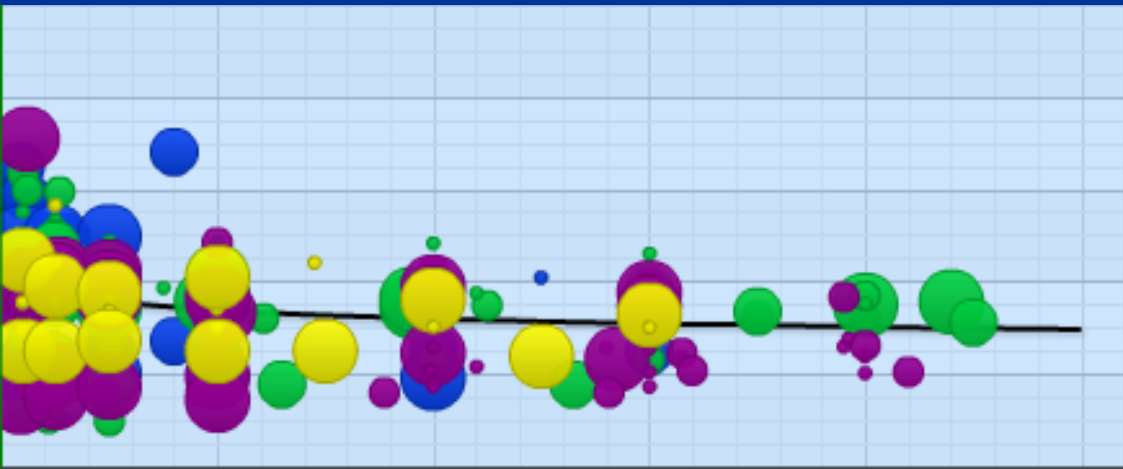


# Pricing Transparency and Over- Indebtedness

April 2011

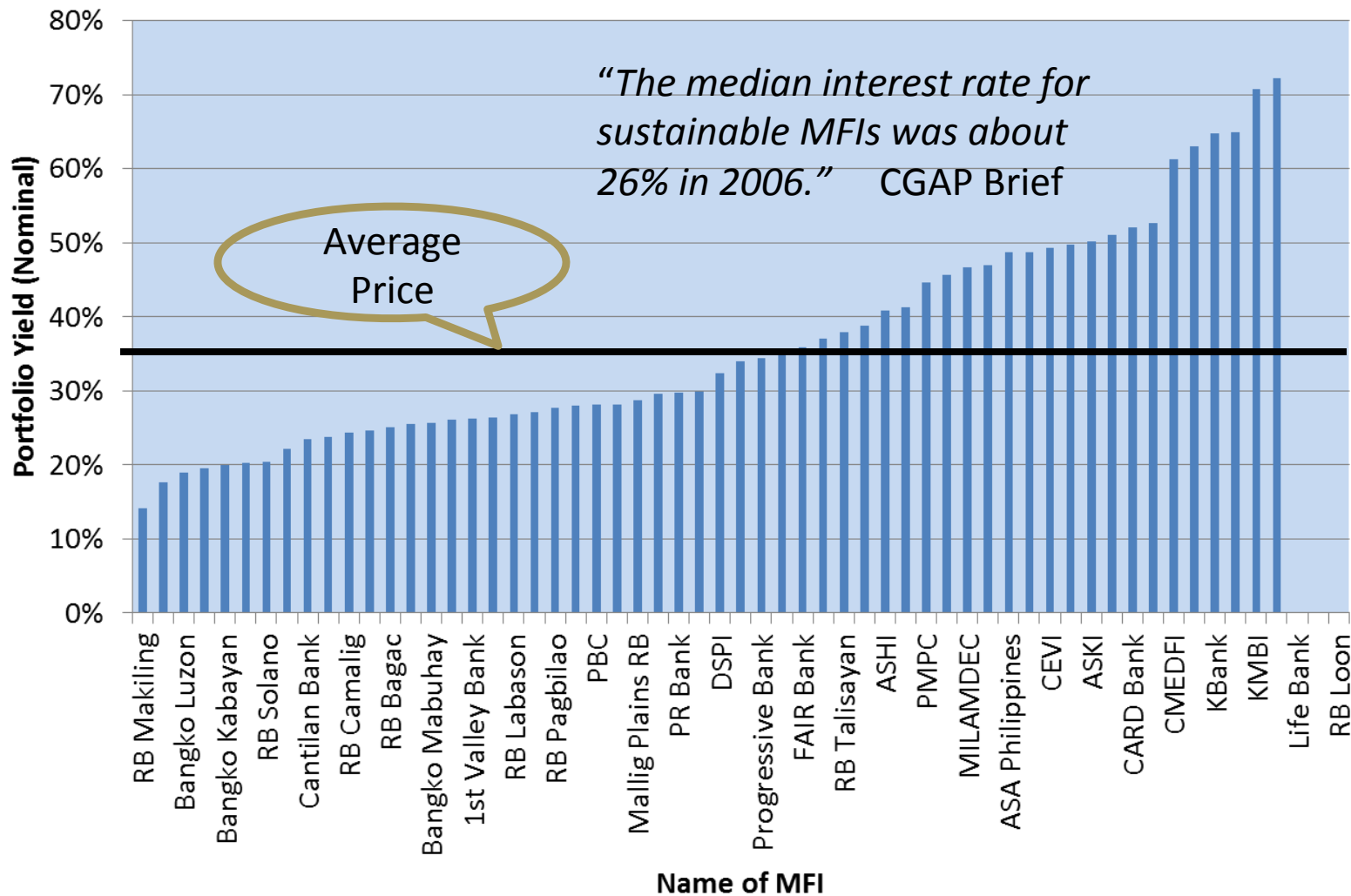


# Three important questions

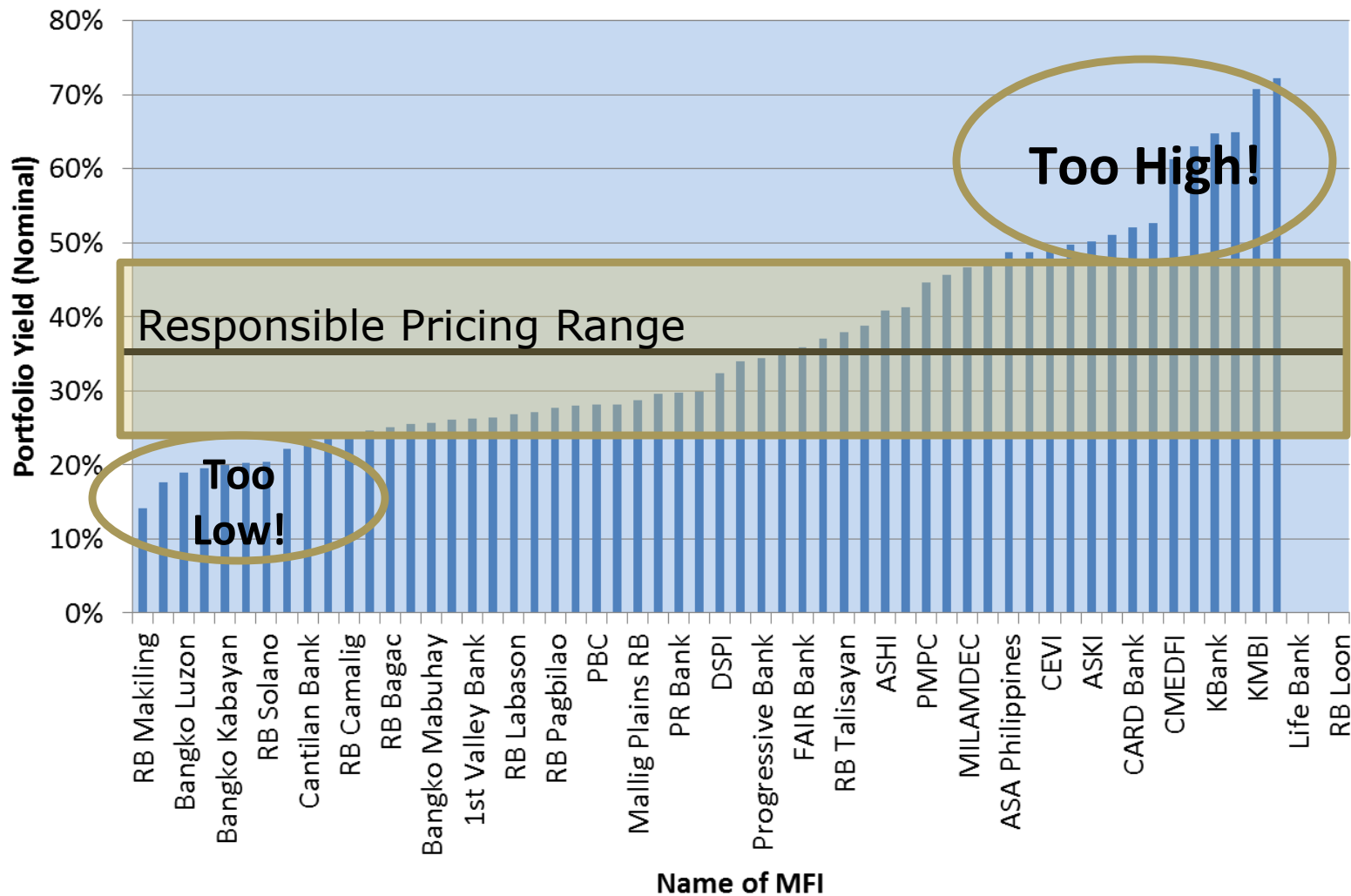
After years of neglect, we are now actively engaged in dialogue on essential issues:

1. What is Responsible Pricing?
2. What is Transparent Pricing?
3. How do our pricing practices affect appropriate consumer decisions and reduce over-indebtedness?

