

# Before we get started

## Connecting to audio

- Select “Audio” in the upper left-hand corner.
- Select “Audio connection” from the dropdown menu.

## Muting yourself

- All participants have been muted upon joining.
- To unmute, click the red microphone icon to the right of your name.
- When you’re not speaking, please keep yourself on mute to minimize background noise.

## Chat your questions

- The chat box is located on the bottom right side of your screen.
- You can send your comments and questions to everyone or send them directly to Social Performance Task Force.

## Recording and minutes

- The session is being recorded. The recording and minutes will be available on <https://sptf.info/working-groups/investors>.

# SPTF Social Investor Working Group



*January 20, 2021*

# Discussion Agenda

**16:30 – 16:35** Introduction

**16:35 – 17:20** Finalizing investor input for client protection pathway

- Overview of market consultation
- Updates from FSP survey
- Finalizing investor input on minimum requirements
- Next steps and timeline for client protection pathway

**17:20 – 17:30** Next steps for Client Interview Tool discussions

# Overview of market consultation for CP pathway

SPTF and CERISE have gathered feedback by:

- Leading the **Client Protection Evaluation Working Group (CPEWG)**, which is composed of the former certifying bodies accredited by Smart Campaign.
- Holding monthly updates with the **Social Investor Working Group**, as well as weekly discussions with an investor sub-group focused on client protection.
- **Surveying financial service providers and MFIs** to gather their input on the CP pathway

# Results of market consultation (1/3)

## Commitment to Implement (replacing “endorsement”)

*Concept:* Should be accessible but still demonstrate that FSPs strive for a certain level of practice

### Step 1 - “Commitment”

- The FSP commits to implement the CP Standards in the Universal standards for SPM.
- Its name is published on SPTF’s website, as “pending disclosure on Client Protection Standards.”

### Step 2 - “Disclosure”

- Within 6 months, the FSP submits a disclosure on its CP practices
  - Recommended format: ALINUS questionnaire (subset on CP) through SPI Online.
  - Other options: Smart Campaign Getting Started Questionnaire; other structured reporting on the status of CP practices (e.g., CoCA in India).
- The FSP is required to post the disclosure on its website and send link to SPTF, which will add it to its website.
- The FSP updates this disclosure at least every 18 months to 2 years.
- If the FSP undergoes major changes (e.g., mergers, acquisitions, disposals, and/or changes in product lines and/or consumer segments), it will update its CP disclosure.
- If FSPs do not submit disclosures along this timeline, their name will be removed from SPTF website. (Reminders to submit disclosure will take place before this happens)

### Step 3- “External verification”

- If the FSP conducts an (external) CPP assessment, SPI audit, social rating, or certification, it can submit them to SPTF to post on its website. This step is not mandatory.

# Results of market consultation (2/3)

## Certification

- Certification will have three levels, depending on the percentage of compliance with CP indicators.
- Maximum level will require 95% compliance (tbc), to cater for regional specificities or business models that do not allow an FSP to comply with 100% of indicators
- All levels of certification will require compliance with a subset of minimum requirement indicators (or “must-have” indicators):
  - The minimum requirements should be achievable to FSPs of all levels of maturity, status, or country, and be representative of the non-negotiable practices that are required before receiving funding from a lender.
  - The Client Protection Evaluation Working Group proposed a list of 44 indicators. Investors proposed more indicators.
  - Still debating the “often failed, yet essential” indicators.
  - At least one indicator on responsible pricing will be in the minimum requirements.

# Results of market consultation (3/3)

## Seal of approval

- Rating agencies and investors want SPTF/CERISE to validate certifiers (“Seal of Approval”)
- Clear consensus for the Seal to validate the FRAMEWORK
- Debate on whether the Seal should also validate certifiers’ EXPERTISE. (needed > 46 – nice to have > 41)
- Elements of “expertise” considered most important for Seal :
  - Staff skills
  - Experience in providing the service
  - Quality controls
  - Independence

# Market consultation - FSP survey

- To date, we received 61 responses (CERISE sent around 140 emails & investors relayed our survey)
  - A majority of the respondents have gone through certification (67%) and 43% have an active certification
- 6 questions to confirm agreement with our proposals on:
  - Commitment to implement > large majority agrees
  - The need for a certification product > large majority agrees
  - Working with accredited rating agencies > also
  - Moving to a tiered scoring system > 11 disagree
  - Validity to 3 years > most disagreements mention the cost
  - Helps attract investments > agreement but interesting comments

