



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Specialized Companies Division
Lending & Private Fund Department

No. SC/NBFC-1-196/Circular/2024/260

January 31, 2025

Circular No. 05 of 2025

Subject: Consumer Protection Principles for Non-Banking Microfinance Companies

The Securities and Exchange Commission of Pakistan (the "Commission") in exercise of powers conferred under sub-section (3) of section 282B of the Companies Ordinance, 1984 (XLVII of 1984), hereby introduces the Consumer Protection Principles for the Non-Banking Microfinance Finance Companies (NBMFCs) in addition to the requirements specified through Circular 24 of 2018 and Circular 08 of 2024, and in tandem with women equality in finance policy for the non-banking microfinance sector. These principle aims to ensure that consumers are well-informed, treated fairly, and provided with the necessary tools and support to make sound financial decisions, while enhancing transparency, promoting financial inclusion and strengthening the overall relationship between consumers and non-banking microfinance companies.

NBMFCs are hereby directed to comply with the following requirements and are encouraged to integrate guiding principles into their operations as outlined in the detailed guiding document attached as **Annexure-A**.

Disclosure & Transparency

1. The NBMFCs shall ensure clear communication and comprehensive descriptions of terms and conditions, and pricing of the financial products and services;
2. Before proceeding for loan disbursement, NBMFCs shall display a summary of key fact statement (KFS) to the borrower preferably in local language. The key fact statement shall be presented in a simple, clear and easily accessible format and shall include the following minimum information specific to each category:
 - a) Total loan amount
 - b) Pricing, including interest rate (declining balance method/flat), processing charges all fees
 - c) Total cost of credit: segregating principal, interest, and Other fees
 - d) Disbursement date and loan term
 - e) Repayment schedule with principal and interest amounts, number, and due dates of all repayment instalments.
 - f) All deductions from principal disbursement (e.g., first instalment, insurance cost, documentation fees, fees,,) if applicable
 - g) Early Repayment Option Availability
 - h) Previous outstanding loan deductions;
3. The loan contracts should be available in local language and a signed copy needs to be shared with the clients along with a signed copy to be kept in the records by the NBMFCs. The contract should include the following minimum information, as applicable to the product:
 - a) Grace period
 - b) Linked products
 - c) Member or guarantor obligations
 - d) Collateral requirements and seizing procedure
 - e) Consequences of late payment and default
 - f) Early payment conditions;
4. Loan repayment schedule needs to be shared with the client at the time of disbursement which is signed by the client and authorized signatory of the NBMFCs. The loan repayment schedule should contain the following minimum information:
 - a) Client information
 - b) Loan Amount (principal + interest)
 - c) Number of loan instalments
 - d) Break-up of loan instalments product wise (principal + interest)
 - e) Annual Percentage Rate;




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5. Terms & Condition of the financing cannot be changed before the maturity of loan;
6. NBMFCs shall ensure the following disclosures before proceeding for a loan disbursement:
 - a) Fee Disclosure: Disclose all fees and charges associated with financial products in a clear and understandable manner during screening/formation, approval of loan, and time of disbursement.
 - b) Total Cost of Credit: Clearly explain the total cost of credit, including interest rates, fees, and any other charges.
 - c) Risk Information: Clearly communicate the risks associated with each financial product and service;
7. NBMFCs shall ensure that information is accessible through multiple channels, including in-person, online, and mobile platforms, and provided in various languages and formats to cater to a diverse client base.

Complaint Handling & Redressal

1. NBMFCs shall;
 - a) Ensure that staff are trained in handling grievance redressal appropriately;
 - b) Ensure the submission reporting of of gender disaggregated data across all metrics and complaints data as specified through Circular No.03 of 2025 dated 30th January 2025;
 - c) Devise a standardized form for recording of complaint data including explicitly defined categories of complaints based on
 - i. product and process
 - ii. digital app (if applicable)
 - iii. Terms & Conditions
 - iv. conduct of NBMFC staff,
 - v. marketing activities,
 - vi. communication practices,
 - vii. debt collection process,
 - viii. third party related complaints;
 - d) Provide clients with multiple channels to lodge complaints, including in-person, phone, email, and online platforms;
 - e) Ensure that clients are aware of the available complaint mechanisms and can easily access them through clear communication;
 - f) Establish and communicate standard response times for acknowledging and resolving complaint;
 - g) Implement systems to track the status of complaints and ensure timely follow-up;
 - h) Regularly seek feedback from clients on the complaint handling process to identify areas for improvement;
 - i) Provide acknowledgement receipt of complaints and provide regular updates to clients on the status of their complaints;
 - j) Clearly communicate the final resolution and any actions taken to address the complaint.
 - k) Ensure regular reporting on complaint handling performance to senior management and relevant stakeholders; and
 - l) Review complaints reports and key performance indicators (e.g., average time to resolve, percent resolved) on annual basis and takes corrective action to resolve systematic problems leading to complaints.


