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Client Protection: A Microfinance Industry Snapshot of Loan Collection Practices in Pakistan

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This MicroNote highlights the level of compliance of Microfinance Providers (MFPs) in Pakistan on the fair and respectful loan recovery practices, which also forms a fundamental component of Client Protection. The Note presents data collected from Social Audits of 9 Microfinance Institutions (MFIs) on the standard of Fair and Respectful Treatment of Clients, which includes the sub-dimension of loan recovery practices. Also included in the report are findings from 5 Microfinance Banks (MFBs) who have undergone the SMART Certification process and have aligned their treatment of clients and loan recovery practices with international best standards. Using the data from these tools, this Note gives an overview of current loan recovery practices in Pakistan, the challenges associated with their implementation and provides recommendations and key lessons to improve industry practices.

INTRODUCTION

Client Protection constitutes part of responsible finance and forms the basic framework for supporting inclusive microfinance services which hinge on the principle of treating clients fairly and respectfully. These were devised by international networks and microfinance practitioners from around the world to develop codes of conduct and practices which place the client at the center. There is strong emphasis laid on providing products and services in a transparent and equitable manner, whereby interests of providers are squared off with interests of clients, ensuring that the former does not lead to the exploitation of the latter. The Client Protection Principles (CPP), developed by the SMART Campaign, offer universal guidelines which present the minimum standards for microfinance practitioners to adhere to with respect to their interaction with clients. It provides some basic touchstones for appropriate practices.

In 2012, the SPTF launched the Universal Standards for Social Performance Management (USSPM), which comprise a comprehensive manual of best practices for Micro Finance Practitioners (MFPs) to assess and institutionalize their social goals and forms the basis of a Social Audit. These "Best Practices" are organized thematically into six dimensions where each dimension is further divided into standards. A standard is a simple statement of what the institution should do to manage social performance. For each of these standards, there are then several "Essential Practices," which detail on how to achieve the standard.

The Social Audit Tool itself enables financial service providers to assess their performance against the six major dimensions of social performance management defined by the SPTF. The six dimensions are broken into 19 standards, which in turn include 66 sub-practices, making 160 indicators which are fed into the SPI4 tool.

PMN supports the microfinance industry by providing avenues for boosting social performance through the components of Social Audits and SMART Certifications. Conducting these assessments and certifications, helps ensure that participating

MFPs are complying with international best practices for client protection and maintaining a balance between attainment of financial and social goals. Till date PMN has conducted a total of 10 social audits and 5 SMART Certifications. These audits and assessments help provide a clear picture of the MFP practices regarding their adherence to social performance principles and also provide them with clear guidelines on how to improve their policies, procedures and practices.

Fair Treatment of Clients – Why are Appropriate Loan Collection Practices Important?

In recent years microfinance institutions have come under increased scrutiny with regard to their treatment of clients. As per the Client Protection Principles, fair treatment of clients *"includes loan officers dealing with them in a respectful manner, non-discrimination and safeguards against aggressive and abusive treatment by staff and agents particularly during loan collection"* [1]. The same is measured under Dimension 4 of the USSPM, under the umbrella term *"Treating Clients Responsibly"* [2].

Dimension 4 of the Universal Standards for Social Performance Management (USSPM) states that clients be treated responsibly. The rationale behind this is to ensure that institutions seek to bring benefits to their clients and subscribe to the principle of "do no harm".
This dimension has 5 standards which include 21 Essential Practices. The Standards are listed as follows:

- 4A. Prevention of Over-indebtedness
- 4B. Transparency
- **4C. Fair and Respectful Treatment of Clients**
- 4D. Privacy of Client Data
- 4E. Mechanisms for Complaint Resolution

Table 1: Dimension 4: Treat Clients Responsibly

Source: The Universal Standards for Social Performance Management. Social Performance Taskforce, 2014.

Microfinance clients are typically poor, often semi-literate and unable to advocate for quality financial services or seek redress when their rights are abused. It therefore becomes an imperative for the provider and the industry as a whole to ensure that the interests and dignity of their clients are protected. One of the most harmful practices of MFIs is reportedly that of inappropriate loan collection practices by these institutions. There have been reports of loan officers resorting to extreme measures including but not limited to, aggressive and abusive treatment of defaulting clients, harassing clients during non-business hours and publicly humiliating clients in their social vicinities. A case study of loan collection practices in developing countries such as India, Peru and Uganda further help highlight the different types of collection practices that MFIs often resort to [3].

1 The Client Protection Principles. The SMART Campaign. Retrieved from: https://www.smartcampaign.org/about/smart-microfinance-and-the-client-protection-principles

2 The Universal Standards for Social Performance Management. Social Performance Taskforce. Retrieved from: https://sptf.info/images/usspm%20impl%20guide_english_20141217.pdf

3 What Happens to Microfinance Clients who Default? An Exploratory Study of Microfinance Practices. The SMART Campaign. Retrieved from: https://www.smartcampaign.org/storage/documents/what_happens_to_microfinance_clients_who_default_eng.pdf

In Peru, a traditional recovery system persists whereby collection agents or loan officers follow the client around in the neighborhood or workplace with humiliating signs or calling out personal information and amount owed [4]. Similarly, in India the treatment for defaulting clients mostly involves social shame, where debts not paid become matters of public knowledge and lenders rely on groups to enforce repayment during the first few weeks of delinquency. In Uganda it is reported that defaulters can be incarcerated for six months, a term that is extendable if they have multiple debts [5].