# Finalizing minimum requirement indicators

- 5 sets of answers from investors on all indicators
  - 3 additional answers from investors on the “prevention of over-indebtedness”
  - Test of selected indicators on 56 input sheets of FSP prior to certification
- 
- Investors were aligned with the CPEWG on 31 out of 44 indicators, including 13 which are relatively hard to achieve (most of them are ALINUS) which are:
    - Fair Collateral requirements and fair collateral seizing procedures
    - Maximum percentage of income
    - Key Facts Documents > this indicator requires a long detailed list of elements, including **APR/EIR** which is what usually FSPs fail
    - Signed copy of contracts given to clients
    - Interest stops accruing after 180 days
    - Code of Conduct & non discrimination policy
    - Definition of appropriate and non-appropriate practices in collections
    - Clear contracts on privacy aspects (confidentiality, sharing with third-parties)
    - Information on complaint process given to clients



# Finalizing minimum requirement indicators

A few indicators are still up for debate, particularly because hard to achieve

## CPP1 -



The provider conducts satisfaction surveys or other systematic means of gathering feedback on client satisfaction with products, services, and delivery channels, **at least annually**.

**OR / AND**



The provider analyzes product usage by client characteristic and investigates the reasons for dormancy, drop-out and cancellation.

→ *Both chosen by CPEWG in order to have some indicators on client feedback (Reminder of the standard > The provider monitors the suitability of products, services and delivery channels.)*

## CPP1 -



The provider defines "aggressive sales" and levels that trigger additional monitoring.

**OR / AND**



The provider's incentive/ bonus structure does not promote aggressive sales.

→ *The concept of aggressive sales is hard to grasp*

# Finalizing minimum requirement indicators

A few indicators are still up for debate, particularly because hard to achieve

## CPP3 -



Loan contracts include all information included in the Key Facts Document in addition to: - grace period (if any); penalties for arrears or prepayment; - compulsory savings (if any); - linked products (if any); - member or guarantor obligations (if any); - collateral (if any) collateral seizing procedures; - any restrictions on loan use; - cooling off periods; - cancellation rights; - consequences of late payment and default; - and whether terms and conditions can change over time.

- → *Note that there already is the Key Facts Document indicator*



[Insurance only] Clients receive a certificate of coverage that includes the most salient information, which in all cases includes: premium; events covered; individuals covered; amount and term of coverage; when and how to file a claim.

This certificate is delivered to clients promptly after enrollment (in the case of insurance enrollment at the time of the loan application, the certificate should be delivered at or before loan disbursement).

# Finalizing minimum requirement indicators

A few indicators are still up for debate, particularly because hard to achieve

## CPP4 – Consensus to have at least 1 - Which one? Or a combination?



The provider is covering its costs or rapidly approaching break-even. Its financial results allows it to maintain its capital base.



The interest rate is set to be affordable, taking into account the costs required to deliver credit (considering cost of funding, operations, loan losses and returns to capital).

- Annual Percentage Rate (APR) for all of the provider's major products (> 20% portfolio) is within the accepted performance range. If it is outside the range, the provider can provide a valid justification.
- Portfolio Yield is within the accepted performance range. If it is outside the range, the provider can provide a valid justification.



The provider is not transferring unnecessary costs to clients: Operating expense Ratio (OER Ratio) is within the accepted performance range. If outside of the range, the provider can provide a valid justification.

→ Our proposal would be to have both APR and OER requirement

# Finalizing minimum requirement indicators

A few indicators are still up for debate, particularly because hard to achieve

## CPP5 -



Collateral cannot be sold to the provider, the staff of the provider, to their relatives, or to third parties involved in the seizing process.

→ *Chosen by investors only and often failed by lack of written policy*

→ *Please note that there is a consensus on another collateral seizure related indicator*

- Policy, documented processes and management oversight are in place to ensure that collateral seizing is respectful of clients' rights.
  - Clients are informed on collateral seizure processes before they take the loan. The provider follows local regulations to the extent possible. However, if court orders are not feasible for provider to obtain, providers may follow local best practice guidelines. Seizure must be preceded by informing the client and allowing the client to attempt to remedy the default. This applies to group and individual loans.

## CPP6 -



Starting at the time of the application, clients give their consent before the provider shares personal information with any external audience, including credit bureaus, family members, guarantors, insurance agents, collections companies, and marketing material or other public content. Staff is required to highlight the text of consent signed by a client.

→ *Chosen by investors only and often failed by lack of written consent on sharing*

# Next steps and timeline for CP pathway

## Finalizing market consultation

- If any investors have additional feedback on indicators after today's discussion, please email Jurgen Hammer ([jurgenhammer@sptfnetwork.org](mailto:jurgenhammer@sptfnetwork.org)) by January 22.
- FSP survey open until Friday, January 22.
- Client Protection Evaluation Working Group will meet January 28 to finalize its input.

## Launching CP pathway

- Commitment to Implement will launch pending funding for SPTF and CERISE.
- Certifying bodies plan to launch revised certification products in Q2.
- Seal of approval will launch during this quarter

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Thank you!