The Pricing Transparency Index

What is the Pricing Transparency Index?

The Pricing Transparency Index is a rating of pricing transparency. The Index shows the percentage of the loan price that is communicated by the lender’s nominal interest rate to the borrower. It can be applied at a range of levels - country, institution, product and loan.

The higher the Pricing Transparency Index rating = the more transparent the price.

How is the Pricing Transparency Index Calculated?

The Pricing Transparency Index is calculated by comparing the nominal interest rate quoted by the lender with the true price paid by the borrower.

\[
\text{Pricing Transparency Index (\%)} = \frac{\text{Quoted annual nominal interest rate}}{\text{Full APR (interest + fees + insurance + tax + deposit)}} \times 100
\]

Loan Sample Level: As above, nominal interest rate as percentage of the full price of the loan paid by the borrower. Calculated using a real loan delivered to a borrower.

Product Level: The average index rating of three to six loan samples in a range of representative disbursement sizes and loan durations.

Institution Level: The average index rating of an institution’s microloan products, weighted by borrower number.

Country Level: The average index rating of all microloan products in that country from institutions who participated in the Transparent Pricing Initiative, weighted by number borrowers in each institution.
For MFIs: How can I improve my Pricing Transparency Index?

To improve a transparency index rating the institution must become more transparent in the communication to borrowers about the prices they pay for their loans.

Steps to consider include:

- Quote interest rate using the declining balance rather than flat interest rate calculation method. For more information please [click here](#).
- Avoid the use of hidden fees or complex fee structures. These are confusing for the borrower and result in loans being presented to the borrower as deceptively inexpensive.
- Consider the suitability of compulsory deposits tied to this loan product and ensure that their impact on loan price is presented to the borrower.
- Quote full prices to the borrower using APR, including the cost of all fees, all insurance charges, all taxes paid by the borrower and all compulsory deposits.
- For more information regarding this please [contact us](#).

For Industry Stakeholders: How can I use the Pricing Transparency Index?

The Pricing Transparency Index informs whether borrowers are being accurately communicated with. It can be used by industry stakeholders for a variety of purposes:

**Microfinance Providers:** The Index highlights if you need to improve your pricing practices to ensure your clients are receiving accurate information.

**Regulators:** In this way the Index can be used to help strengthen your microfinance industry and ensure consumers are protected.

**Investors & Donors:** The Index highlights those institutions that adhere to international standards of best.

**Borrowers:** The Index provides a metric that can be used to compare the competition and make an informed choice on your loan.

**Industry Support:** The Index highlights those institutions that promote responsible microfinance, social performance and consumer protection. Ensure your partners work towards improving their pricing transparency.

MFTransparency is promoting price transparency by educating stakeholders, promoting standards for disclosure and by publishing the true costs of microfinance products in a clear, consistent fashion. To learn more please visit [www.mftransparency.org](http://www.mftransparency.org) or contact us at info@mftransparency.org.