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# Transparent Pricing for Responsible Pricing

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# Agenda

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- What is transparent pricing?
- Examples of *constructive* transparency regulation
- How is industry-led self-regulation working?
- What does this mean for responsible pricing?



# What is Transparent Pricing?

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Transparent pricing means the pricing, terms, and conditions of financial products will be transparent and adequately disclosed in a form understandable to clients.



# Transparency Must Come First

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Transparent Pricing

Responsible Pricing

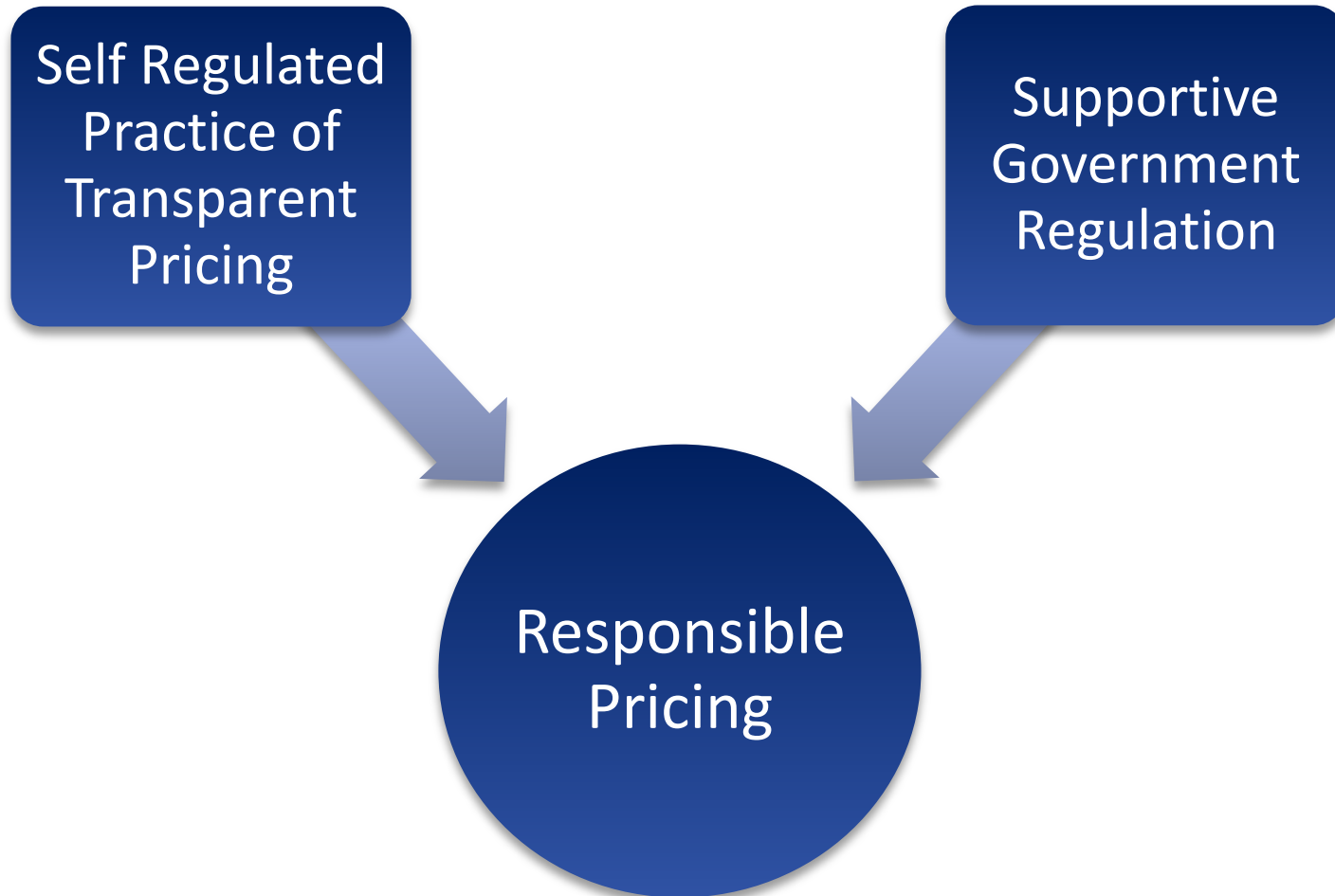
Definition &  
Discussion

Implementation

# Combined Approach

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# How Do We Define a Transparent Price?