(Zeeshan) Rehman Khattak
Commissioner (SCD)

Distribution:

1. Chief Executive Officers of All Non-Banking Microfinance Finance Companies
2. Chief Executive Officer, Pakistan Microfinance Network.

Gender Centric Consumer Protection for NBMFCs

Introduction

The Securities and Exchange Commission of Pakistan (SECP) has issued various notifications and circular which form the basis of a consumer protection mandate for all NBFCS and NBMFCs. The following regulations of Non-Banking Finance Companies and Notified Entities Regulations, 2008 and circulars pertain to the subject of Consumer Protection either directly, or indirectly:

Regulatory

- Clause 28 – Other Terms and Conditions applicable to Lending NBFCS
 - Sub clause (d), (g)
- Clause 31. – Risk Management
- Clause 33. – Credit Underwriting Standards
 - Sub clause 1, 2, 3 and 4
- Circular 23 (2018) – Regulatory Requirements for the Branches of NBMFCs
- Circular 24 (2018) – Guidelines on Grievance Redressal System -NBMFCs
- Circular 07 (2021) – Policy Development at Board level for Gender Diversity
- Circular 09 (2021) – Policy of Gender Diversity

The G20/OECD High-Level Principles on Financial Consumer Protection set out the components that are reflective of the most holistic approach towards the wellbeing of financial consumers.

The OECD Framework consists of 12 pillars and three cross cutting themes (see figure 2 for details). Pillars 1, 2, 5 and 11 are already well developed and adequately addressed by the aforesaid regulatory framework.

The indicators for the remaining eight pillars are explained in this document. SECP encourages the adoption of these principles by NBMFCs to standardize the consumer protection practices to better serve the customers.

These principles promote enhanced transparency, greater disclosure and improved conduct/culture practices of NBMFCs which will not only help NBMFC clients in making informed choices leading to their improved financial health and empowerment but are also expected to enhance the image of NBMFCs as well governed, low risk entities for donors, international impact investors and commercial lenders.



Figure 1 Principles on Consumer Protection

1. Objective

In line with the Women Equality in Finance Policy (WEFP), the principles for gender centric Consumer Protection is designed to work in tandem to support consumer empowerment. A brief discourse is as follows:

Consumer Empowerment

The approach adopted for the Consumer Protection Principles rests on the concept of consumer centrality or **consumer empowerment**.¹

The concept is an evolution of 'do no harm' (DNH) to a more progressive concept of 'empowerment'². DNH by its very nature relies on rules of conduct defined by the regulator, and strictly adhered to, by the FSPs. While this sets the 'minimum standard of service' by the FSP, it limits the interaction between the consumer and FSP to the confines of this standard alone. A good example of such a rule-based mechanism may be disclosure and transparency requirements under Consumer Protection guidelines whereby there is no compulsion on the financial service provider to ensure that the consumer 'comprehends' the information relayed to her beyond disclosing it in a courteous manner. Thus, it places a large part of the responsibility of protection on to the consumers themselves.

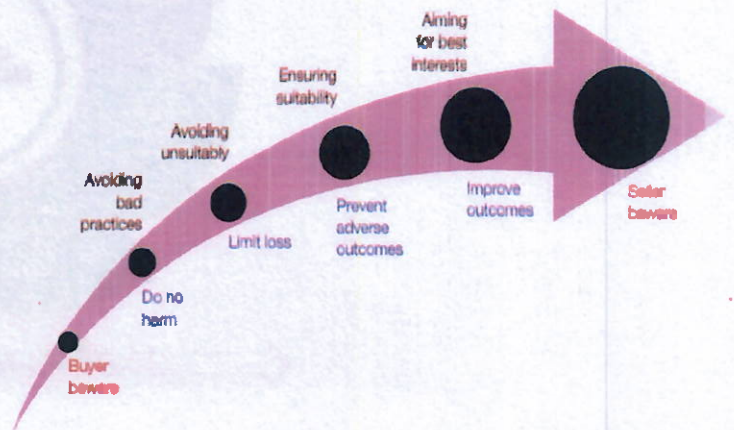


Figure 2 Empowerment vs. Do-No-Harm (CGAP 2020)

The emphasis on 'empowerment' shifts the responsibility from consumer onto the NBMFC i.e. from a 'buyer beware' to a 'seller beware' (see Fig 1). This implies that consumer awareness, education and literacy is the responsibility of the NBMFCs to ensure that the consumers are fully aware of the choices available to them to make informed decisions regarding their financial wellbeing.

For the purposes of this document, Consumer Empowerment shall carry an explicit gender component to ensure women inclusion remains a priority throughout.

2. Operational Mechanism

The existing regulatory framework primarily assigns responsibility of consumer protection to the Board of NBMFCs. To standardize consumer protection practices and ensure a heightened focus, an enhanced monitoring mechanism encompassing the consumer protection guidelines needs to be adopted. This document serves as the guiding document to standardize consumer protection in NBMFCs, while certain elements are already reflected in the existing regulatory framework whereas, SECP may mandate incremental provisions, if required, in phased manner through circular(s).