The occurrence of these practices can be attributed to the lack of formalization of policies and procedures, insufficient code of ethics, missing sanctions and penalties in cases of violation of acceptable conduct and lack of training of field staff on client protection and treatment. In addition, in developing countries such laws governing treatment of clients are often lax or poorly designed to be effectively enforced at the grassroots level. Since some MFIs often operate in remote areas, knowledge and enforcement of such laws also remains poor.

The premise of microfinance has always been to provide socio-economic support to the marginalized community and to provide them with adequate and dignified means of providing and sustaining livelihood opportunities. The fact that this is violated due to aggressive or inappropriate loan collection practices thus becomes a contradiction of the principle of "do no harm". Often times the defaulters are in serious financial distress and unable to repay the installment timely, a condition the lender should seek to be more sympathetic to rather than compound the existing woes of the client by using heavy-handed tactics.

In wake of this, there have been laudable efforts by microfinance stakeholders, such as the SMART Campaign to improve market conduct, which proposes a code of conduct for MFIs. With the emergence of such industry codes of conduct, various occurrences of repayment crises, there is now more willingness by the providers to discuss and improve on default management. This principle has been included in the CPP to ensure that the MFP practices adhere to fair and respectful treatment of clients on the path to achieving their social mission of poverty reduction and socio-economic improvement. The internationally accepted practice regarding this includes treating clients with respect and fairness even when they are in violation of contractual agreements to keep their dignity intact.

ANALYSIS – FAIR TREATMENT OF CLIENTS IN PAKISTAN

Methodology

In order to gauge the prevalent treatment of clients by MFPs in Pakistan, this MicroNote primarily draws on the results of 9 Social Audits conducted for 9 MFIs in Pakistan, of which seven were microfinance institutions and two were rural support programs. These 9 MFIs account for approximately 35 percent of the market in terms of number of clients and approximately 20 percent in terms of gross loan portfolio. Therefore, the results can be considered representative of current sector practices of medium to small MFPs. This standardized assessment methodology enables a reliable comparison of results across institutions, and the institutions assessed cover a significant number of clients in the sector; hence the findings can be said to impact a substantial number of microfinance clients in Pakistan.

4 Ibid.

5 Ibid.

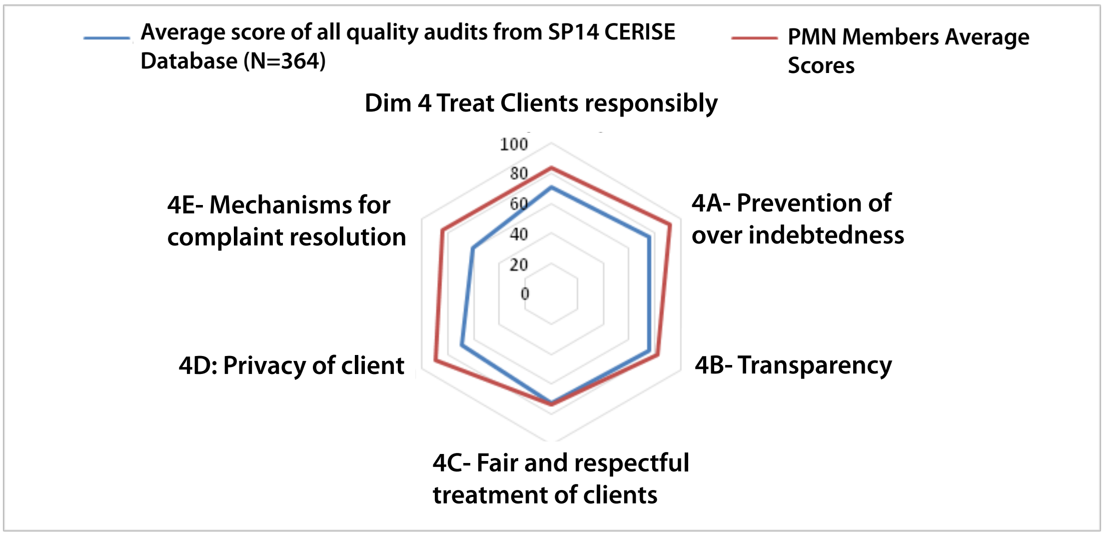
In addition, 5 SMART Certified MFBshave also been included in the analysis to give a more holistic picture of the "Fair and Respectful Treatment of Clients" in Pakistan's microfinance landscape. These MFBs account for approximately 50% percent of the market in terms of number of clients and approximately 60% percent in terms of gross loan portfolio. Attaining the SMART Certification signifies that the institution demonstrates adherence to the industry's Client Protection Principles, including the dimension on fair and respectful treatment of clients . In the analysis below, the certification itself has thus been taken as a metric for the organization's compliance to all dimensions and standards of fair and respectful treatment of clients [6].

