



Communication to the Client

MicroFinance Transparency
Nairobi, Kenya
June 19th, 2013

Outline

- How Pricing Impacts Microfinance Clients
- *MFTransparency's* Role
- Example(s) in Model Pricing Disclosure Policies
- Examples of Financial Education Programs

How Pricing Impacts Clients

- Microfinance clients are price sensitive – prices are linked to demand
- Is the return to capital high enough for clients to repay at these rates? Do clients with only high rates of return borrow / continue to borrow?
- How can clients calculate their financial costs so as to decide between different loan products?
 - Pricing disclosure: simple and clear loan documentation
 - Financial Education: simple and clear messages

MFTransparency's Role

“We have made major investments in improving the quality and clarity of information on microfinance institutions. But we have not yet invested as much as we should in making sure costs of financial services for poor clients are clear and fair. MFTransparency's initiative is a bold one that promises to fill an important gap.”

- Elizabeth Littlefield, ex-Director and CEO, CGAP

MFTransparency's Role cont'd

- **Pricing Disclosure:** Collection and review of sample client loan documentation and repayment schedules, documenting best practices, promoting clear and transparent loan documentation and repayment schedules as a means of proper communication to clients.
- **Financial Education:** Development of a universal pricing education package (including public service announcements, jingle, animation videos, training manuals, handbooks and guides) that provides simple and clear messages on loan pricing for microcredit clients

Pricing Disclosure: Bosnia & Herzegovina

- In 2006 the Banking Agency issued disclosure measures for effective interest rates on loans and required that MFIs deliver clear communicative repayment schedules to their clients.
 - A definition and methodology for calculating the Effective Interest Rate (EIR) of a loan, including fees, compounding interest and deposit requirements
 - A standard format for communicating EIRs to clients, specifying the number of decimals (two), way of stating the term (“effective interest rate”) and abbreviation of the term (“EIR”)
 - A requirement that the EIR be communicated to clients through the loan contract, repayment schedule and displayed in the offices of the MFI
 - A requirement that the EIR be communicated and explained to clients before they sign the loan contract
 - A requirement that MFIs must also report weighted nominal and effective interest rates to the regulator on a monthly basis

Pricing Disclosure: Bosnia & Herzegovina (cont'd)

- Bosnia & Herzegovina Legislation Regulations went as far as:
 - Specifying the components of the repayment schedule
 - Providing a standard format for communicating the repayment schedules
 - Borrowers must receive information on all the charges required of them as well as calculation of their overall cost of borrowing

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Ime i prezime: [REDACTED]
JMB: [REDACTED]
Broj Kredita: [REDACTED]

PLAN OTPLATE KREDITA

Valuta: KM Otplatna rata: 55,00 Godišnja kamatna stopa: 19,81%

sa valutnom klauzulom/ Nominalna kamatna stopa: 0,00% mjesečna fiksná/promjenjiva Efektivna kamatna stopa: 21,72%

Iznos kredita: 550,00 sa valutnom klauzulom/ bez valutne klauzule

Period	Datum dospeća	Ispata kredita	Druge isplate	Anuitet	Uplata glavnice	Uplata kamate	Druge uplate	Šteta kredita	Tokovi novčanog depozita (potraživanja)	Napomena Opis
1	25.07.2008	550,00						550,00		Ispata
0	25.07.2008						50,00	550,00		Administrativna provizija
1	05.09.2008			55,00	55,00	0,00		495,00		1. rata
2	06.10.2008			55,00	55,00	0,00		440,00		2. rata
3	06.11.2008			55,00	55,00	0,00		385,00		3. rata
4	05.12.2008			55,00	55,00	0,00		330,00		4. rata
5	06.01.2009			55,00	55,00	0,00		275,00		5. rata
6	06.02.2009			55,00	55,00	0,00		220,00		6. rata
7	06.03.2009			55,00	55,00	0,00		165,00		7. rata
8	05.04.2009			55,00	55,00	0,00		110,00		8. rata
9	06.05.2009			55,00	55,00	0,00		55,00		9. rata
10	05.06.2009			55,00	55,00	0,00		0,00		10. rata
Ukupno		550,00	0,00	550,00	550,00	0,00	50,00		0,00	

Napomena: Iskazana EKS vazeca je na datum izrade otplatnog plana. Otplatna rata uključuje otplatnu kvotu, uplatu kamate, naknadu za servisiranje kreditne parije i transakcijsku naknadu.