¹ Consumer Empowerment refers to the process of equipping consumers with the knowledge, tools, resources, and rights needed to make informed decisions about their financial lives. It involves giving consumers the power and confidence to manage their finances effectively, navigate financial products and services, and protect themselves from unfair practices or exploitation.

² CGAP. "Making Consumer Protection Regulation More Consumer Centric." CGAP, June 2020

3. Principles on Consumer Protection

Based on OECD/G20 high level principles on Financial Consumer Protection as depicted in figure 1, figure 3 manifests principles of consumer protection for NBMFCs.

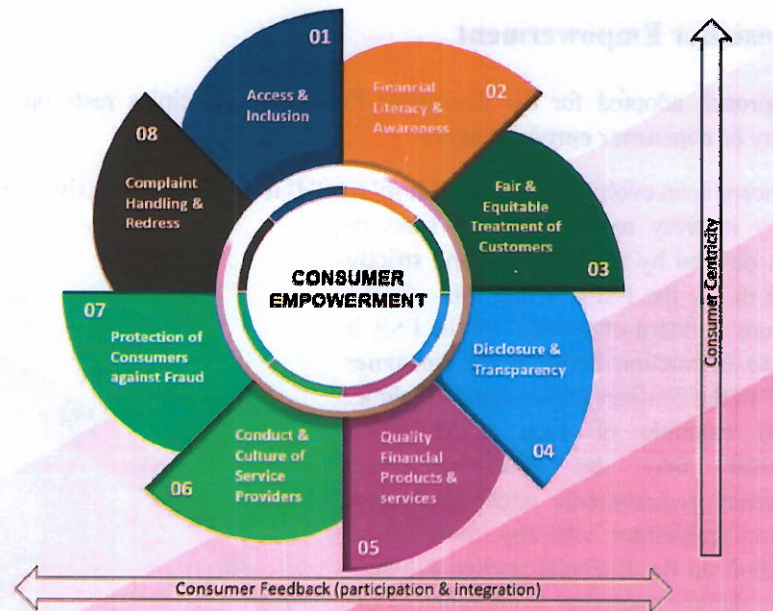


Figure 3 Consumer Protection principles for NBMFCs

Note: As mentioned earlier, principles on Legal Regulatory & Supervisory Framework, Role of Oversight Bodies, Competition, and Data & Privacy, are intentionally not included since SECP has existing frameworks, and detailed guidelines on the same.

The following document will elaborate each principle along with guiding indicators to monitor. Check [Annexure A](#) for definitions of the indicators and terms used.

3.1 Access & Inclusion

The following indicators have been suggested keeping consumer centrality as the mainstay of consumer protection.

Indicators:

1) Client Outreach and Penetration:

- **Geographical Spread:**
 - Measure the number of branches/ access point across different geographies to understand spatial presence of the organization.
 - Measure the gender disaggregated number of clients being served through the branches/access points in all geographies through both physical outreach and digital outreach.
- **Demographic Coverage:** Track demographic profile³ of clients served per branch/ access point to understand demographic spread of the organization.

³ This includes gender, age, and socioeconomic status and other indicators can be added on a periodic basis (monthly)

2) Products and Service Accessibility:

- Range of Products: Evaluate the variety of financial products and services (financial as well as non-financial) offered to meet the diverse needs of customers. This is to be segregated by product and service type, including multiple products and/or services being offered to unique active client base
- Ease of Access:
 - Assess the physical accessibility of services, ensuring customers can easily reach branches/ access points, including consideration of people with disabilities (PwD) and people with reduced mobility (e.g., people on wheelchairs; pregnant women). This includes distance between customer's residence:
 - to branch/access point
 - to loan collection location at the time of disbursement
 - to loan repayment location
 - Assess the accessibility of digital services through NBMFC digital platform subscribers including consideration of PwD.

3) Client Enrollment and Retention:

- Enrollment Processes: Simplify client onboarding process and reduce barriers to entry.
 - No of steps required for client onboarding
 - Time required for client onboarding
- Retention Rates: Monitor client's retention rates to ensure clients continue to use services over time, indicating satisfaction and ongoing relevance. For each financial year measure
 - No. of unique new clients added per product and service
 - No. of repeat clients per product and service
 - Total number of unique new clients
 - Total number of repeat clients⁴

4) Financial Inclusion Metrics:

- Multiple Borrowing: Measure the percentage of existing gender disaggregated clients base with active loans with financial service providers.
- Insurance Utilization: Track insurance claims paid (by number and value) among different client segments segregated by geography, type of product and/or service.

5) Customer Feedback and Participation:

- Customer Satisfaction Surveys: Conduct annual surveys to gather feedback on service quality and accessibility, such as (1) Net promoter score (NPS)⁵, (2) loan turnaround time, (3) product feature match to customer needs, (4) adequacy of loan amounts, (5) staff treatment/behavior, etc. Ensure inclusion of women clients for a comprehensive view of client sentiment.

3.2 Financial Literacy & Awareness

Financial literacy and awareness are foundational elements of effective consumer protection, particularly for Non-Bank Microfinance Corporations (NBMFCs). It is important to make informed

⁴ Repeat loan client denotes a client who takes a subsequent loan within 90 days prior loan completion.

