

The SEEP Network

Consumer Protection Code of Practice Template and Discussion Guide

The following template is an example of an outline for a consumer protection code of practice for use by a microfinance institution (MFI), network, or association. The SEEP Consumer Protection Task Force developed the template to increase transparency in microfinance consumer policies and practices, without increased government regulation. The template contains the major headings and subheadings that should be included in a consumer protection code of practice. Some institutions may want to go beyond what is suggested here or modify the language for a particular institution or in a particular context.

Microfinance Institution Consumer Protection Code of Practice Template

1. Commitment Statement

2. Operations/Products and Services

Marketing/Sales of Services and Products

Distribution of Services and Products

Pricing of Services and Products

Debt Collection Practices

3. Transparency

Disclosure

Accessibility

4. Community Engagement

Client Education

Client Satisfaction

Questionable Practices

Community Actions

5. Accountability

Compliance

Complaints

6. Local Law Exceptions

This discussion guide presents a series of questions intended to help users develop their own consumer protection code of practice. It follows the order of headings and subheadings found in the template. The questions should guide the user to consider the important consumer issues in microfinance. The guide is intended to be general enough, however, to be used in a wide variety of contexts. Each institution should consider the headings, subheadings, and questions to determine the content that best helps meet its objectives for the code, rather than attempting to incorporate responses to every question in the guide. The content under each heading or subheading should respond to the questions as concisely as possible and in clear and direct language. Each element included in the code of practice must be specific enough to be verified.

Because the code is not intended to be used as a purely internal document, but to be disseminated to all stakeholders, it should be as concise as possible while still clearly articulating your practices regarding consumer protection.

Remember, the best code of practice is the one that works for you and your customers.

Consumer Protection Code of Practice

Discussion Guide

1. Commitment Statement

Adopting a code of practice for consumer protection makes an important statement about an institution's commitment to transparency and fair lending. Articulation of this commitment helps all stakeholders understand why the institution is adopting the code.

- Why is a code of practice in consumer protection important?
- Who is the audience for this code of practice? Whose behavior is attempting to be shaped? Who in our institution interacts with our clients?
- What are we trying to achieve with this code of practice? (Possible objectives may include advancing our mission; improving transparent, equitable, and fair/nondiscriminatory treatment of clients; developing more staff and management accountability; developing a shared corporate culture/values among staff and management; establishing clear rules of engagement to prevent inappropriate behavior by employees vis-à-vis clients; maintaining/improving customer orientation; becoming more competitive; distinguishing ourselves from predatory financial service providers; protecting our reputation; pleasing donors; and avoiding/preempting onerous host country regulations.)

2. Operations/Products and Services

Microfinance seeks to serve a relatively vulnerable population. These consumers should be protected from the inappropriate marketing and distribution of some products and services, as well as from unfair pricing and collections practices.

Marketing/Sales of Services and Products

- What products, if any, will we not sell to certain groups? (For example, secured or unsecured loans, individual loans that will be available only to group members.)
- How do we market our services and products? Who conducts this marketing?
- What is the goal of our marketing and sales initiatives? How does our institutional mission inform, or not inform, our marketing and sales practices? What is appropriate behavior in marketing? What is inappropriate behavior?
- What incentives do we have to reward those who market and sell our services and products? How are these incentives encouraging, or not encouraging, appropriate marketing and sales practices?

Distribution of Services and Products

- What classes of products do we offer and how do we determine the suitability of a class of product for different clients? (Examples of clients: village banking, solidarity group, individual loans, subsidized services, insurance.)
- What services and products do we offer to our clients? Who determines the eligibility of clients for such services and products? What are the appropriate standards for determining eligibility of clients for such services and products?
- How do we distribute our services and products? Who distributes? What is appropriate behavior in distributing our services and products? (That is, throughout the credit process: application, credit approval/denial, group formation, and disbursement practices.) What is inappropriate behavior?

Pricing of Services and Products

- What host country laws, if any, apply to the prices of our services and products? (For example, usury laws or interest rate caps.) How do we ensure that such laws are understood and adhered to by our management and other employees?
- What prices and fees do we charge to our clients for our services and products? How do we price our services and products? What are appropriate considerations in establishing such prices? What is the goal of our pricing policy vis-à-vis our clients? (For example, is the goal transparent, equitable, other?)
- How do we communicate prices and fees to our clients? Who communicates prices and fees to clients? What is appropriate behavior in explaining prices to our clients? What is inappropriate?