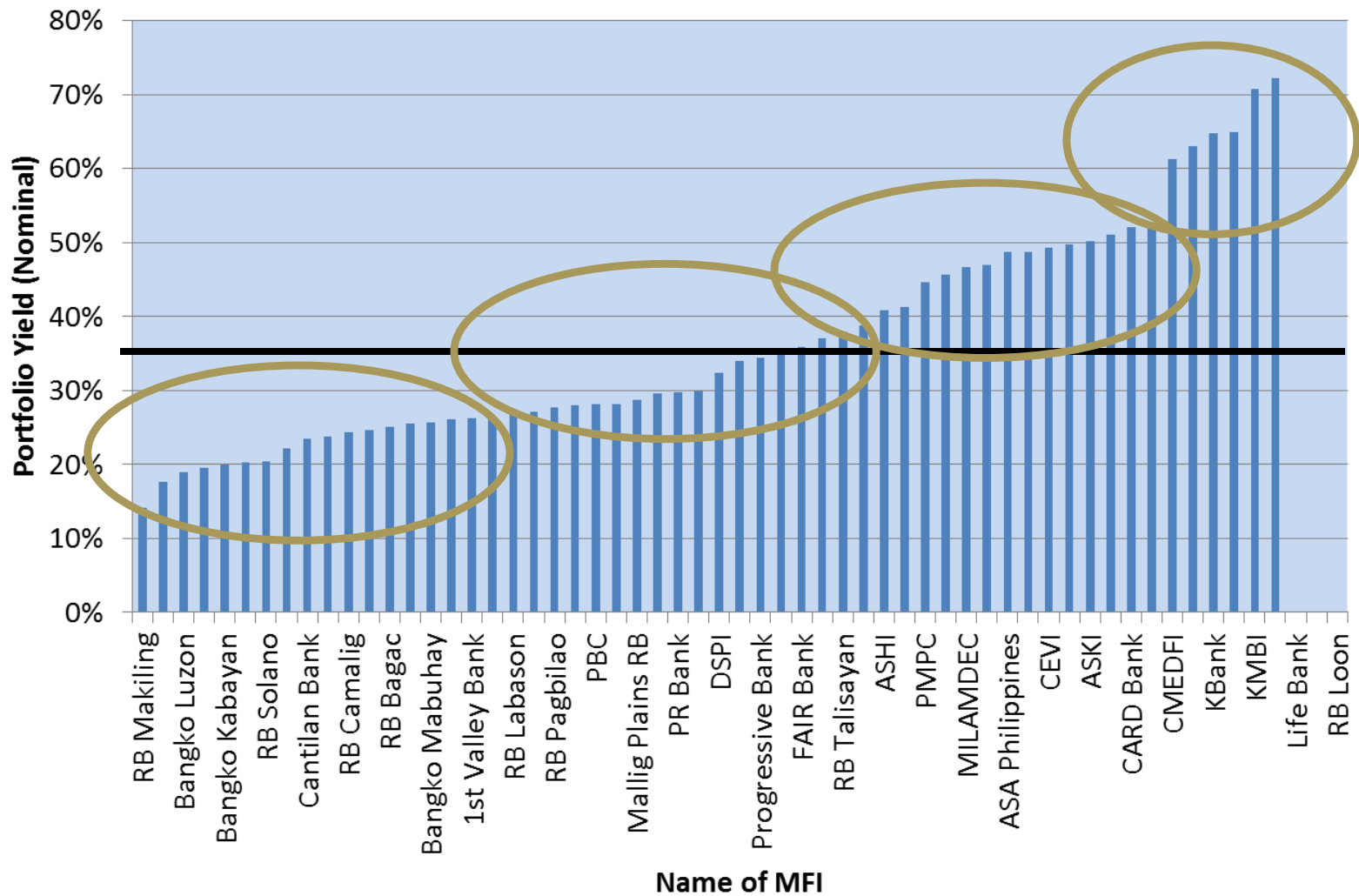
## Portfolio Yield by MFI Philippines, 59 MFIs



