

# Executive Summary

## INTRODUCTION

The [Client Protection Principles](#) as developed by the Smart Campaign<sup>1</sup> are crucial because they establish global standards for consumer protection, ensuring that financial services are delivered safely and responsibly to underserved consumers. By adhering to these principles, financial institutions can build trust, enhance client satisfaction, and contribute to the overall stability and growth of the microfinance sector.

[MASSIF](#), a public fund program that FMO manages on behalf of the Dutch Government, invests to improve access to finance for: a) The unbanked, especially in the least financially penetrated and fragile countries; b) MSMEs supporting agriculture and rural livelihoods; c) Gender equality, especially women-owned (M)SMEs, and d) Inclusive development through innovative products. An [evidence map](#) commissioned for MASSIF in 2021 showed that although the adoption of Client Protection Principles by Financial Service Providers (FSPs) is well understood and documented via assessments and certifications, less is known about the outcomes for end clients<sup>2</sup>. To address this gap, FMO commissioned an evaluation to M-CRIL to (i) assess the effectiveness of FSP's implementation of CP standards in reducing perceived risks associated with financial services for end clients (client level outcomes), and (ii) evaluate the advantages and costs resulting from the implementation of these standards.

The evaluation methodology relied on surveys and interviews of end clients of two FMO customers in Bangladesh and the Philippines. The responses were analyzed for different client segments – by socio-economic profile, financial service use and clients past due on their repayments. The findings led to a selective assessment of CP policies and practices by the FSP.

## FINDINGS

Client feedback provides strong evidence for whether the FSP policies and procedures are leading to intended client protection outcomes. For both the FSPs in our case studies, the results on most indicators were good with 75%-90% of the samples showing positive results on many indicators, comparing well with the available benchmarks<sup>3</sup>.

While findings are generally positive, this assessment also revealed areas for improvement on client protection outcomes for special segments of clients – clients in default, clients with less schooling, rural clients. Examining more challenging situations is the ultimate test of strong client protection. For an FSP fundamentally committed to ensure protection of as many of its clients as it can, particularly its vulnerable clients, a negative finding for even say 15-20% of a sample of default clients (albeit a minority of a minority) can indicate operational aspects that need to be strengthened.

### Overview of findings of two FSPs– each CP Standard and Resilience

| CPS                                      | CP positives                                                                                                       | CP gaps                                                                                                                                                                                                                                                                                                                                                              |
|------------------------------------------|--------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>CPS1 APPROPRIATE PRODUCT DESIGN</b>   |                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                      |
| ✓                                        | Client satisfaction is overall high: The Net Promoter Score for both FSPs is above the Asia average.               | ○ Segmented analysis of data (e.g. for past-due clients) as well as feedback to open-ended questions surfaced specific CP issues from client experience on concerns related to the insurance products.                                                                                                                                                               |
| <b>CPS2 PREVENTING OVER-INDEBTEDNESS</b> |                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                      |
| ✓                                        | Overall, the majority of the client samples (FSP1- 72%, FSP2 – 87%) report their loan repayment is 'not a burden'. | ○ Some on-time clients (FSP1 – 24%, FSP2 - 9%) – as well as an expected higher proportion of past-due clients – report loan repayment is <i>somewhat</i> or a <i>heavy</i> burden.<br>○ Some past-due clients (FSP1 – 15%, FSP2 – 10%) reported sacrificial strategies to make loan repayments in the past year. The poorest clients are more likely to report this. |

<sup>1</sup> At the Centre for Financial Inclusion and now managed as the Client Protection Standards (CPS) by Cerise+SPTF.

<sup>2</sup> This report refers to clients of the FSPs as “end clients” and distinguishes the term “customers” to refer to FMO’s investees (the FSPs).