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MIX Market 2009 Kenya Data	
MFI Name	Yield on Gross Loan Portfolio (nominal)
Opportunity Kenya	<b>36.76%</b>
KWFT	36.43%
Kenya ECLOF	33.87%
Faulu	30.29%
SMEP	29.49%
BIMAS	27.95%
KADET	27.08%
Micro Africa	24.83%
K-Rep	22.40%
PAWDEP	20.51%
Equity Bank	<b>18.26%</b>

# How Do We Define a Transparent Price?

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## MIX Market 2009 Kenya Data

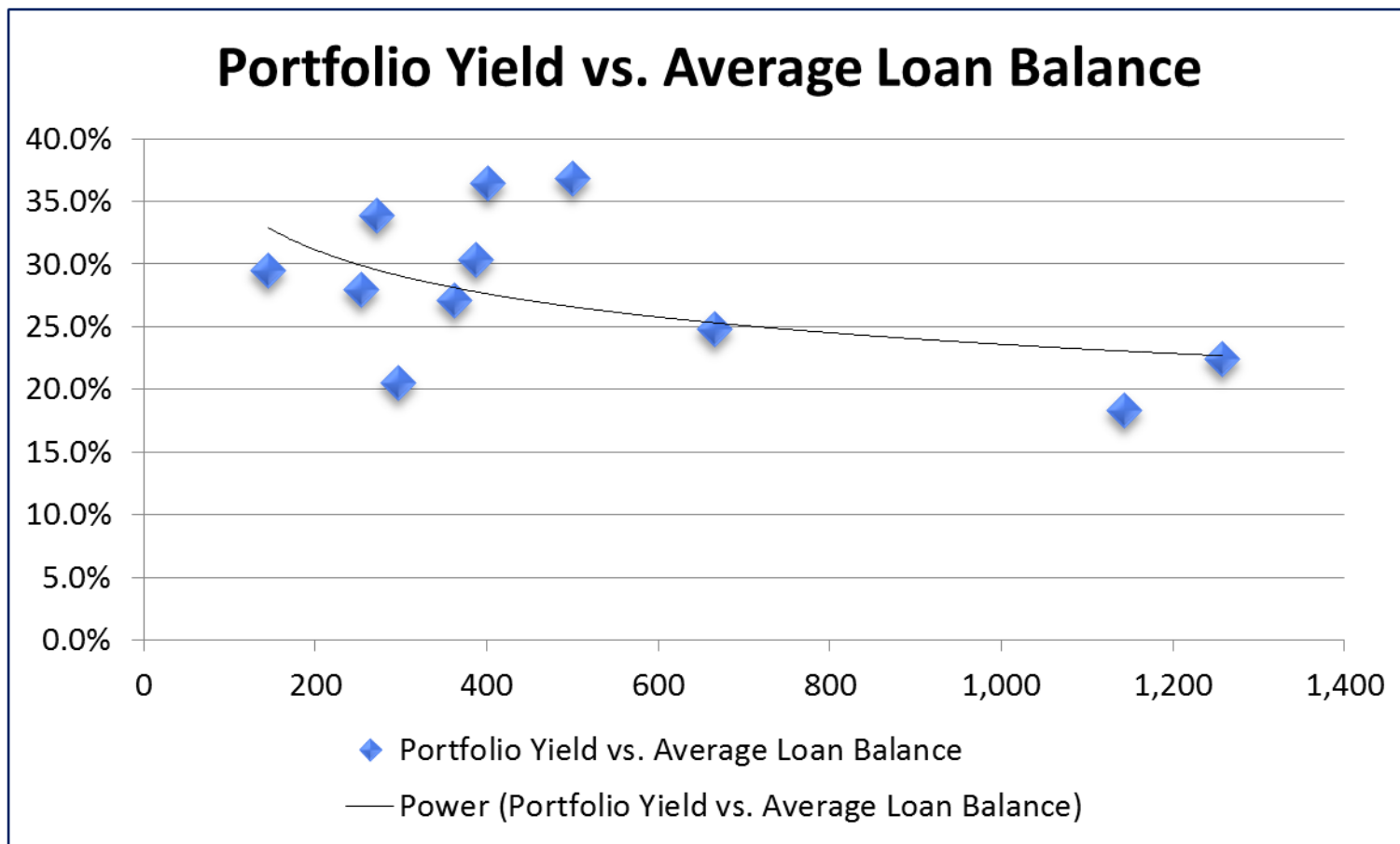
MFI Name	Yield on Gross Loan Portfolio (nominal)	Average Loan Balance Per Borrower (USD)
Opportunity Kenya	36.76%	500
KWFT	36.43%	402
Kenya ECLOF	33.87%	272
Faulu	30.29%	387
SMEP	29.49%	<b>145</b>
BIMAS	27.95%	254
KADET	27.08%	362
Micro Africa	24.83%	666
K-Rep	22.40%	<b>1,258</b>
PAWDEP	20.51%	297
Equity Bank	18.26%	1,143