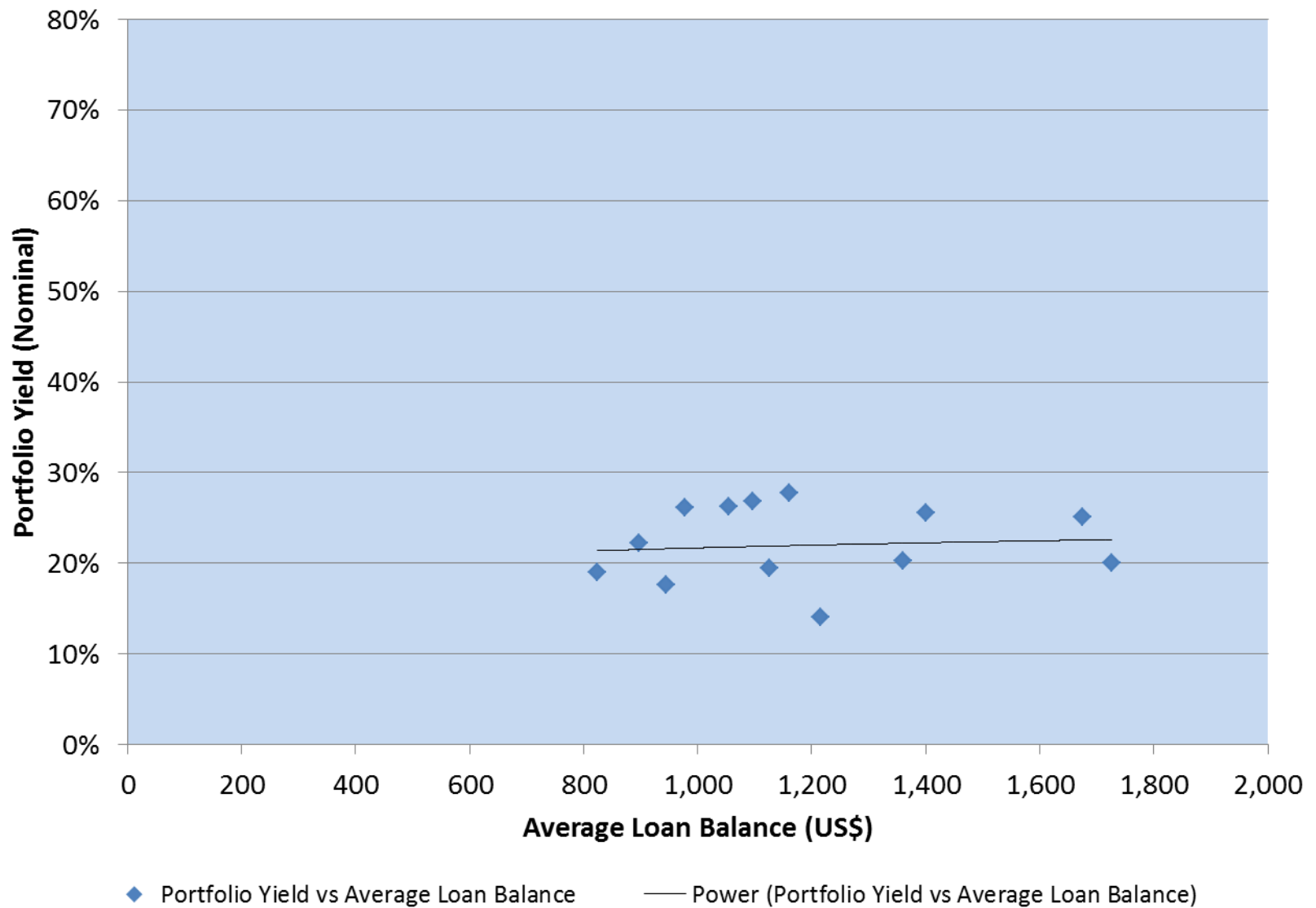
## Portfolio Yield by MFI Philippines, 59 MFIs