⁵ Measure the likelihood of clients recommending the MFI to others, which can indicate overall satisfaction with how they are treated.

decisions about financial products and services. This principle focuses on education and awareness initiatives to enhance consumer knowledge.

Indicators:

- 1) Customer Knowledge and Understanding:
 - Financial Concept Understanding Rate: Percentage of clients who demonstrate understanding of key financial concepts⁶.
- 2) Education and Training Programs:
 - Access to Training: Evaluate the availability and accessibility of financial education programs for clients.
 - Participation Rates: Track the percentage of (gender disaggregated) clients participating in financial literacy programs.
 - Pre- and Post-Training Knowledge Score: The difference in financial knowledge before and after training programs, measured through tests or surveys.
- 3) Communication and Outreach:
 - Clarity of Communication: Ensure that all communications about financial products and services are clear, concise, and understandable to clients.
 - Use of Multiple Channels: Assess the use of various communication channels (e.g., in-person, digital, print) to reach clients effectively, with special attention to channels that work best with women – including gender disaggregated data.
 - In-person Literacy Training: Percentage of clients who received training through in-person training
 - Financial Literacy Digital Access Rate: NBMFCs also using digital app for business can assess the percentage of clients accessing digital platforms (where training materials is available) for financial literacy resources and tools.
- 4) Impact on Financial Behaviour:
 - Financial Behaviour: Monitor changes in clients' financial management habits as a result of financial literacy programs. Track gender disaggregated,
 - Consumer Rights Awareness Rate: Percentage of (gender disaggregated) clients who can accurately identify their rights as financial consumers (e.g., the right to transparent terms, complaint procedures)⁷.
 - Complaint Process Awareness Rate: Percentage of (gender disaggregated) clients who are aware of how to file a complaint or report financial misconduct.
 - Fraud Awareness Rate: Percentage of (gender disaggregated) clients who can identify common fraud schemes (e.g., phishing, identity theft) and know how to protect themselves.

3.3 Fair & Equitable Treatment of Customers

Ensuring fair and equitable treatment of customers, including a gender-sensitive approach, remains fundamental to consumer protection.⁸

Indicators:

- 1) Non-Discrimination:
 - Inclusive Practices: The Board must monitor policies to ensure non-discrimination⁹ in client selection and treatment based on gender, age, ethnicity, or socio-economic status. Record and evaluate

⁶ Suggested indicators include interest rates, net disposal income, savings, budgeting and insurance.

⁷ This can be done on a sample basis

⁸ Clause 28, and Clause 33(3)(b) provides some guidance which requires further explanation, as provided in this document.

⁹ Categories for discrimination extend to People over 40 years old; Gender; civil/marital status Race/ethnicity/ social origin / caste; Religion; Health status, including Disability; Political affiliation/opinion;

- loan approval and rejection rates across different geographies and demographic segments to identify any potential biases or discrimination
 - client complaint data across various geographies and demographic segments
 - Equitable Access: Assess the extent to which all clients, including underserved segments such as women and PwD and other marginalized groups, have equal access to financial services. (see also Access and Inclusion indicator 1 and 2)
 - Analyse and compare current and past diversity index for flagging discriminatory practices
 - Assess the percentage uptake of individual products and services by geography and demographic to ensure equal accessibility of all client groups, including those in remote or underserved areas
- 2) Respectful Treatment:
- Code of Conduct: Implementation of a code of conduct that mandates respectful treatment of clients by staff and agents.
 - Development of comprehensive client protection policy and manual of code of conduct.
 - Development and enforcement of penalties/sanctions in case of breach of client protection principles or code of conduct.
 - Include metrics related to fair treatment and client satisfaction in staff performance evaluations to encourage responsible behavior.
 - Training Programs: Regular training for staff on the principles of fair and respectful treatment with special attention to anti-harassment and coercion (including speak-up and reporting mechanisms and non-retaliation clause).
 - Ensure mandatory annual training programs on client protection, and code of conduct for all employees. New employees to be trained on Consumer Protection within 6 months of recruitment.
 - Link completion of mandatory training programs on client protection and code of conduct to annual bonuses, and promotions, as well.
- 3) Fair Sales and Marketing Practices:
- Sales Techniques: Ensure that sales techniques are transparent and do not exploit clients' lack of knowledge or financial vulnerability.
 - Sales Script Audits: Regular reviews and audit of the scripts or guidelines used by sales representatives to ensure alignment with fair and ethical practices as defined by client protection policy/manual.
 - Sales Incentive Structures: Analyze the incentive structures for sales staff to curb aggressive selling or the sale of unsuitable products. Percentage of incentives should be aligned with responsible sales behavior.
 - Sales Process Observations: Board should devise mechanism to conduct periodic reviews of sales interactions to ensure compliance with ethical sales practices, focusing on
 - Information of products to clients
 - Time allowed to clients to make an informed choice
 - Explicit customer consent
 - Marketing Techniques: Carefully monitor marketing strategy to account for
 - Gender Intentional Advertising Content: Review marketing materials to standardize inclusive marketing practices ensuring non-misleading claims, and curbing over-promising, or omission of critical information.
 - Cultural Competence: Ensure marketing practices are culturally sensitive and respectful of the client's background, such as use of local language, legible disclaimers, and mandatory inclusion of complaint number for client protection.
 - Marketing Audits: Conduct or participate in audits to ensure marketing practices remain in compliance with legal requirements, client protection policy/manual and industry best practices.