# Price Depends on Loan Size... and Other Factors

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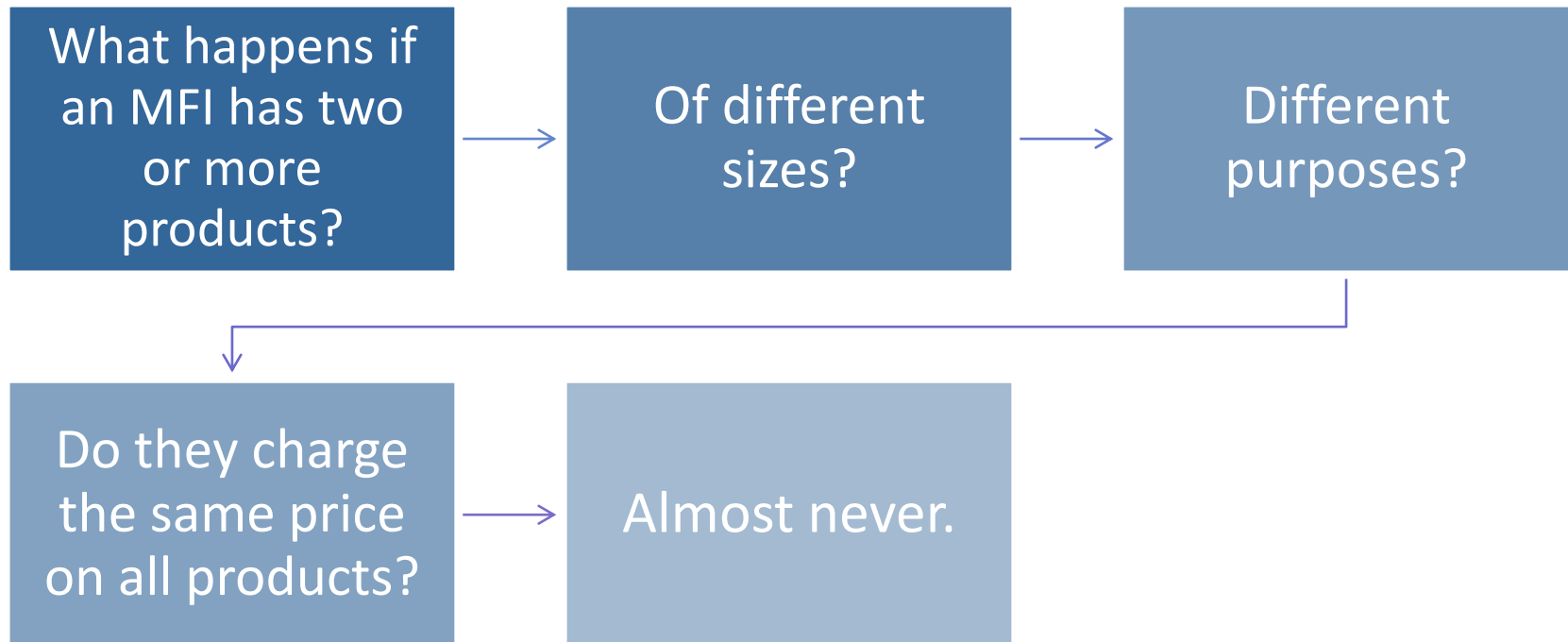




