Securing the personal loans process

A case of the State Employees' Social Security and Social Services Institute

State Employees' Social Security and Social Services Institute
Mexico
Summary

There was a year in Mexico when identity theft increased by 141 per cent. According to statistics from the Bank of Mexico, the country has the eighth highest rate of identity theft in the world (Gazette No. 2667, Chamber of Deputies: 2016).

As regards the State Employees' Social Security and Social Services Institute (Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado – ISSSTE), weaknesses were found in the personal loan approval process that facilitated the falsification of ID documents and loan application forms.

It was also discovered that in several offices, departments and trade unions, certain staff were extracting bribe payments from members in return for loan approval.

Internal control measures were therefore needed to increase security in the personal loan approval process to ensure that it complied with the relevant regulations and maintained the sustainability of the fund.

The issue or challenge

What was the issue or challenge addressed by your good practice? Please provide a short description.

The challenge was to tackle and overcome weaknesses and shortcomings in the internal process for granting personal loans and thereby ensure the sustainability of the Institute’s loan program.

Addressing the challenge

What were the main objectives of the plan or strategy to resolve the issue or challenge? List and briefly describe the main elements of the plan or strategy, focusing especially on their innovative feature(s) and expected or intended effects.

Specific measures were required to reduce the incidence of identity theft nationwide, including:

Revision of the personal loan application form. The form has become significantly more secure over the past two years thanks to an institutional safeguard that involves more than ten physical and digital means to prevent falsification. Since 2014, no falsified personal loan forms have been reported.

In an effort to reduce the falsification of members’ personal and work documents aimed at identity theft and taking out loans in their names, state and regional office staff in the loan granting process are trained every year on how to identify forged documents and prevent forgery.

This year, the words “to be paid into account” were added to all cheques issued for personal loans, adding another filter to close loopholes in the payment system.
Rule-based processes have been established so that as soon as the rightful account holder begins an application process either online or in person, the loan conditions are generated automatically using member details as recorded in the Institute’s system (seniority, basic salary, salary level).

As well, public programs and events are organized in several Mexican states which enable people to access personal loans in a more direct and transparent way.

The ISSSTE has also been working towards the signing of an agreement with the National Electoral Institute to allow fingerprint identification of individuals at any personal loans service desk using their voter credentials.

Measures are also being prepared to combat the buying and selling of personal loans; these will focus on spreading awareness that the loan application process is fee and encouraging the reporting of attempts to extract bribes for loan approval.

The above actions aim to provide an institutional response whereby all entities involved in the personal loan approval process shoulder the responsibility of combating illegal practices, ensuring that loan approval is high quality, user-friendly, democratic, transparent and ethical.

**Targets to be achieved**

What were the quantitative and/or qualitative targets or key performance indicators that were set for the plan or strategy? Please describe briefly.

The measures have eradicated the falsification of personal loan applications: since 2014, no falsified forms have been reported.

Furthermore, tools such as textile loupes, ultraviolet lamps and decoding units enable authenticity checks of members’ documentation, which helps identify forgeries and risk factors.

Weaknesses in the payment process have been overcome by introducing the option to pay loan cheques straight into a bank account.

Finally, the practice of extracting payment from members in return for loan approval has been reduced by clearly displaying signs warning members against this.

**Evaluating the results**

Has there been an evaluation of the good practice? Please provide data on the impact and outcomes of the good practice by comparing targets vs actual performance, before-and-after indicators, and/or other types of statistics or measurements.

With the measures in place, the ISSSTE has ensured the sustainability of the loan fund, achieving an increase in the annual personal loan programme from 17,228 million Mexican pesos (MXN) in 2012 to MXN 28,062 million in 2017 – a historic increase of more than MXN 10,800 million.
This means that, at the end of the current administration in 2018, the Institute would have injected a total of MXN 155,500 million worth of personal loans into the Mexican economy to fund about four million loan accounts.

The current priority is to guarantee members’ security by avoiding weaknesses in the payment system, preventing identity theft and ensuring that applicants qualify for personal loans.

**Lessons learned**

*Based on the organization’s experience, name up to three factors which you consider as indispensable to replicate this good practice. Name up to three risks that arose/could arise in implementing this good practice. Please explain these factors and/or risks briefly.*

The use of technology, internal control mechanisms, clear and innovative processes and ongoing training for staff in the loan approval process have all made the service more secure and efficient, and has improved its quality as well as ensured the financial sustainability of the personal loan fund.

This would not have been possible without inter-institutional cooperation. In this instance, banking institutions collaborated to enable direct payment of members’ cheques to their own accounts.

Cooperation is also being pursued with the National Electoral Institute to enable fingerprint checking of loan applicants.

The assistance of each of the 35 offices across the country was also pivotal in ensuring the desired impact nationwide.

However, there is still a risk that the security measures taken may be circumvented or undermined if they are not periodically updated, and may not be enforced if staff and members are not made sufficiently aware of them.