- 4) Debt Collection Practices:
- Ethical Collections: Monitor and enforce ethical debt collection practices that do not involve harassment or coercion, particularly of women and other underserved segments.
 - Prohibitive Practices: development of policy and practice guide on prohibitive practices such as
 - corruption, theft, kickbacks, and fraud.
 - client intimidation through use of abusive language, using physical force, limiting physical freedom, sexual harassment, shouting at the client, entering the client's home uninvited, publicly humiliating the client, using threats
 - Discrimination against all clients
 - Disclosure (of debt collection policy): information provided to the client (verbally or in writing) regarding prohibited behaviors found in the code of conduct of debt collection practices.
 - Client Support: Provide flexibility to clients facing difficulties in repayment, including restructuring options and financial counselling, with special content or formulation of content in attention to women's and other underserved segments' needs and challenges. NBMFCs to have a Client Rehabilitation policy to cater to distressed clients.
- 5) Client Feedback Mechanisms:
- Complaint Handling: Establish accessible and efficient mechanisms for clients to file complaints and receive timely resolutions.
 - Feedback Integration: Use client feedback to continuously improve policies and practices related to client treatment.

3.4 Disclosure & Transparency

Disclosure and transparency are on-going continuous processes which are applicable to pre-contract, contract and post contract stages of engagement with a customer. The following section covers international best practices and possible indicators to ensure disclosure and transparency.

Indicators:

- 1) Clear Communication of Terms and Conditions:
- Comprehensive Product Information which denotes all financial products and services to have clear, complete, and comprehensible descriptions, including terms, conditions, and pricing.
 - Offer a channel for clients to ask questions and receive additional information prior to signing contracts.
 - Key Facts Statements: Provide standardized key facts statements summarizing essential information for each product. The KFS should contain the following information:
 - Total loan amount
 - Pricing, including interest rate (declining balance method/flat), processing charges, all applicable fees
 - Total cost of credit: all principal, interest, and other fees (if any)
 - Disbursement date and loan term
 - Repayment schedule with principal and interest amounts, number, and due dates of all repayment instalments.
 - All deductions from principal disbursement (e.g., first instalment, insurance cost, documentation fees, other fees if any), if applicable
 - Early repayment option availability and its terms
 - Previous outstanding loan deductions (if any)

- **Loan Contracts:** the loan contracts should be available in local language and a signed copy needs to be shared with the clients along with a signed copy to be kept in the records by the organization. The contract should include the following information, as applicable to the product:
 - Grace period
 - Linked products
 - Member or guarantor obligations
 - Collateral requirements and seizing procedures
 - Consequences of late payment and default
 - Early payment conditions: whether it is possible and how it effects the cost.
 - Affixed Terms & Conditions of the financing until maturity of loan.
 - **Loan Repayment Schedule:** a loan repayment schedule needs to be shared with the client at the time of disbursement which is signed by the client and authorized signatory of the organization. The loan repayment schedule should contain the following:
 - Client information
 - Loan Amount (principal + interest)
 - Number of loan instalments
 - Break-up of loan instalments (principal + interest + affiliated products)
 - APR
 - Early repayment option availability
- 2) **Transparent Pricing:**
- **Fee Disclosure:** Disclose all fees and charges associated with financial products in a clear and understandable manner during screening/formation, approval of loan, and time of disbursement.
 - **Total Cost of Credit:** Clearly explain the total cost of credit, including interest rates, fees, and any other charges.
- 3) **Disclosure of Risks:**
- **Risk Information:** Clearly communicate the risks associated with each financial product and service.
- 4) **Regular Updates and Notifications:**
- **Identify at the time of contract signing the mode of communication (preferably more than one channel) such as**
 - Document/letter,
 - email,
 - Phone call in tandem with SMS, or WhatsApp (if smartphone available),
- 5) **Accessibility of Information:**
- **Multiple Channels:** Ensure that information is accessible through various channels, including in-person, online, and mobile platforms.
 - **Language and Format:** Provide information in multiple languages and formats to cater to the diverse client base.

3.5 Quality Financial Products & Services

Providing quality financial products and services is crucial for ensuring client satisfaction and promoting financial stability. By emphasizing quality, the document ensures that financial products are not only accessible but also suitable for customers' specific financial circumstances and goals. It is important for NBMFCs, which frequently cater to low-income and vulnerable populations, including women with distinct financial needs to design product/services with the following guidelines.