For the purpose of this MicroNote, we focus on one dimension out of the six that USSPM measures, namely Dimension 4 "Treating Clients Responsibly". This dimension has been selected because it directly deals with loan collection practices, which is the main objective of the paper. In addition, other practices which involve fair and responsible practices regarding clients is also covered in this dimension which are good indicators for judging how client-centric the practices overall are.

BENCHMARKING PMN MEMBERS SCORES RELATIVE TO GLOBAL AVERAGE FOR "TREATING CLIENTS RESPONSIBLY"

The figure below gives an in-depth look at the state of the sector in "Treating Clients Responsibly". This offers evidence of the client centric nature of microfinance in Pakistan which indicates an overall positive trend.

Figure 1: PMN Members' Average Performance on Dimension 4 Relative to Global Average [7]



Source: SPI4 Benchmarks. Cerise, 2019.

The average of assessed MFIs consistently reports compliance levels at par or above the global standards for the dimension on client treatment. The overall compliance levels for Dimension 4 show that PMN members score 84 compared to the global average of 71. For Standard 4A "Prevention of Over-Indebtedness", PMN members record a high of 92 compared to the global average of 76; Standard 4B "Transparency", shows PMN members exceeding the global average 82 to 76; Standard 4C "Fair and Respectful Treatment of

6 Data on individual standards and dimensions as presented in the SMART Certification Tool is unavailable for disclosure to third parties. However, the organization is not certified if it does not comply on all mentioned indicators and metrics, it can therefore be inferred that the organization complies fully on indicators of fair and respectful treatment of clients and respectful loan collection practices.

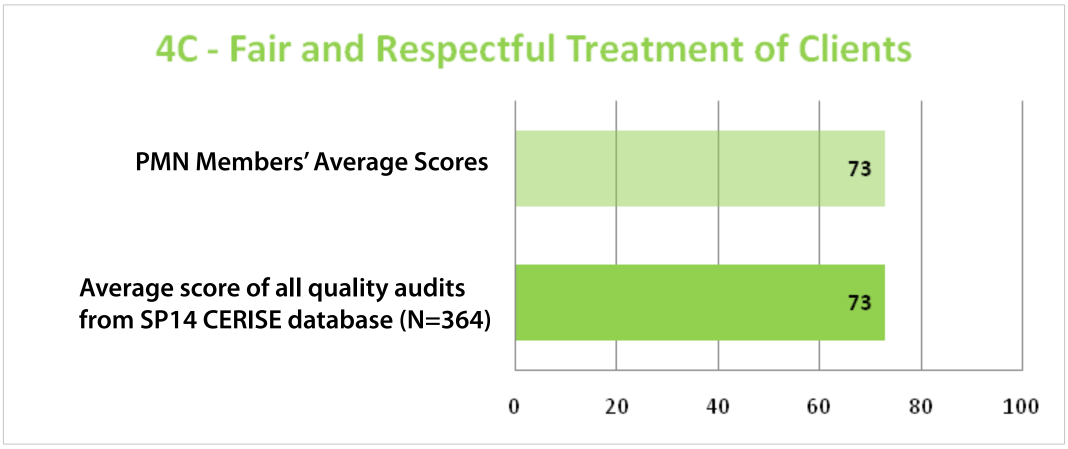
7 The global benchmarking scores have been retrieved from the benchmark report based on the SPI4 tools that have been entered into the CERISE database as of June, 2019. The benchmarks reported here are based on **364 most recent audit* and of the highest quality audits.** The benchmark tables can be retrieved from: https://cerise-spm.org/en/spi4/tableaux-de-benchmarks/

Clients" shows PMN members recording a score of 73 equal to the global average; Standard 4D "Privacy of Client Data" shows a relatively strong score for PMN members of 89 compared to the global average of 69; and Standard 4E "Mechanisms for Complaint Resolution" also show PMN members scoring a high 84 vis-à-vis a global average of 61.

BENCHMARKING PMN MEMBERS SCORES RELATIVE TO GLOBAL AVERAGE FOR "FAIR AND RESPECTFUL TREATMENT OF CLIENTS "

Turning to the specific standard of "Fair and Respectful Treatment of Clients", the performance of MFIs in Pakistan was assessed using the SPI4 Social Audit Tool. An average of their scores was taken and compared with an average score of audits contained in Cerise's database to give a picture of where MFIs in Pakistan stand on this indicator relative to MFIs from around the world.

Figure 2: PMN Members' Performance on Standard 4C - Fair and Respectful Treatment of Clients



Source: SPI4 Benchmarks. Cerise, 2019.