# Average Portfolio Yield Masks the True Price

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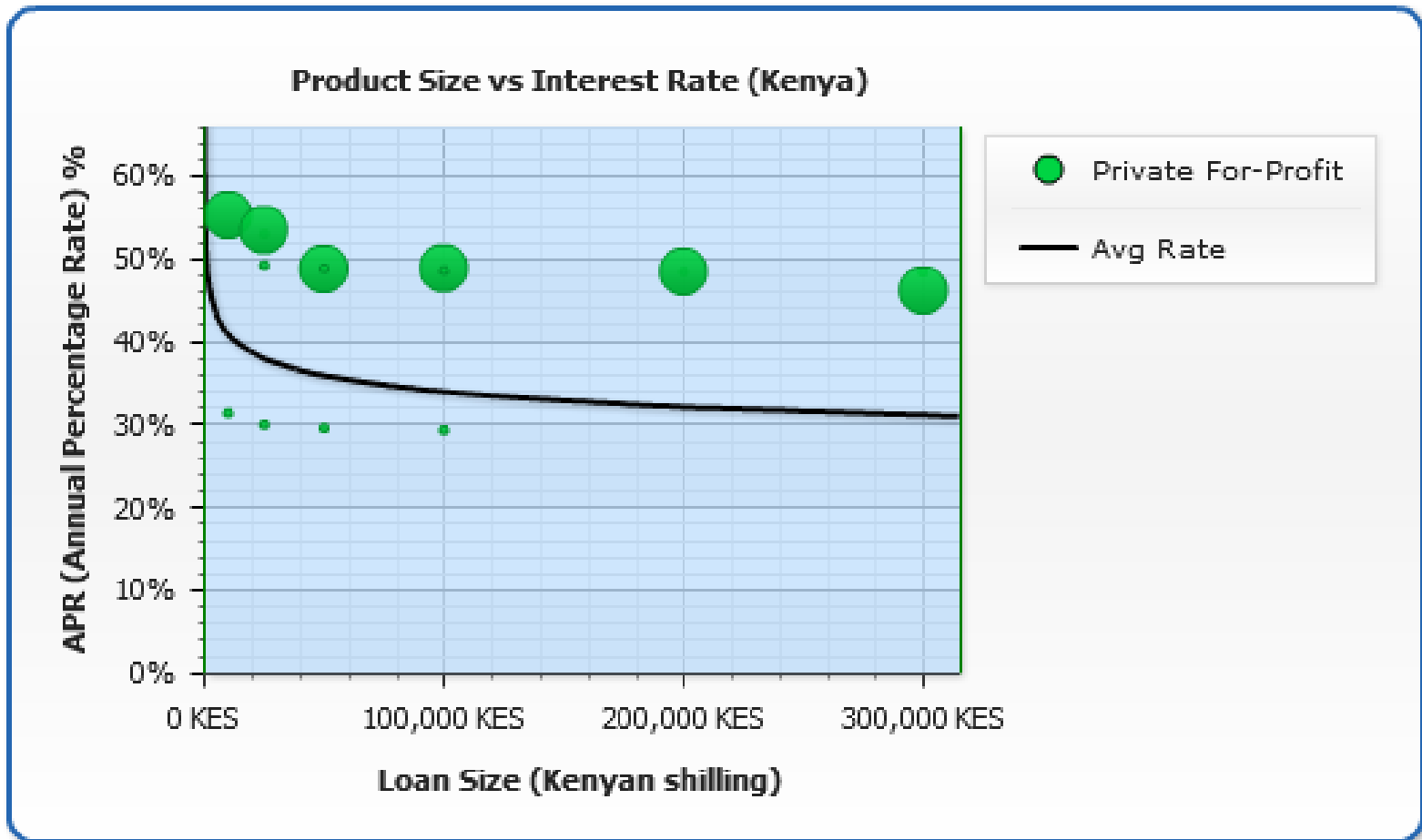
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# Portfolio Yield Hides Price Variations