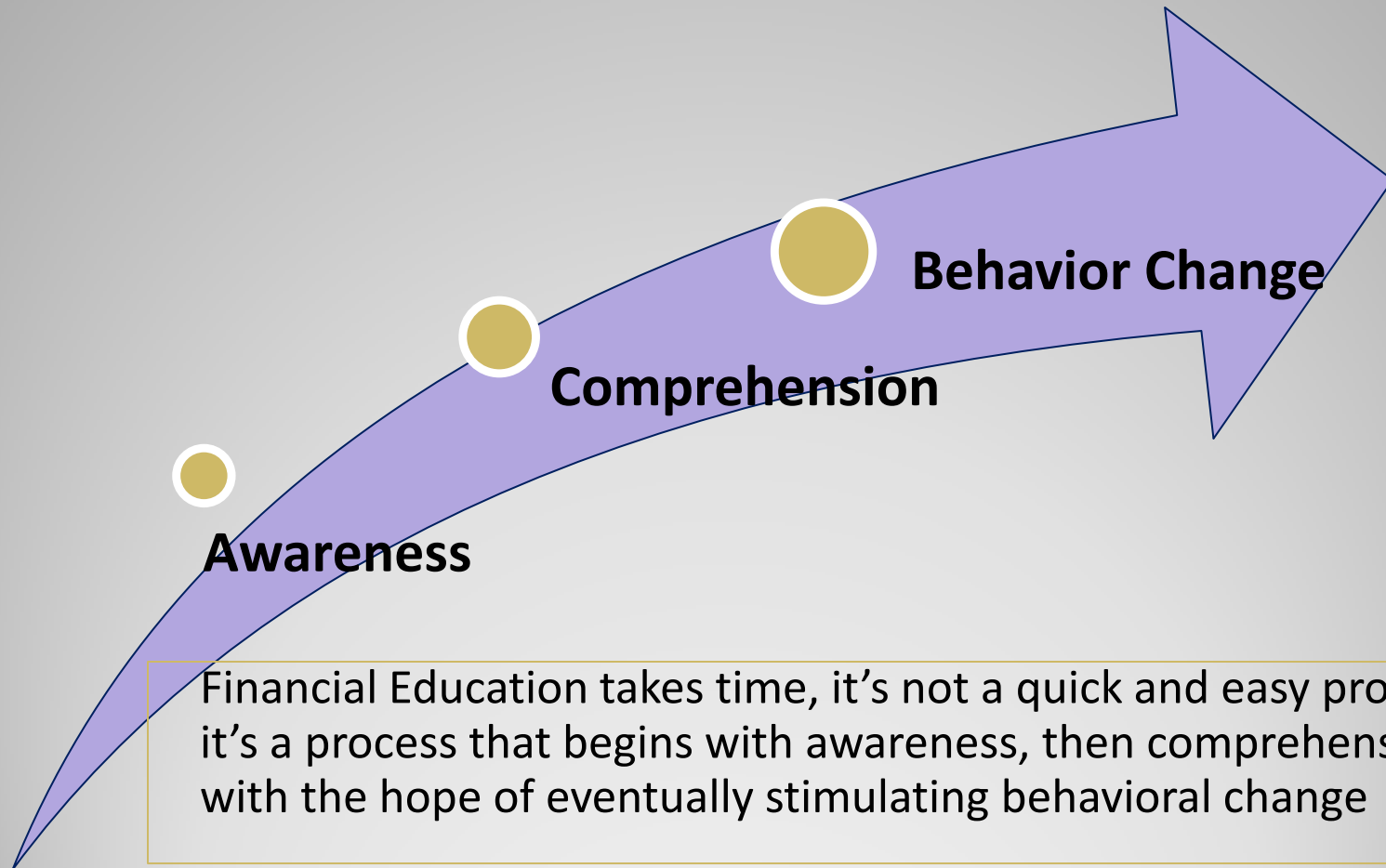
MFT Sample of PRIZNA's Repayment Schedule

This enhances the ability of borrowers to compare the products available to them, even if they don't fully understand every figure included on the documentation.