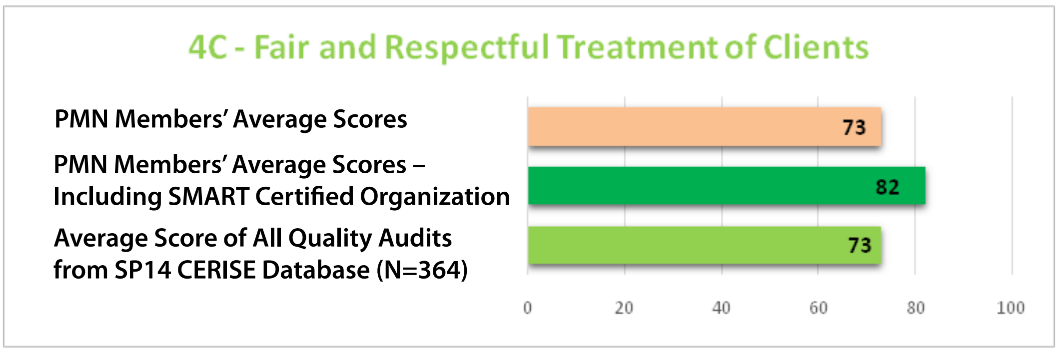
Pakistan's MFIs' performance on this indicator matches the global average. This can be deemed a success for the industry as a whole since it implies MFIs in Pakistan are cognizant of treating their clients in a fair and respectful manner.

Table 2: PMN Members' Performance on Fair and Respectful Treatment of Clients Including MFBs

For purposes of analysis, if we include scores from the 5 SMART certified MFBs in the above calculation, we can claim that Pakistan's average score on the dimension "Fair and Respectful Treatment of Clients" goes up considerably to 82.

The SMART Assessment Tool provides a comprehensive review of client protection principles and the indicators in the Tool perfectly overlap with the indicators in the SPI4. Being binary in nature, the SMART certification is only awarded if organizations completely comply with all standards and indicators available in the tool. Projecting these results on the SPI4 Tool would yield a score of 100 on the dimension "Fair and Respectful Treatment of Clients", making the industry average jump from 73 to 82.

Figure 3: PMN Members' Performance Including MFBs.

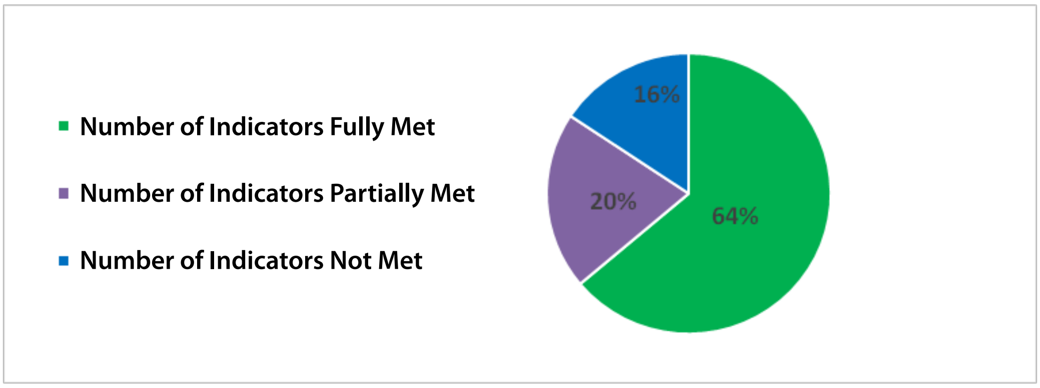


Average Score of All Quality Audits from SP14 CERISE Database (N=364)

DEEP-DIVE IN MFI COMPLIANCE ON SUB-INDICATORS

The performance of assessed MFIs with respect to the Standard on "Fair and Respectful Treatment of Clients" shows promise since 64% percent of the indicators were shown to be fully met [8] as shown in the figure below. However, there are still 36% of the indicators which either comply partially or show no compliance at all. Despite good performance shown by MFIs in terms of this principle, there is room for improvement at the level of formalization of policies and procedures. By incorporating client protection principles in institutional manuals and training staff accordingly, there is potential to improve on these indicators.

Figure 4: MFIs' Overall Compliance for "Fair and Respectful Treatment of Clients":



1. COMPLIANCE ON PROMOTION OF FAIR AND RESPECTFUL TREATMENT OF CLIENTS

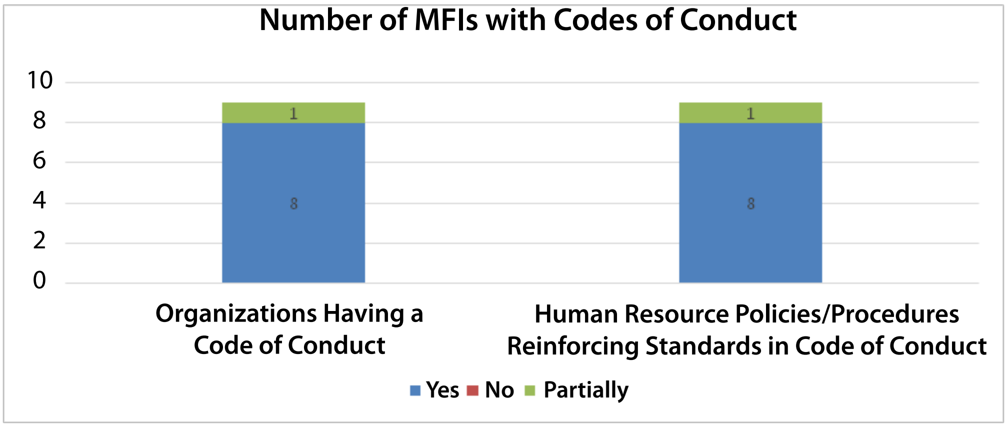
Within the Standard of "Fair and Responsible Treatment of Clients" there are 5 Essential Practices (EP) which we will in turn look at now.