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# What Can We Learn From Truth-in-Lending Legislation?

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Uniform interest rate calculation for every loan

- APR or EIR

Portfolio Yield is not the measure of price typically required

- Masks true price
- Not relevant for clients

Transparent pricing means communicating the price from the perspective of the client

- Actual price of the actual product the client purchases
- All costs to borrow included

# Example 1: Cambodia

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## Interest Rates

- Must be disclosed
- Charging flat interest rates prohibited
- Calculation of compounding interest rates required

## Pricing Information

- Information about prices must be published on MFI websites

# Example 2: Bosnia

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## Interest Rates

- Compounding calculations required
- Must be included on loan contract and repayment schedule

## Reporting

- Prices by product must be reported to regulators

## Pricing Information

- Information about prices must be published on MFI website

# Example 3: Peru

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## Interest Rates

- Interest rates must be disclosed
- Calculation of compounding interest required

## Reporting

- Prices by product must be reported to regulator

## Pricing Information

- All fees and insurance charges must be disclosed
- Information about prices must be published on the MFI website



# MF *Transparency* facilitates self-regulation on pricing transparency.

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## Our Approach

- Country by country
- Partner with local networks and stakeholders
- Publish true prices all at the same time
- Objective, equal treatment of all MFIs
- Active in nearly 20 countries

# What have we learned?

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## Broad-based support from a range of industry stakeholders

- Wide support for transparent pricing
- A conducive environment for transparency is the major obstacle
- For-profit and non-profit institutions
- Young and mature MFIs
- Transparency is a value that all stakeholders agree with