Indicators:

- 1) **Appropriateness of Products and Services:**
 - **Market information:** Analysis of market share, market saturation and potential market

- Client information: Client profile data, including gender, age, location(urban/rural) and poverty/income level.
 - Needs Assessment: Conduct regular assessments with customers to ensure financial products and services meet the diverse and evolving needs of clients.
 - Product Suitability: Match products to the financial capacity and goals of different client segments, with special attention to women in different segment categories, including women homemakers, women in business, women in agriculture, etc. This can be assessed through
 - Repeat Borrowing Rate: Percentage of clients who return for new loans after successfully repaying earlier loans, indicating that the previous loan product was appropriate.
 - Youth/First-Time Borrower Success Rate: Percentage of first-time borrowers, particularly young clients, who successfully repay their loans, indicating that products were designed to suit their experience and financial capacity.
 - Products and services for basic needs: NBMFCs are encouraged to offer products and services for basic needs, such as housing, energy, and education, offer products and services that help clients maintain stable levels of expenditure despite income fluctuation or emergencies. This includes emergency loans, savings with an easy withdrawal process, voluntary insurance, non-financial services. NBMFCs are required to ensure cross selling appropriateness rate for customers.
 - Cross-Selling Appropriateness Rate: Percentage of clients who take additional products (e.g., savings, insurance) that align with their financial needs and capacity without overburdening them.
- 2) Product Performance and Impact, tracking sex disaggregated data across all metrics:
- Client Outcomes: Track the impact of financial products on customers' financial health and well-being, through following metrics
 - Business Success Rate for Microfinance Loans: Percentage of borrowers who successfully grow or sustain their businesses with the help of loans, indicating that the loan amount, repayment terms, and product were appropriate.
 - Household Financial Health Improvement: Percentage of customers who report an improvement in their financial situation (e.g., higher income, reduced debt, increased savings) after using the product.
 - Usage Patterns: Analyse how customers use financial products and services to ensure they are effective and beneficial
 - Customized Product Rate: Percentage of products that offer flexibility (e.g., repayment terms, loan sizes) tailored to the customer's specific financial situation and needs.
 - Flexible Repayment Option Uptake: Percentage of customers opting for flexible repayment schedules that accommodate their income fluctuations (e.g., seasonal workers).
 - Early Repayment Rate: Percentage of loans repaid early without penalties, showing that customers was able to manage their finances better than expected.
 - Products and Services help customers achieve their goals while applying a gender analysis to the appraisal of product satisfaction: The provider offers products/services that enable customers to invest in economic opportunities such as business loans for start-up, working capital, and investment.
 - Product Utility Satisfaction Rate: Percentage of customers who report that the product helped them achieve their stated financial goals (e.g., building savings, starting a business, covering emergency expenses).
 - Business Success Rate for Microfinance Loans: refer to Product Performance and Impact above.

- Household Financial Health Improvement: refer to Product Performance and Impact above
- 3) Client Satisfaction, tracking sex disaggregated data:
 - Feedback Mechanisms: Implement regular surveys and feedback mechanisms to gauge customer's satisfaction with products and services.
 - Complaint Resolution: Assess the complaint data pertinent to products and services to assess the appropriateness of the product suite.
- 4) Innovation and Responsiveness:
 - Product Innovation: Develop and introduce new products and services in response to evolving client needs, with special attention to women in different segment categories, including women homemakers, women in business, women in agriculture, etc. Dedicate resources (funds and employee time) for ongoing development and improvement of products, services, and delivery channels.
 - Adaptability and Modification: Demonstrate the ability to adapt or modify products and services based on customer feedback and market changes.
 - Flexible Product Uptake: Percentage of clients opting for flexible loan or savings products that adapt to seasonal income fluctuations, especially in sectors like agriculture.
 - Early Repayment Option Availability: Percentage of loans that offer early repayment without penalties, showing flexibility to customers' changing financial situations.
 - Pilot testing: Test products among customers with different socioeconomic and demographic characteristics.

3.6 Conduct & Culture of Service Providers

This section should be read in conjunction with Women Equality in Finance Policy (WEFP) for a deeper understanding & promotion of gender-sensitive training for staff, promoting gender diversity in leadership roles, and creating an inclusive environment that supports the financial needs of women.

Indicators:

- 1) Ethical Behaviour and Professionalism:
 - Code of Conduct: Implement and enforce a comprehensive code of conduct outlining ethical behaviour and professionalism standards.
 - Staff Training: Regular training programs on ethics, professionalism, gender inclusivity and customer service for all employees.
- 2) Consumer-Centric Culture:
 - Consumer Focus: Foster a culture that prioritizes consumer needs, satisfaction, and welfare.
 - Employee Incentives: Align employee incentives with consumer-centric goals and ethical behaviour.
- 3) Accountability and Transparency:
 - Performance Monitoring: Board to devise a policy for regular monitoring and evaluation of staff performance against ethical and client service standards.
 - Transparent Practices: Maintain transparency in all dealings with clients, including clear communication and honest interactions.
- 4) Responsible Leadership:
 - Leadership Commitment: Ensure leadership commitment to ethical practices and consumer-centric culture.
 - Role Modelling: Leaders should model ethical behaviour and customer-focused values.