Debt Collection Practices

- What are our debt collection practices? Who is responsible for debt collection? (For example, clients, employees, agents.) What do we do to ensure that we adhere to these practices?
- What information do we share, if any, on “bad clients” (black lists) with other MFIs? How do we disclose this fact to our customers?
- What host country laws, if any, apply to our debt collection practices? How do we ensure that our employees and agents understand and adhere to such laws?
- When using a group lending methodology, what guidelines, if any, should we establish when we rely on groups to self-enforce debt collection?
- If we use local authorities or agents to assist in debt collection, what guidelines should we establish for their behavior?
- What is appropriate behavior for a credit officer or other employee in confronting a defaulting client?
- What incentives, if any, do we have for rewarding those staff or agents who collect bad debts on our behalf? How do these incentives encourage, or not encourage, appropriate debt collection practices?
- If a loan is secured, what steps should we take before repossessing a pledged asset of a defaulting client? What host country laws, if any, establish the procedures for seizing collateral? How do we ensure that our employees and agents adhere to such laws?

3. Transparency

MFIs are increasingly aware of the need for transparency in their dealings with regulatory bodies and donors, but not necessarily with their customers. Highly transparent MFIs require a higher degree of professionalism than those that do not disclose, but they should enjoy a greater trust dividend on the part of their clients.

Disclosure

- How often and how openly do we disclose information to the general public? How and when do we publish our financial statements, if at all?
- How do we know that what we are disclosing is accurate and complete? What are our internal control mechanisms to ensure accuracy?
- How do we treat certain conflict of interest issues? (For example, insider lending.)

Accessibility

- What steps do we take to educate our clients about issues such as our financial services and products, their responsibilities (payment and otherwise) toward us, and their responsibilities within a group?
- How clear are our product documents? (For example, loan agreements.) How do we explain these documents to our clients, if at all? How does our product documentation comport with host country laws?
- What is appropriate behavior for dealing with illiterate or disabled clients who may have difficulty understanding us or our product documentation?

4. Community Engagement

Some MFIs have recently been accused of being monolithic, self-serving institutions that are unconcerned about the needs of the customer. MFIs could counter those claims by disclosing how they engage their clients and the communities in which they operate.

Client Education

- What steps do we take to educate our clients about our institution, its mission, its ownership, its financial state, and so on?
- How do we help our clients understand their rights as consumers? How do we help them exercise those rights?
- What is our goal in educating clients? What is the benefit to our institution of an educated client? What steps should we take to educate clients?

Client Satisfaction

- What mechanisms do our clients have to express their dissatisfaction with our services, products, or employees' behaviors?
- How do we resolve problems? What procedure or mechanism, if any, do we have for problem resolution? Who within our institution manages this process? What adequate local forum, if any, is available for dispute resolution?

Questionable Practices

- What are the questionable practices that may be accepted or tolerated in the local context that our institution does not want to engage in? (Questionable practices are business practices that are acceptable in certain contexts, but that are unacceptable to our institution. These might include accepting gifts from clients to expedite processes, or using aggressive collection practices.) How do we do business in ways to avoid those practices?

Community Actions

- What types of actions are we engaged in to improve our community?

5. Accountability

While issues of regulation and supervision of MFIs have been given significant attention recently, most MFIs are unregulated; and those few that are subject to prudential regulation do not necessarily disclose to consumers how they are accountable. Such an environment opens MFIs to charges that they are not accountable for their actions.

Compliance

- How do we ensure that management and staff adhere to the above policies? What steps can we take to develop appropriate incentives, or to avoid developing incentives that encourage inappropriate behaviors?
- How involved is the internal auditing function in this process?

Complaints

- What is the process for addressing consumer complaints? To what level of management is there accountability for responding to consumer complaints? (For example, branch manager, operations manager, vice president.)

6. Local Law Exceptions

- What statements should we include to ensure this document is not inconsistent with local law in the countries in which we do business?