## Portfolio Yield by MFI Philippines, 59 MFIs

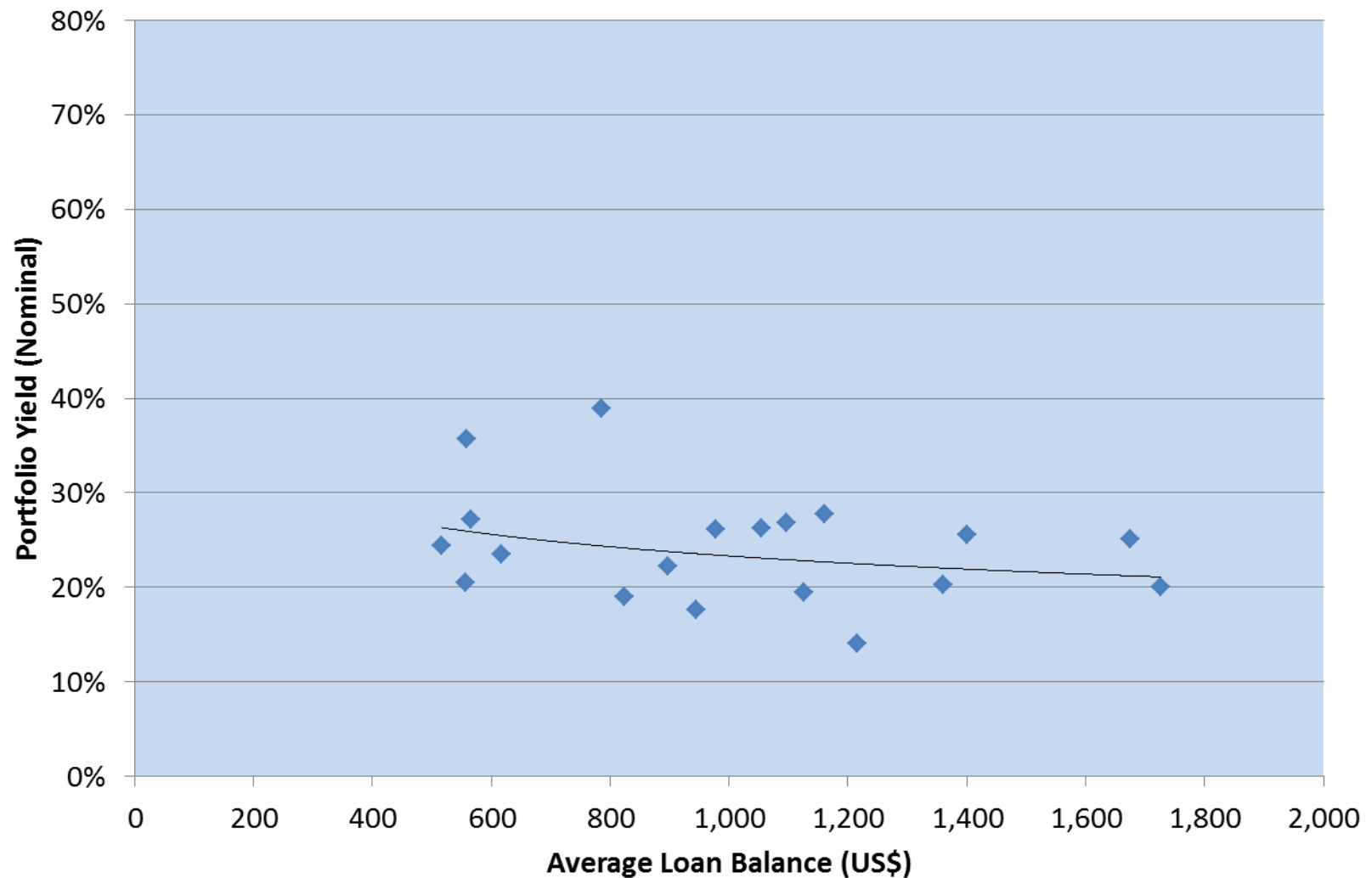


## Portfolio Yield vs Average Loan Balance Philippines, 14 MFIs



## Portfolio Yield vs Average Loan Balance

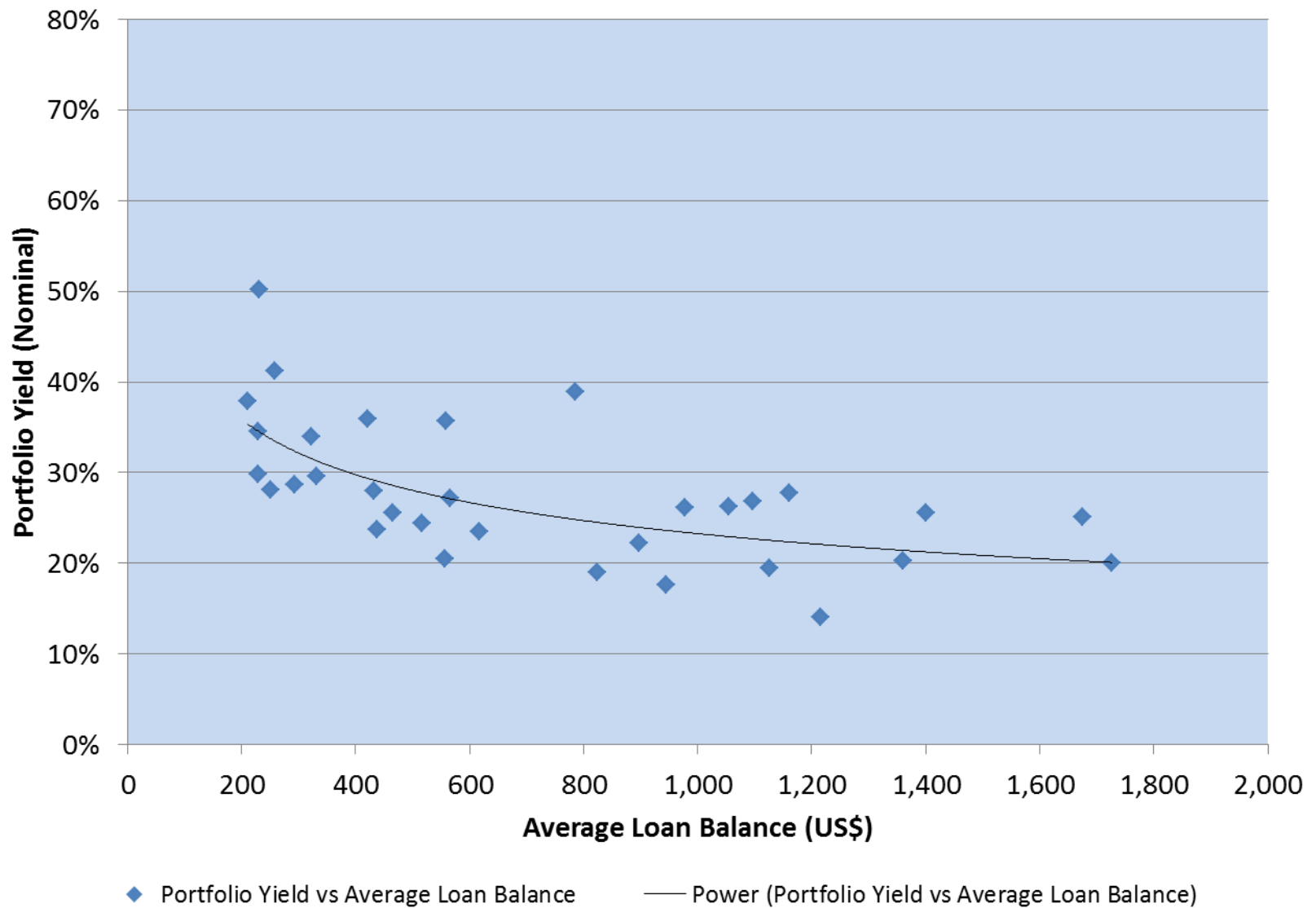