5) Grievance and Whistleblowing Mechanisms:

- Accessible Channels: Provide accessible channels for customers and employees to report unethical behaviour or grievances, including identified best channels for women and other underserved groups such as PwD, in acknowledgement of their more reduced time and mobility.
- Protection and Support: Ensure protection and support for whistle-blowers and those reporting grievances. This includes protection against retaliation, sexual harassment, and discrimination on the basis of gender.

3.7 Protection of Consumers against Fraud

Financial fraud can lead to significant financial losses for consumers, particularly for those in low-income brackets served by NBMFCs. Implementing robust fraud protection measures ensures that consumers' funds are secure. Best practices for fraud prevention, therefore, focus on customer education, strong and robust internal controls, and periodic internal checks and audits. Following are the guiding indicators to ensure protection of customers against fraud.

Indicators:

1) Awareness and Education:

- Conduct regular awareness programs through multiple mediums to educate customers about common fraud schemes and how to protect themselves. The board should review the plan/strategy and monitor its implementation.
- Conduct regular awareness programs for staff to educate them on detection of fraud such as early warning signs including irregular recovery trends, delayed/early target achievement, lumpy recovery, concentration of portfolio in certain communities, community perception about staff, relationships of staff with community members/clients, etc.

2) Strong Internal Controls:

- Segregation of Duties: Ensure that critical financial tasks are divided among different employees to reduce the risk of internal fraud.
 - Percentage of fraud portfolio: Quarterly reporting of the percentage of portfolio impacted by fraud to BoD. This should include the nature and type of fraud i.e staff, client, third party.
 - Staff Fraud Awareness Training Coverage: Percentage of employees who have received fraud prevention training, ensuring they are up to date on the latest fraud schemes and prevention techniques.
 - Staff Whistleblower Reports: Number of fraud cases reported internally by staff through whistleblowing channels, showing how actively staff contribute to fraud detection
 - Employee Disciplinary Action Rate: Percentage of fraud-related incidents that result in disciplinary action against employees involved in fraud.
- Regular Audits: Conduct frequent internal and external audits to identify and mitigate potential fraud risks. This should be monitored by the BoD.
- Escalation mechanisms: Ensure that adequate escalation mechanism exist based on severity of fraud to control the degree to which frauds impact clients and the organization. This should be monitored by the Board.

3. Robust Security Measures:

- Data Encryption: Use strong encryption methods to protect client data from unauthorized access,
- Secure Authentication: Implement multi-factor authentication for accessing Loan Management Systems.

4. Timely Response: Ensure that all fraud reports are investigated promptly and thoroughly, tracking sex-disaggregated data.

- Fraud Resolution Time: Average time taken to resolve a fraud-related complaint from the moment it is reported to when the case is closed.

3.8 Complaint Handling & Redress

Circular 24 of 2018 "Guidelines on Grievance Redressal System in Non-Bank Microfinance Companies (NBMFCs)" set out a structured approach for handling consumer complaints, ensuring fairness, transparency, accessibility, and efficiency. While the guidelines provided are quite comprehensive, the following additions can further enhance their completeness.

- Broadening of the definition of 'customer' to include 'potential customer'.
- Defining women as a priority customer
- Training of Grievance Redressal staff, including gender sensitivity in recording and resolving complaints.
- Recording of sex disaggregated data across all metrics.
- Standardized form for recording of complaint data including explicitly defined categories of complaints based on
 - product and process
 - digital app (if applicable)
 - Terms & Conditions
 - conduct of NBMFC staff,
 - marketing activities,
 - communication practices,
 - debt collection process,
 - third party related complaints
- Frequency of reporting to SECP for sectoral analysis

The following indicators are defined from a global best practice at a minimum.

- 1) Accessible and Clear Channels:
 - Multiple Channels: Provide clients with multiple channels to lodge complaints, including in-person, phone, email, and online platforms.
 - Visibility and Awareness: Ensure clients are aware of the complaint mechanisms and how to access them through clear communication and signage.
- 2) Timely Resolution:
 - Standard Response Times: Establish and communicate standard response times for acknowledging and resolving complaints.
 - Tracking and Monitoring: Implement systems to track the status of complaints and ensure timely follow-up.
- 3) Fair and Impartial Process:
 - Independent Review: Ensure complaints are reviewed impartially, possibly through an independent complaints committee reporting directly to the Board on a quarterly basis.
 - Client Feedback: Regularly seek feedback from clients on the complaint handling process to identify areas for improvement.
- 4) Effective Communication:
 - Acknowledgment and Updates: Acknowledge receipt of complaints and provide regular updates to clients on the status of their complaints.
 - Final Resolution: Clearly communicate the final resolution and any actions taken to address the complaint.
- 5) Continuous Improvement:
 - Root Cause Analysis: Conduct root cause analysis of complaints to identify systemic issues and implement corrective actions.
 - Reporting and Accountability: Regularly report on complaint handling performance to senior management and relevant stakeholders.
 - Management reviews complaints reports and key performance indicators (e.g., average time to resolve, percent resolved) and ~~se~~ takes corrective action to resolve systematic problems leading to complaints. Minimum frequency: annually