The first Essential Practice looks at MFI compliance on promotion of fair and respectful treatment of clients in line with a code of conduct. **4C1 EP: The provider promotes and enforces fair and respectful treatment of clients in line with a code of conduct. (Client protection standard 5.1).**

From the figure below it can be seen that there are 8 organizations which report compliance on having a code of conduct (or equivalent) in place which clearly spells out organizational values, standards of professional conduct and treatment of clients that are expected of all provider or third-party provider staff or agents. Equivalently 8 organizations report having policies which outline and reinforce those standards and sanctions to be applied in case of a breach of the code of conduct. While 1 organization in each case reports partial compliance.

8 Does not include indicators which do not apply to the MFIs

Figure 5: MFI Compliance on Code of Conduct for Fair and Respectful Treatment of Clients



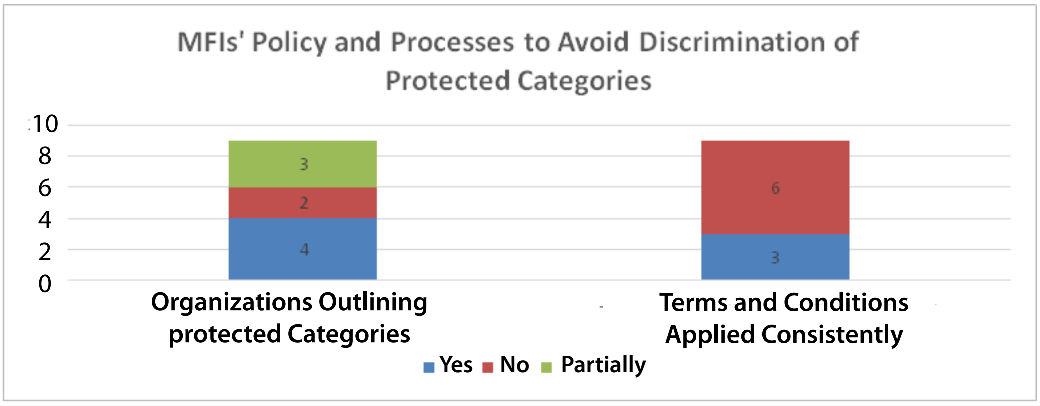
All organizations possess a code of conduct which details employee conduct with clients most of which also highlight sanctions that are to be imposed in case of reports of misconduct. Most organizations also reported to having regular trainings to reinforce the standards of code of conduct and effective accountability mechanisms outlined in the HR manual.

2. POLICY AND DOCUMENTED PROCESS TO AVOID DISCRIMINATION

The USSPM then specifically looks at essential practice **4C2 EP: "The provider has policy and documented processes to avoid discriminating against Protected Categories in selecting clients and setting terms and conditions. (Client protection standard 5.2)".** With respect to this essential practice, the organizations are judged on two specific metrics, one which includes whether the organization has outlined a list of protected categories or not and the second one measuring if the organizations' terms and conditions for individuals differ based on risk, target market and/or special needs and whether these are applied consistently at all levels.

Based on the sample size, it can be seen in the figure below that 4 organizations fully comply with the standards on outlining protected categories in their operational manuals, 3 comply partially while 2 reported non-compliance. For, instituting and applying terms and conditions consistently, 3 organizations reported in the affirmative while 6 were found to be non-compliant.

Figure 6: MFI Compliance on Avoiding Discrimination of Protected Categories



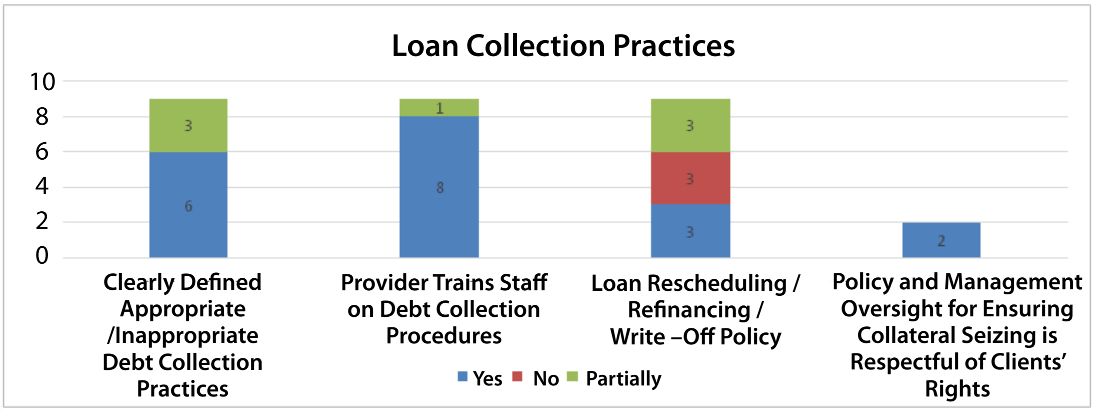
Most organizations have reported that while there is no discrimination in their dissemination of products and services and some categorically state equality of treatment for all in their Codes of Conduct with redressal mechanisms for non-compliance, it is seen that "protected categories" are not highlighted in the operations manual. Doing so is recommended as an international best practice since discrimination may result when products and services are applied differently to members of protected classes. An inconsistent application of these can often lead to complaints against the provider and negatively impact their reputation.