# What have we learned?

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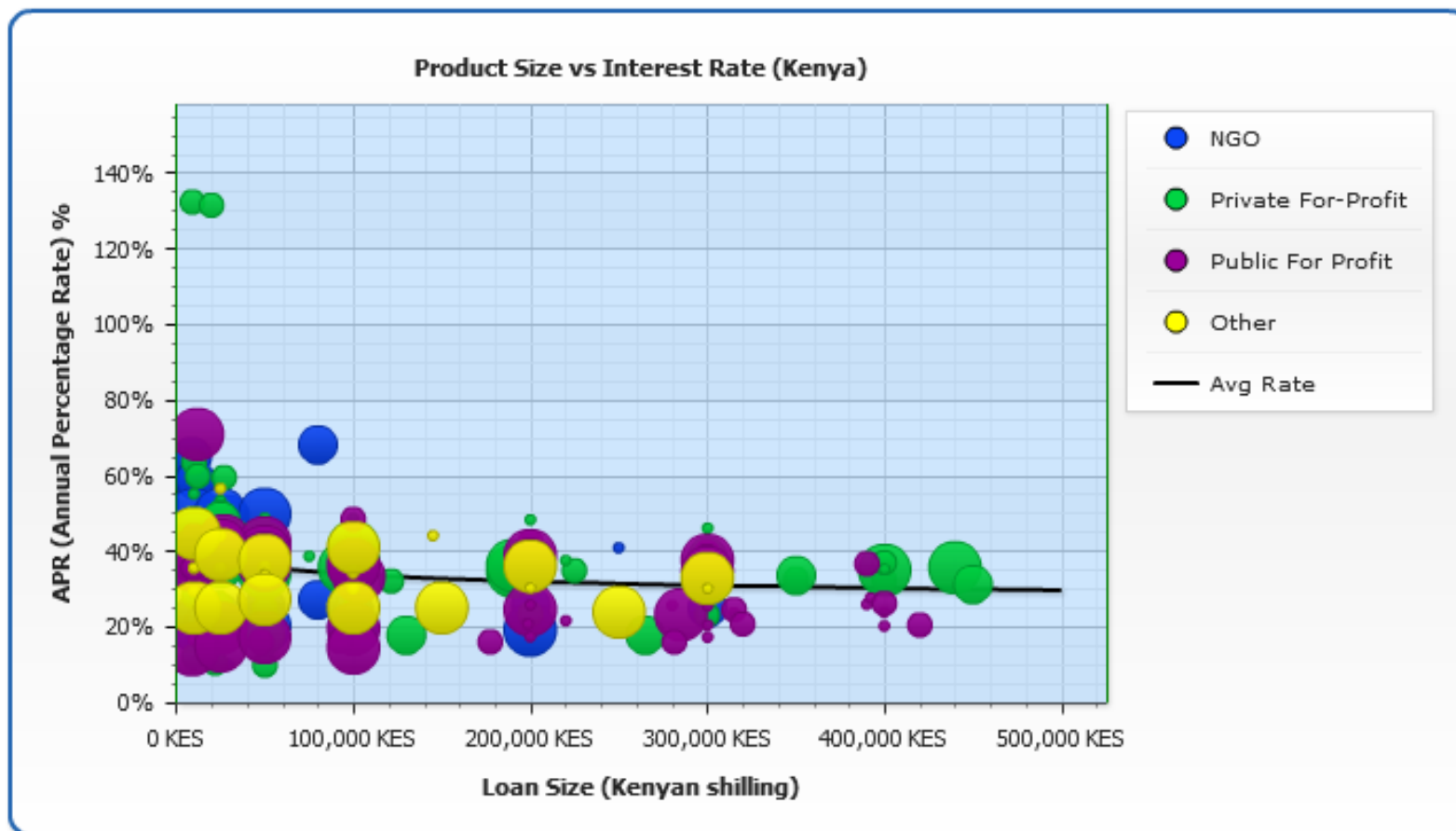
## Transparency leads to a sense of acting responsibly

- Difficult to define and agree on what is responsible
- Transparency is easier to agree on because it inherently implies responsibility
- When prices are transparent different stakeholders can decide for themselves what is responsible