Financial Education

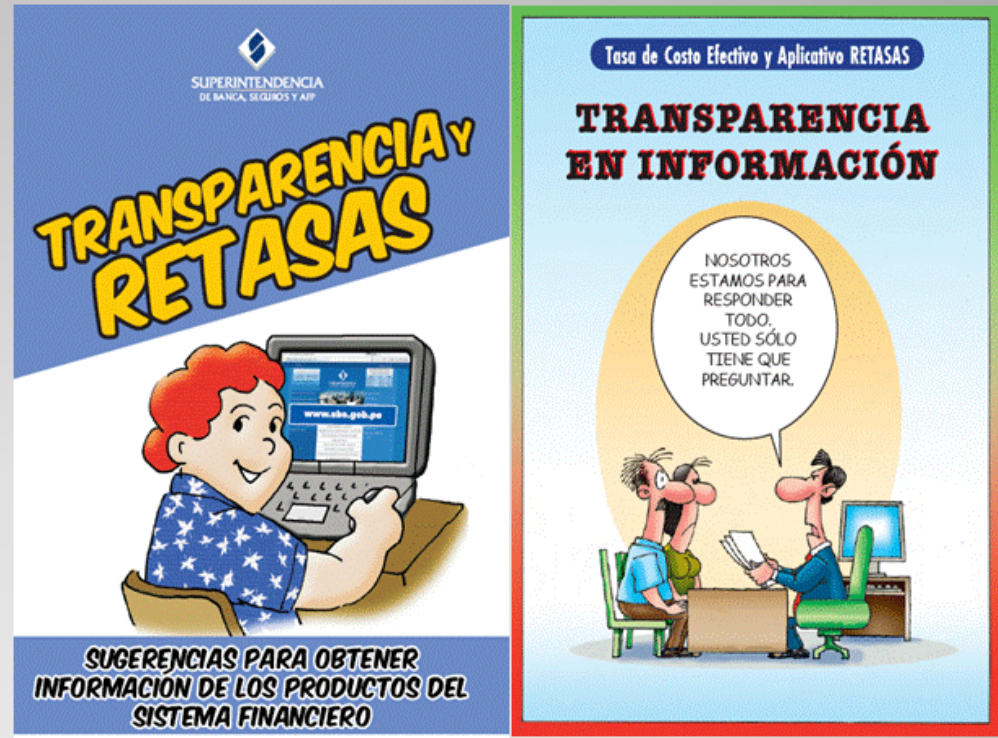
- Financial education addresses weak financial literacy by empowering the poor to make wise financial decisions. May teach people how to save more, spend less, borrow prudently, and manage their debt with discipline. (MF Opps)
- “Financial literacy has been defined as the ability to process financial information and make informed decisions about personal finances.” (IFMR, India, 2008)
- Needed to balance information between consumers and providers of financial services

National Financial Education Strategy



Financial Education: Peru

- The SBS (Central Bank of Peru) produces pamphlets about transparency in financial services sector and rights of microcredit clients



Financial Education: Uganda

- Mass market communication of broad messages across the country with the objective to disseminate messages about knowledge of consumer rights and responsibilities, and types of financial institution and product
 - Posters,
 - Leaflets and flyers,
 - Radio call-ins, radio spots, and flipcharts;
 - Newspaper inserts titled *Money World* magazine;
 - Training of Trainers for MFIs; theatre performances

When you take a loan, make sure you understand the terms.



Respect the contract! Maintain your good reputation.

Ask your Financial Extension Worker or Financial Institution for more information

A loan always comes with interest!



Ask about how much you will get and how much you will pay back. Demand for information.

Ask your Financial Extension Worker or Financial Institution for more information

I save for the future. You can too!



Start saving now.

Ask your Financial Extension Worker or Financial Institution for more information

Are your savings safe?