3. LOAN COLLECTION PRACTICES

The next Essential Practice focuses on MFIs' performance on fair and respectful loan collection practices. **4C3 EP: Loans are collected by staff and collection agents in an appropriate manner. (Client protection standard 5.3)** With respect to appropriate loan collection practices, there are four indicators the tool measures to gauge how client-centric and cognizant of clients' rights the practices are.

Figure 7 below shows that there are 6 out of 9 organizations which have clearly defined policies for appropriate loan collection, while 3 adhere to these principles partially. Almost all organizations display a commitment to providing training to staff to ensure their debt collection practices are fair and respectful to their clients. This essential practice also includes the providers' loan rescheduling or write-off policy. There are 3 organizations which have such policies on an exceptional basis, 3 institute this practice partially and 3 do not have any such policy in place. A policy for management and oversight for respectful seizing of collateral was found in 2 organizations, who practice this method of loan collection. The remaining organizations do not have this as an institutional practice.

Figure 7: Loan Collection Practices of MFIs



Most organizations have instituted policies pertaining to appropriate loan collection mechanisms, with respect to outlining respectful treatment of clients in their HR/Operations Manuals and regular and detailed training and sensitization of loan officers. However, it is seen that rarely have any organizations outlined what constitutes "appropriate" or "inappropriate" behaviors by loan officers during the collection period. Examples of possible inappropriate behaviors could include the use of physical force; contacting the client at inappropriate times; contacting the client frequently with the intention of exhausting him/her; humiliation; and compromising the client's right to privacy [9] , discriminating based on ethnicity, gender, sexual orientation, religious belief, political opinions, or disability; participation in corruption, kickbacks, or theft; and participation in sexual or moral harassment.

9 Putting the Principles to Work: Detailed Guidance on the Client Protection Principles. SMART Campaign. Retrieved from:

http://smartcampaign.org/storage/documents/20110916_SC_Principles_Guidance_Draft_Final.pdf

Most organizations that have a loan rescheduling or write-off policy in place which is used in instances of death and for some in cases of disability, all of which are highlighted in operations/finance manuals. The majority of organizations in the sample do not use collateral seizure as a policy. For the two organizations reporting use of this policy have clear guidelines for what constitutes acceptable collateral in their SOP. It would also be prudent for organizations to ensure that the collateral they agree to seize is not critical to a client's daily survival or substantially in excess of the value of the loan, since further seizure might hamper the borrower's ability to repay the loan.

4. Fraud Detection and Prevention

USSPM next looks atEssential Practice **4C4 EP:The provider has effective systems to prevent and detect fraud. (Client protection standard 5.4).**

The two metrics included in this EP are;

- A documented process is in place to avoid fraud related to client savings and is in line with international best practice.
- A documented process is in place to manage appropriately transactions that are not completed or are incorrectly completed.

Since all assessed organizations are MFIs, they are not authorized to offer savings products and services to their clients. Hence the first metric is not applicable.

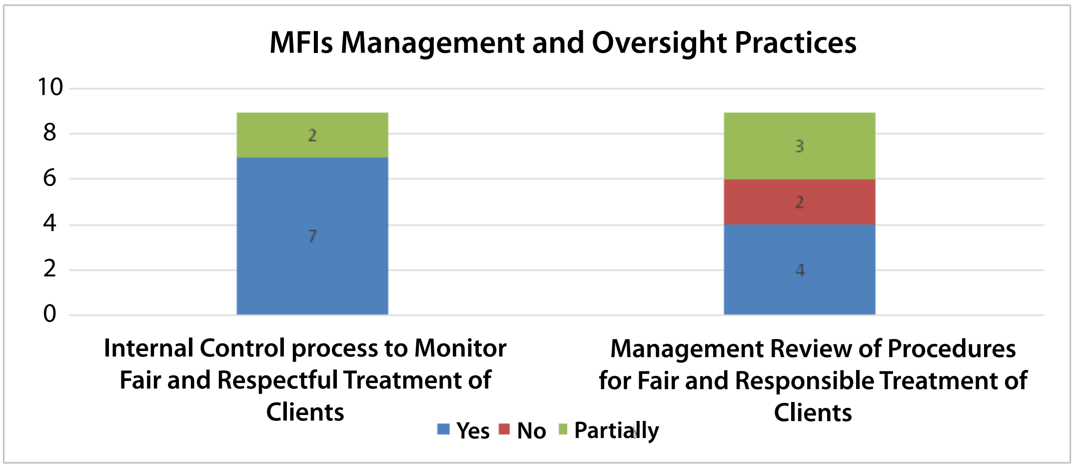
For the second metric, there is only one organization which reported to having a robust post-transaction verification mechanism in place, while one organization reported partial compliance on tracking incomplete transactions. The other assessed organizations do not offer money transfer services.