### Philippines, 20 MFIs



◆ Portfolio Yield vs Average Loan Balance

— Power (Portfolio Yield vs Average Loan Balance)

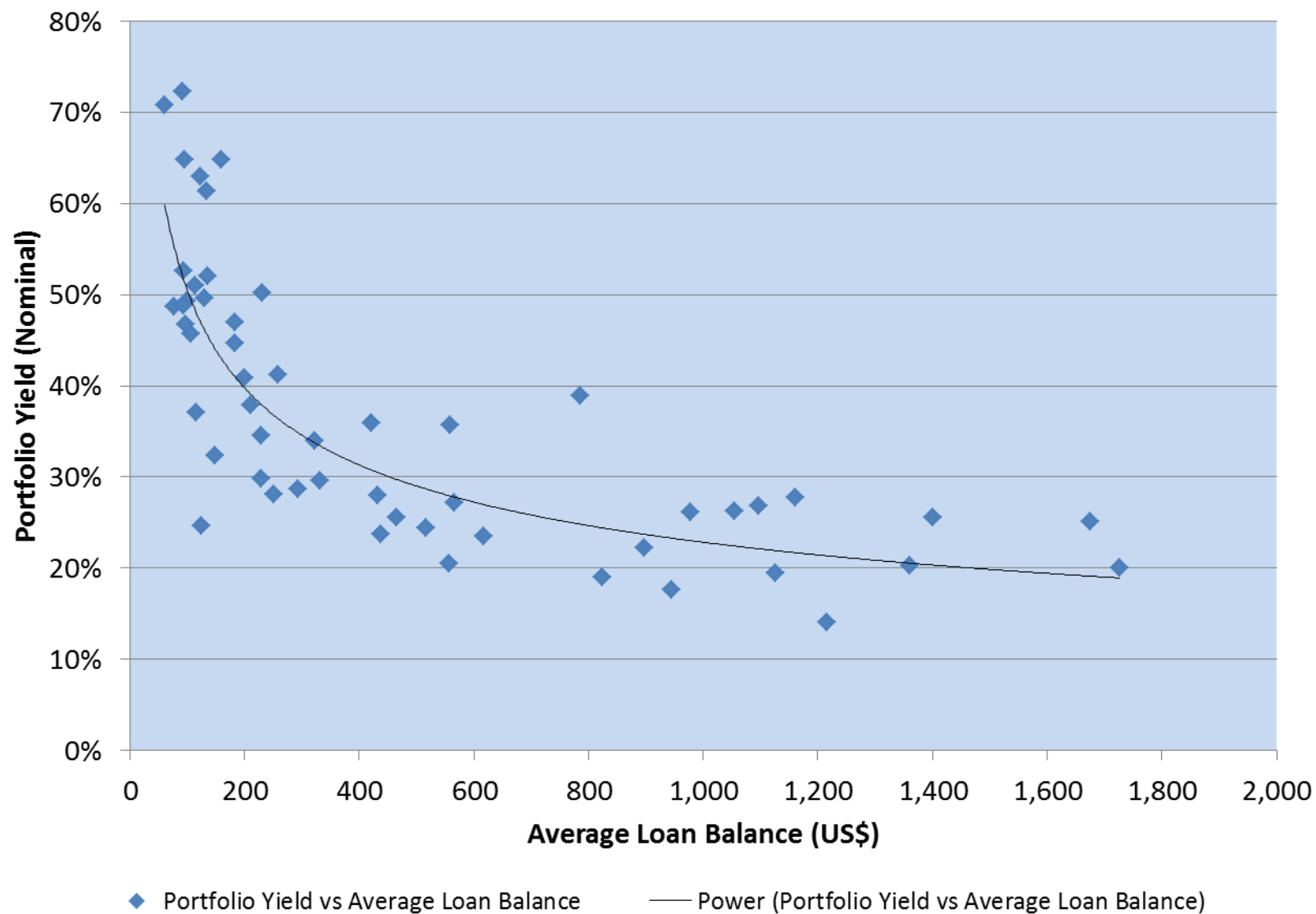
## Portfolio Yield vs Average Loan Balance Philippines, 34 MFIs





