodically.
 - Board should provide direction on course correction needed
 - Board should also review whether past audit findings are acted on and progress on areas identified for improvement.
- Course correction will need training inputs. The role of the **training department**, along with operations, in ensuring that client level transparency is therefore central to effective practice.
 - Design the training using provider touch points as the base.
- Also critical is **complaint handling**
 - Complaints related to the insufficient/inaccurate information should be tracked and reported to management and board periodically.

...Also, when using digital channels and payment agents (I/II)



FSPs using digital channels must ensure

- Potential clients are given **a channel to contact an FSP representative** (call center number, chat, agent shop, provider branch etc.) after being shown the terms and conditions.
- The client has an opportunity to **decline the product and opt-out options** are provided
- **Key Facts and loan contract** are saved in a client account that the client can easily **access anytime**.
- Automatic **product renewal and deductions** should require **informing clients in advance**.
- Transaction records need to be in a form the client can keep or access, such as a **digital transaction history**
- Digital **user-interface is clear and simple, providing step-by-step instructions** in local language
- Provide digital channel users with instructions in simple language on how to **use the technology safely**; provide training, explanations, troubleshooting and/or assistance to first time users and any user having difficulties understanding the service functionalities



Remember - digital skills are essential. So, assess and design for the digital skills of your clients.

...Also, when using digital channels and payment agents (II/II)



FSPs using agents must ensures

- **Agents fully disclose** terms, conditions, and pricing information to customers in a manner and language that they can easily understand using a variety of disclosure mechanisms (e.g., posters at agents' locations and oral explanations)
- **Product disclosures** should contain, the elements included in the loan agreement, e-money agreement, transfer and payment conditions.
- Information should be made available **prior to the loan agreement or transfers/payments.**
- Ensure that **agent documents for clients** lists all fees, terms, taxes, and cancellation conditions

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ENSURING TRANSPARENCY

ENTRY LEVEL REQUIREMENTS



Compliance with CPs – entry level - minimum requirements



There are 10 entry-level requirements

- The provider gives a **Key Facts Summary Document** to borrowers before they sign a contract. The document contains the following information:
 - Total loan amount
 - Pricing, including all fees
 - Total cost of credit--all principal, interest, and fees plus cash collateral
 - Disbursement date and loan term
 - Repayment schedule with principal and interest amounts, number, and due dates of all repayment instalments
 - Deductions of first payment from principal and fees, if applicable
 - How cash collateral / mandatory savings can be used in case of default, if applicable
 - Moratorium interest rates, terms, and conditions, if applicable
- **Loan contracts** are available in the major local languages.
- If the provider offers **savings**, documentation includes the following:
 - Fees--including closure fees
 - Interest rate and how amounts will be calculated
 - Minimum and maximum balance requirements
 - Whether deposits are governmentally insured

Compliance with CPs – entry level - minimum requirements



There are 10 entry-level requirements

- If the provider offers **insurance**, it gives clients the following information at the time of enrolment:
 - A certificate of coverage which states, at minimum, the premium, amount and term of coverage, who are the beneficiaries, which events are covered, any major exclusions, and when and how to file a claim
 - An explanation of the documentation required to prove damage, if applicable
 - Terms related to cancellation and prepayment, if applicable
- The provider's **communications** are in simple and local language; oral information is used for less literate clients.
- The provider gives clients the **opportunity to review** the terms and conditions of products.
- The provider offers a channel for clients to ask **questions and receive additional information** prior to signing contracts.
- The provider gives clients a completed, signed copy of the **contract** and makes the contract **accessible anytime** in an online account or in physical form.
- Providing **receipts**, on paper or electronically, for every transaction.
- If loan repayments are automatically debited from a client account, the provider sends clients a **loan repayment reminder** at least one day before loan repayments are due.



THANK YOU