5. Management and Oversight Practices of MFIs

The next Essential Practice requires organizations' have robust mechanisms in place for monitoring and reporting on treatment of clients. **4C5 EP: The provider management and oversight support fair and respectful treatment of clients (Client protection standard 5.6).**

As per the figure below, there are 7 organizations which have internal control processes to monitor treatment of clients, while 2 comply on this indicator partially. There are 4 organizations which reported having periodic reviews of procedures of treatment of clients, 2 reported having such mechanisms and 3 reported partial compliance on this indicator.

Figure 8: Management and Oversight Practices of MFIs for Fair and Respectful Treatment of Clients



The majority of organizations have internal audit control processes which review the reports, complaints and feedback of borrowers and follow it up with recommendations for improvements. The activity is often a quarterly one.

CONCLUSION AND WAY FORWARD

From the ongoing discussion it can be seen that a representative sample of MFPs in Pakistan is invested in embedding client protection principles into the fabric of their operations. The average scores of the reporting MFIs stand at par with the global average. It is also seen that including scores from SMART Certified MFBs significantly increases this average. However, as an industry there is still room for improvement to achieve complete compliance on all indicators and to align practices with globally approved best practices. The purpose of this micro-note is to gauge MFIs' conduct with clients, particularly their loan collection practices. From the above analysis it can be seen that while there is substantial compliance on most indicators pertaining to fair and respectful treatment of clients, there is opportunity for these organizations to have specifically defined policies and adequate parameters for humane treatment of clients. Spelling these conditions out becomes even more paramount during the default process, where the vulnerability of clients to harsh treatment rises.

It needs to be understood by MFIs that clients facing default are likely to be in a precarious financial position due to which there is an obligation on the MFIs to act with prudence and treat delinquent clients respectfully. Doing so is not just socially responsible but also a sustainable business practice by preserving the client-MFI relationship.

From the individual MFI analysis above it can be seen that most of the organizations exhibit an overall commitment to client protection and have in place proper policies and procedures for fair and respectful treatment of clients. There is however opportunity to further improve their performance on these indicators by instituting policies in formal documentation, having in place proper mechanisms for oversight of cases of misconduct and adequate training and monitoring of loan officers and third-party agents.

The Smart Campaign's Client Protection Principles provide some basic touchstones for appropriate practices around default with the main focus being on the principle Fair and Respectful Treatment. The following details best practices for policies, procedure and management that MFIs can seek to incorporate to attain higher levels of fair and respectful client treatment.

Table 3: Guidelines for Financial Service Providers

Essential Practices and Indicators		Recommended Best Practices to Achieve Compliance on Indicators [10]
4C1The provider promotes and enforces fair and respectful treatment of clients in line with a code of conduct.		
Indicator 4C11	The code of conduct (or equivalent) clearly spells out organizational values, standards of professional conduct and treatment of clients that are expected of all provider or third-party provider staff or agents. Policies also spell out what sanctions to apply in case of a breach of the code of conduct.	Organizations should have in place: • A Code of Conduct and General Guidelines for Collections intended to regulate conduct for all collections with the aim of treating customers with dignity even when they fail to meet contractual obligations. • Guidelines should direct collection agents to avoid all abusive and unethical treatment of client. • Procedures for staff violations of the institution's collections policies to be sanctioned. Sanctions to be applied consistently and laid out in the institution's credit policy or staff book of rules. • Processes to regulate third-party collections agents to uphold the same "collections code of conduct", adhere to similar grievance redressal mechanisms and periodic audits
Indicator 4C12	Human resource policies and procedures reinforce the standards identified in the code of conduct.	Organizations ensure that • Staff receives orientation to Code of Conduct and Collection Practices as per organizational values. • Staff receives regular training and refresher courses on any changes in policies. • Incentives for staff are not based solely on client repayment rate since this can place them under great pressure to use any means necessary to extract repayment from clients. • There are in place proper agreements with third-party agents to hold them accountable to the same behavior that is expected from internal staff.
4C2 The provider has policy and documented processes to avoid discriminating against Protected Categories in selecting clients and setting terms and conditions.		
Indicator 4C21	Protected Categories include; ethnicity, gender, age, disability, political affiliation, sexual orientation, caste, and religion.	• Organizations should replace general statements with specific guidance on which categories are"protected"and the code of conduct manuals should dictate employeetreatment of them.
Indicator 4C22	Terms and conditions for individuals may differ based on 1) risk-based analysis, 2) target markets defined in the provider's mission, 3) accommodations based on special needs. Such differentiation should be consistently applied, stated in advance and made with the goal of benefitting clients.	MFPs have a certain target market they cater for, which can imply that people who do not fall in that category might be excluded because they do not have certain characteristics. In this case it is important that the organization's • Social objectives clearly specify the target market in their mission statement and operations manual • Transparent criteria for inclusion in the program which is applied consistently throughout the operations of the organization [11] .
4C3 Loans are collected by staff and collection agents in an appropriate manner.		