<sup>3</sup> Benchmarks in this report refer to the Asia benchmarks from the 2024 MFI Index from 60 Decibels.

| CPS                                                  | CP positives                                                                                                                                           | CP gaps                                                                                                                                                                                                                                                                                                      |
|------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>CPS3 TRANSPARENCY</b>                             |                                                                                                                                                        |                                                                                                                                                                                                                                                                                                              |
| ✓                                                    | Overall, the majority of the client samples understand the basics of their loans and the lending process.                                              | ○ There are gaps in clients understanding of more complex details and processes (e.g. new products, savings, insurance).                                                                                                                                                                                     |
| ✓                                                    | The two FSPs place emphasis on the oral explanation of products by field staff.                                                                        | ○ We found a notable disparity between clients with different levels of schooling (clients without secondary schooling demonstrate lower levels of understanding).                                                                                                                                           |
| ✓                                                    | For the FSP in the Philippines, SMS reminders of payment and confirmation of receipt are appreciated.                                                  | ○ Timing of staff communication is an issue: too much information at the time of loan disbursement. Written information is not provided in advance of loan disbursement.                                                                                                                                     |
| <b>CPS4 RESPONSIBLE PRICING</b>                      |                                                                                                                                                        |                                                                                                                                                                                                                                                                                                              |
| ✓                                                    | Clients of both FSPs said in FGDs that costs are in line with market levels, though lower cost is a natural preference.                                | ○ In the Philippines, APRs in the sector are overall high, reflecting the structure of the products offered. High RoA needs to be kept under review with the aim of reducing costs to end clients in coming years.                                                                                           |
| ✓                                                    | In Bangladesh, the FSP was in line with the country regulatory cap on interest rates and associated credit costs.                                      |                                                                                                                                                                                                                                                                                                              |
| <b>CPS5 FAIR AND RESPECTFUL TREATMENT OF CLIENTS</b> |                                                                                                                                                        |                                                                                                                                                                                                                                                                                                              |
| ✓                                                    | Overall, the majority of the samples of both FSPs (FSP1 - 84%, FSP2 – 91%) strongly agreed that the field staff treat clients fairly and with respect. | ○ A small minority (1-2% on-time clients, 2-6% past-due clients) strongly disagreed. The qualitative responses indicate inconsistency in how staff engage with clients who miss an instalment.                                                                                                               |
| <b>CPS6 PRIVACY OF CLIENT DATA</b>                   |                                                                                                                                                        |                                                                                                                                                                                                                                                                                                              |
| ✓                                                    | The majority of clients trusted FSP staff not to share information without consent (FSP1 – 87%, FSP2 – 99%).                                           | ○ However, clients in FSP1 (28% of the past due sample) were concerned about the sharing of information about loans in the group and local community. This indicates a need for FSPs to give very clear guidelines and explanation to staff – for credit enquiries as well as sharing of credit information. |
| <b>CPS7 COMPLAINTS</b>                               |                                                                                                                                                        |                                                                                                                                                                                                                                                                                                              |
| ✓                                                    | In both FSPs, a majority (FSP1- 92%, FSP2 - 83%) said they would make a complaint if a staff member did something wrong or made a mistake.             | ○ Nearly all clients said they would complain to field staff. Very small numbers of clients mentioned other channels (hotline or social media).<br>○ Despite the branch being the primary channel for client complaints and enquiries, neither FSP is monitoring these in any systematic way.                |
| <b>CPS8 GOVERNANCE/MANAGEMENT</b>                    |                                                                                                                                                        |                                                                                                                                                                                                                                                                                                              |
| HR                                                   | ✓ Field staff training and retention strengthens appropriate behavior with clients.                                                                    | ○ Incentives are a mechanism used primarily to support business priorities – this may work at cross-purposes with CP objectives.<br>○ Internal audit often includes direct interviews with clients – but these are not systematically documented as additional feedback for management.                      |
| IA                                                   | ✓ Internal audit/inspections are a key tool to check on policy implementation.                                                                         |                                                                                                                                                                                                                                                                                                              |
| <b>RESILIENCE</b>                                    |                                                                                                                                                        |                                                                                                                                                                                                                                                                                                              |
| ✓                                                    | The majority of on-time clients say they have been able to save in the past 12 months and can raise a sudden emergency sum (~75% - 90%).               | ○ Expectedly, a lower proportion of past due clients – one fourth - report resilience.                                                                                                                                                                                                                       |
| ✓                                                    | 70-80% say the FSP has increased this resilience.                                                                                                      |                                                                                                                                                                                                                                                                                                              |

## FSP'S AND CLIENT PROTECTION

Client protection is effectively a way of aligning the interests of the institution with those of the client – and this should be good for business in the long term.