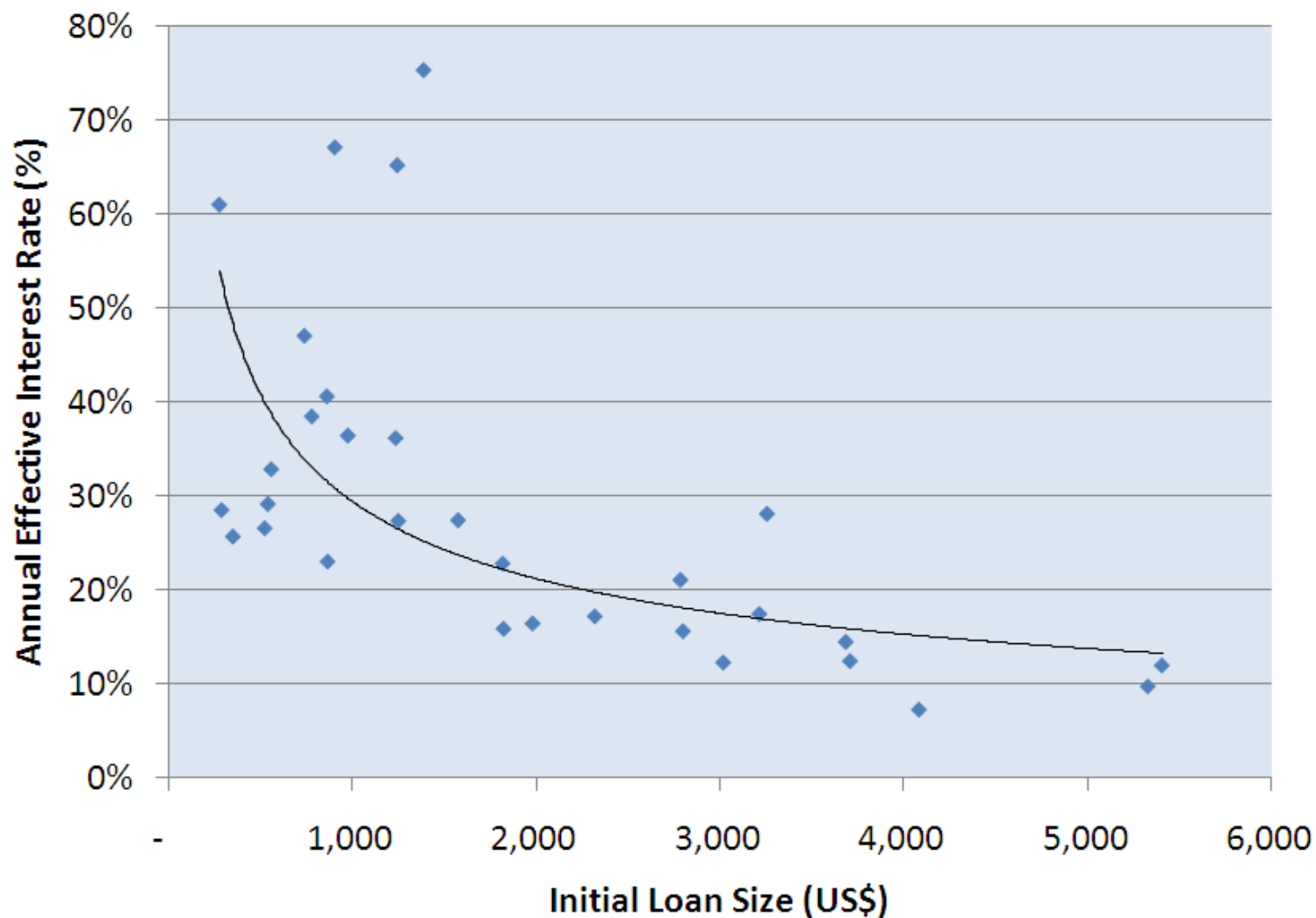
## Portfolio Yield vs Average Loan Balance