10 Collections Guidelines for Financial Service Providers. SMART Campaign. Retrieved from: https://www.smartcampaign.org/storage/documents/Tools_and_Resources/Collections_Guidelines_FINAL.pdf

11 Responsible Treatment of Clients: Practicing Non-discrimination. Center for Financial Inclusion. SMART Campaign. Retrieved from: https://centerforfinancialinclusionblog.files.wordpress.com/2012/07/20120301_sc_responsible-treatment-of-clients-practicing-non-discrimination.pdf

Indicator 4C31	A policy is in force that clearly defines appropriate and inappropriate debt collection practices by staff and third parties.	• The organization's policy must not leave collection agents with the right to decide what collection tactics are to be used and must specify behaviors which are regarded as appropriate and inappropriate.For instance, using abusive language would be categorized as inappropriate but contacting a client's guarantor would be acceptable. • The minimum standards for prohibited behaviors includeabusive language, use of physical force, shouting at the client, entering the client's home uninvited, humiliating the client, and violating the client's right to privacy. • Third-party collections agents should also receive information on what the institution considers "acceptable" and "unacceptable" collections practicesand are required to agree to uphold acceptable practices while being subjected to periodic checks with clients and/or other audit techniques.
Indicator 4C32	The provider trains staff and/or group members (if applicable) on the provider's debt collections practices and loan recovery procedures (including actions they are expected to take and those they are prohibited from taking in case of default).	• Credit staff receive practical training for collections. The training defines "acceptable" and "unacceptable" practicesand focuses on the rights of the client. Staff are trained upon hiring and receive ongoing training.They should also be tested on their knowledge of policies, procedures and practices. • Trainings can also include "real life" scenarios in which staff must face difficult collections and determine how to treat clients. Relevant laws should also be covered.
Indicator 4C33	The provider has a policy for rescheduling loans/ refinancing/ writing off on an exceptional basis.	• The institution's rescheduling policy should outline circumstances when rescheduling is permitted and what approvals are required, how interest is handled. • The upper limit of the rescheduled loan amount should also be pre-determined to ensure that clients are notindebted past their ability to pay. • Automatic debt extensions should also be prohibited.
Indicator 4C34	Policy, documented processes and management oversight are in place to ensure that collateral seizing is respectful of clients' rights.	• If the organization allows for clients to pledge assets as collateral, the institution should have a list of acceptable assets • There should be clear guidelines for how collateral is registered and valued. • Collections policies should cover the processes and timing for seizure of collateral. • Livelihoodsustaining assets should not be used as guarantees and the collateral provided ought to be commensurate with the value of the loan.
4C4 The provider has effective systems to prevent and detect fraud.		
Indicator	A documented process is in place to avoid fraud related to client savings and is in line with international best practice.	• For organizations that offer savings products, there must be adequate policies and procedures in place to ensure clients are protected against fraud.
Indicator	A documented process is in place to manage appropriately transactions that are not completed or are incorrectly completed.	• There should be a robust mechanism for giving clients transaction receipts in a timely manner. • It must be ensured that in case of incomplete transfer of funds, the amount be returned to the sender with a notification of the problem.
4C5 The provider management and oversight support fair and respectful treatment of clients. (Client protection standard 5.6)		

Indicator 4C51	The provider has an internal control process to verify uniform application of policies and procedure related to fair and respectful treatment of clients. The provider can produce evidence/records of monitoring/ reporting of corrective measures taken in case of partial or incorrect implementation of the policies and procedures to ensure an adequate compliance in the practice.	• Organizations can have internal audit mechanisms which are tasked with reviewing a sample of loans that are in arrears more than 30 days to check on staff procedures for their adequacy. • Internal audit can alsouse reports to review cases of clients to understand and address any issues that are reported (such as violations of the collections policies) and make adjustments in products and services if warranted.
Indicator 4C52	Management reviews key results (e.g., client satisfaction survey, complaints handling summary) related to fair and respectful treatment of clients. Measures for improvement are discussed, implemented, and monitored, and records of these actions exist.	• Organizations should have a monitoring system for loan officers in place, whereby, auditors can check for complaints associated with the loan officers regarding abusive collection practices. • Auditors should assess client satisfaction by questioning them about loan officers' conduct during collection. These responses can then be measures against pre-set standards to monitor the appropriateness of collection practices to verify compliance of staff with the Code of Conduct. • Organizationscan also have an independent complaint handling mechanism to provide clients a means of voicing complaints and questions directly to the institution, and a system to respond to such complaints.

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