# 2010 Kenya Pricing Data

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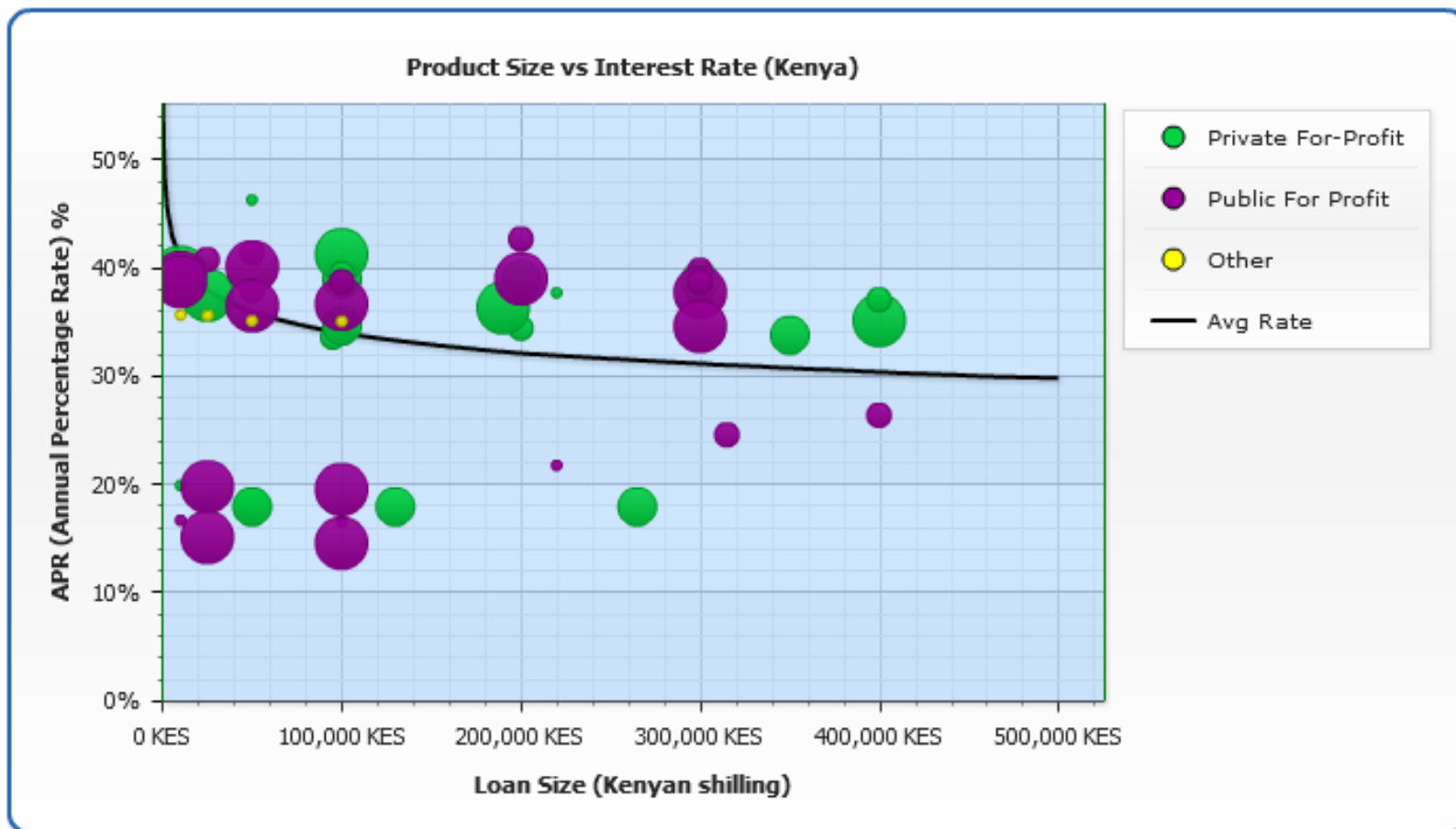
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# Business loans, 12 month terms

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# Why so much price variation?

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## Lack of competition

- Lack of information and transparency → lack of competition
- MFIs have trouble setting prices based on their competitors' *real* rates or market rates
- This market imperfection leads to wide ranges of prices

# How does transparency affect pricing?


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Prices become known



MFIs on the high side lower prices,  
MFIs on the low side raise prices



Prices become more uniform, follow  
the curve



We anticipate that the average price  
in a market will drop.

# What does this mean for responsible pricing?

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No transparency = less competition



Less competition = wider range in prices



Responsible prices = competitive prices

# Conclusions

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## Transparent pricing is a prerequisite for responsible pricing

- We need better knowledge and understanding of pricing, and better data to analyze

## Portfolio yield is far from adequate

- Individual product pricing is essential, and it is attainable if we work together

## Transparent pricing leads to more competition and better decisions by all stakeholders

- More competition and better decisions lead to more responsible pricing

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# Promoting Transparent Pricing in the Microfinance Industry

A larger version of the mftransparency.org logo, featuring a blue dotted arc on the left and the text 'mftransparency.org' in a blue sans-serif font.