Definitions

	Definitions
Access to Training	Number of financial education programs available to clients
Account Penetration	Percentage of clients with active financial accounts.
Automated Monitoring	Implementation of advanced systems for continuous monitoring and detection of suspicious activities
Baseline Financial Literacy	Pre-service assessment scores of clients' financial knowledge
Change Notifications	Timely notification of any changes to terms, conditions, or pricing
Clarity of Communication	Client feedback scores on the clarity and understanding of communication materials.
Client Feedback	Regular collection of feedback from clients on the complaint handling process
Client Focus	Organizational culture prioritizing client needs, satisfaction, and welfare.
Client Outcomes	Monitoring and evaluating the impact of financial products on clients' financial health through comparison of before and after income status.
Client Participation	Number and effectiveness of client participation mechanisms.
Client Satisfaction Surveys	Regularity and scores of client satisfaction surveys.
Client Support	Availability and use of support services for clients facing repayment challenges
Code of Conduct	Documented guidelines on respectful treatment, adherence monitored regularly
Code of Conduct	Comprehensive guidelines outlining expected ethical behaviour and professionalism standards.
Comprehensive Product Information	Availability of detailed product descriptions, including terms, conditions, and pricing.
Consumer Empowerment / Consumer Centrality	A broad concept, which places responsibility on regulators and financial services providers to make use of easier, safer financial services and of greater benefit to consumers
Consumer Protection	Framework of laws, regulations, guidelines, and institutional arrangements that safeguard customers by ensuring fair and responsible treatment for them in the financial marketplace
Credit Management	Reduction in instances of client over-indebtedness and improved credit repayment behaviour.
Customer	All existing and potential customers of NBMFC, having or desirous of having any business relationship with NBMFC, including but not limited to financial and non-financial products and services
Demographic Coverage	Diversity index of clients based on gender, age, income level
Ease of Access	Number of physical service points and availability of digital platforms.
Employee Incentives	Incentive structures that align with ethical behaviour and client-centric goals

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Engagement in Financial Planning	Percentage of clients actively participating in budgeting and financial planning activities.
Enrolment Processes	Time and steps required for client on boarding.
Equitable Access	Measures to ensure all clients, including marginalized groups, can access services
Ethical Collections	Monitoring and reporting on debt collection practices to prevent harassment
Fee Disclosure	Clear and detailed disclosure of all fees, charges, and interest rates
Feedback Mechanism	Regular surveys and feedback systems to assess client satisfaction
Final Resolution	Clear communication of the final resolution and actions taken
Geographical Coverage	Percentage of services offered in rural vs. urban areas
Grievance Channels	Accessible and effective channels for reporting unethical behaviour or grievances
Improvement in Financial Knowledge	Difference in financial literacy scores before and after training
Inclusive Practices	Policies and practices that prevent discrimination and promote equality
Independent Review	Impartial review of complaints, potentially through an independent complaints committee.
Key Facts Statements	Standardized summaries of essential product information provided to clients
Loan and Savings Utilization	Usage rates of loan and savings products.
Needs Assessment	Regularly conducted assessments to understand client needs and preferences
Participation Rates	Percentage of clients attending financial literacy training sessions
Periodic Statements	Regular account statements outlining transactions, balances, and fees
Product Innovation	Development of new products in response to changing client needs.
Product Suitability	Client assessments to ensure financial products meet their needs and capacities
Product Suitability	Measures ensuring financial products match client financial capacity and goals
Range of Products	Number and variety of financial products offered.
Regular Audits	Frequent internal and external audits to identify and mitigate fraud risks
Reporting and Accountability	Regular reporting on complaint handling performance to senior management and stakeholders.
Retention Rates	Percentage of clients retained year-over-year.
Risk Information	Communication of risks associated with financial products
Root Cause Analysis	Analysis of complaints to identify and address systemic issues
Sales Techniques	Audit results on sales practices to ensure transparency and appropriateness
Satisfaction with Training Programs	Client satisfaction survey results regarding financial literacy programs.
Savings Behaviour	Changes in the frequency and amount of client savings
Scenario Analysis	Provision of examples illustrating potential financial outcomes

Secure Authentication	Implementation of multi-factor authentication for accessing financial services
Segregation of Duties	Division of critical financial tasks among different employees to reduce internal fraud risk.
Standard Response Times	Established and communicated timelines for acknowledging and resolving complaints.
Total Cost of Credit	Explanation of the total cost of credit, including all associated charges
Training Programs	Number and frequency of training sessions on fair treatment for staff
Usage Patterns	Analysis of how clients use products to ensure effectiveness and benefit
Use of Multiple Channels	Variety of communication channels used to disseminate information
Whistle-blower Protection	Mechanisms to protect and support whistle-blowers and those reporting grievances.