This review found that nearly all of the aspects of client protection that FSPs put in place over time are embedded in the organizations' core operations in a way that is intrinsic to the institution and in line with the stated vision, mission and values of the organizations – to provide *convenient and reliable financial solutions... to continuously strive to provide an excellent client experience*.

Organizational practices from FSPs that stood out for their quality and degree of positive impact on CP outcomes, were:

- ✓ Systematic cross cutting field research to inform decisions
- ✓ Special teams to improve the quality of loan appraisal
- ✓ Oral explanation of product terms, text messages for payment alerts and confirmation of repayment
- ✓ Internal audit team interactions with clients

## SOME REFLECTIONS

**Including client voice in client protection:** By delving into client outcomes, our two case studies revealed both strong performance by these FSPs and specific areas for improvement that may not have turned up in regular operations or assessment.

**Capturing meaningful input from clients must be an integral part of Client Protection.** This applies at all levels of stakeholders – FSPs embedding channels for client feedback in their operations, various actors (including FSPs, their funders or raters) commissioning surveys and interviews, and external assessors or certifiers.

**For assessing CP at FSP level:** client feedback helps to identify CP indicators for more in-depth assessment; feedback from branch staff can highlight what they find most challenging and how familiar they are with CP-related guidelines; and granular institutional data (not just averages) is important to fully interrogate operational issues.

**Non-credit financial products:** While there is an implicit focus on credit as the core financial business and primary area of CP risk, other financial products – savings, insurance, payments - need full attention as part of responsible finance as new often complex systems are involved.

## RECOMMENDATIONS

The paper highlights two broad principles applicable to all stakeholders:

- a) Ensure that client voice is part of regular client protection queries through the various means available. This can be as part of the FSP's existing research/monitoring systems - internal client surveys, internal audit interviews, enquiries and complaints reports – and/or through 3<sup>rd</sup> party commissioned surveys.
- b) Pay special attention to the most vulnerable clients, that is poorer clients, and to the most vulnerable client protection situations - clients in default, clients making an insurance claim.

### TO FSP'S

FSPs can consider the following to apply the above principles in their operations:

- (i) Better leverage internal channels for client feedback and complaints (internal audit/inspections, call center, social media) as well as fully using external available data.
- (ii) Ensure attention to the most vulnerable for loan appraisal.
- (iii) Use client feedback to assess staff incentives' effects on client protection.

Other recommendations specific to the two FSPs can be found in Section 4.

### TO THIRD PARTY ASSESSORS OF CP

CP assessors can consider paying more attention to client voices during assessment and certification:

- (i) At a minimum, it is relevant and relatively easy to use existing reports and data (internal and external) that cover CP indicators.
- (ii) Further, the process should involve a more systematic approach to qualitative interviews with clients (FGDs and a small number of in-depth interviews).
- (iii) In more at-risk markets and/or when an FSP is seeking a gold certification, consider conducting or commissioning a quick quantitative client survey that addresses CP outcomes.

### TO FMO

FMO can consider the following within its processes and with its customers:

- (i) Consider possibilities to include client protection outcomes data in due diligence and monitoring processes and provide technical assistance support where needed.
- (ii) Whenever recommending a client protection certification, include recommendations for the certification process to include review and analysis of available client protection outcomes data.

At sector level:

- (iii) Share and disseminate the reflections and findings from this study in different forums.
- (iv) Advocate for the application of short CP outcomes survey tools that focus on indicators specifically relevant for client protection in relevant forums.