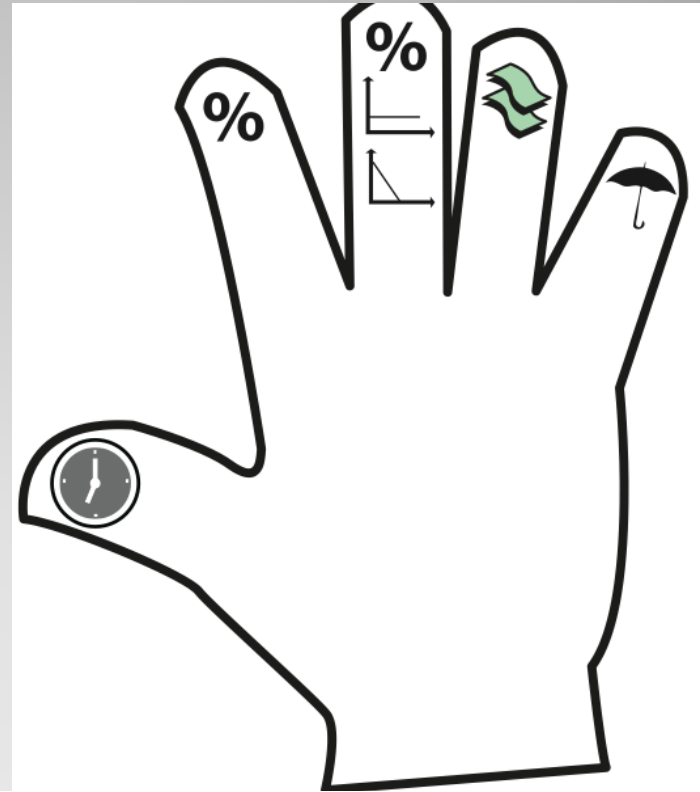


Know the status of your financial institution well

Ask your Financial Extension Worker or Financial Institution for more information

The Five “Rules of Thumb”

- Approach used in designing MF*Transparency's* Financial Education package (pictures, stories, interactive activities) to educate clients about their loans
- Stick with a small number of essential points
- Develop a way to help people remember them
- 5 Rules of Thumb (6 is missing)

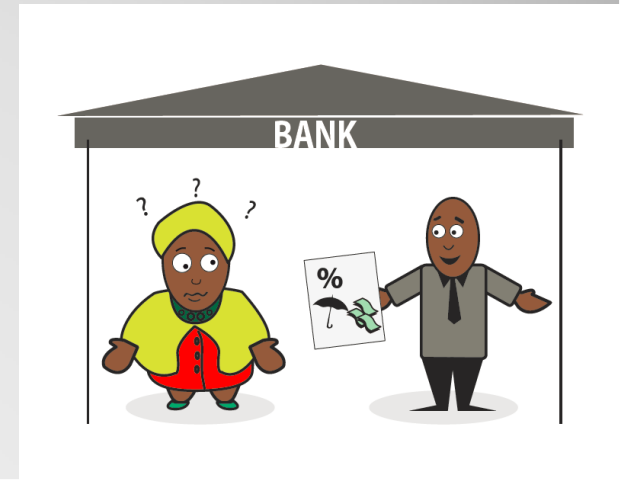
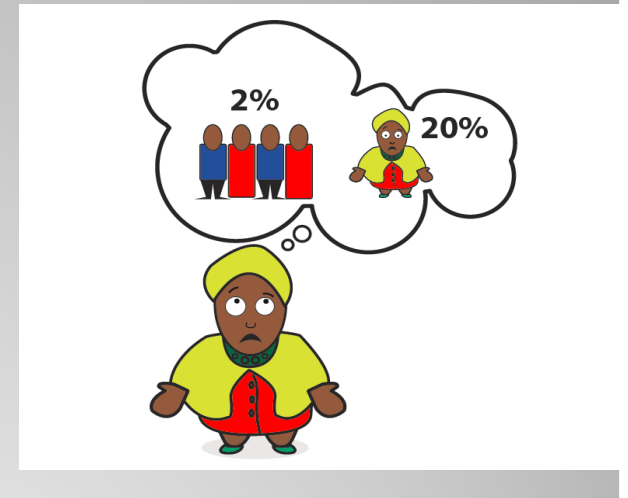


Rules of Thumb

1. Know Your Loan Term ABCs
2. Interest: Ask if Your Rate is Flat or Declining
3. Declining Interest: It's Lower than it Looks
4. Don't Forget the Fees and Commissions
5. Insurance: A Little Now Can Save a lot Later
6. Compare Apples with Oranges with APR (or EIR)

Auntie-Need-A-Loan Video

- Animated video designed to share information about pricing transparency (flat and declining interest rates) and consumer protection topics
- Let's watch the video:
<http://www.youtube.com/watch?v=k0uv7n591as>



In summary...

Pricing disclosure policy and financial education must go hand in hand to improve communication to clients and ensure healthier market dynamics

Promoting Transparent Pricing in the Microfinance Industry

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