### Philippines, 59 MFIs

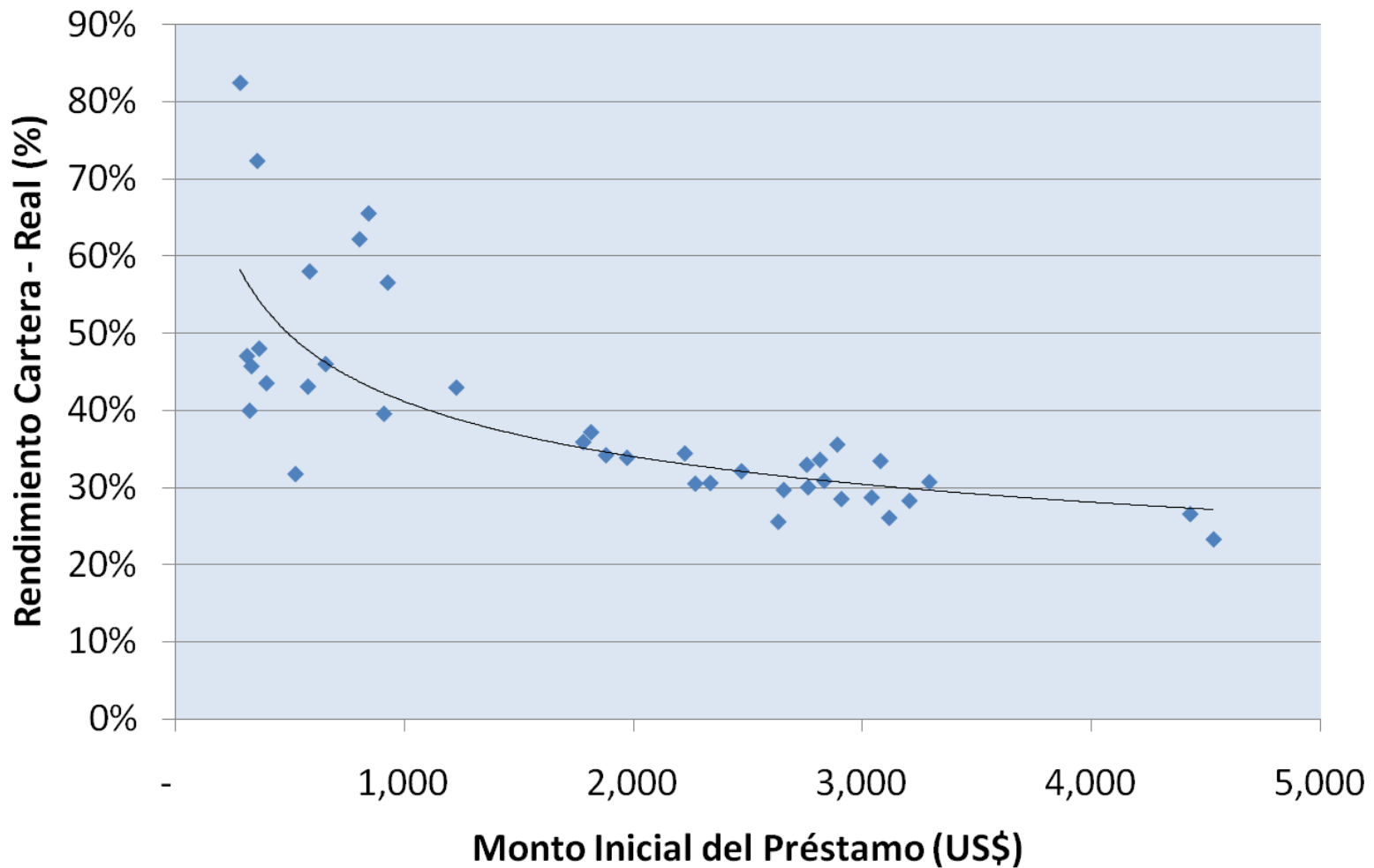


**Is there a curve in other  
countries?**

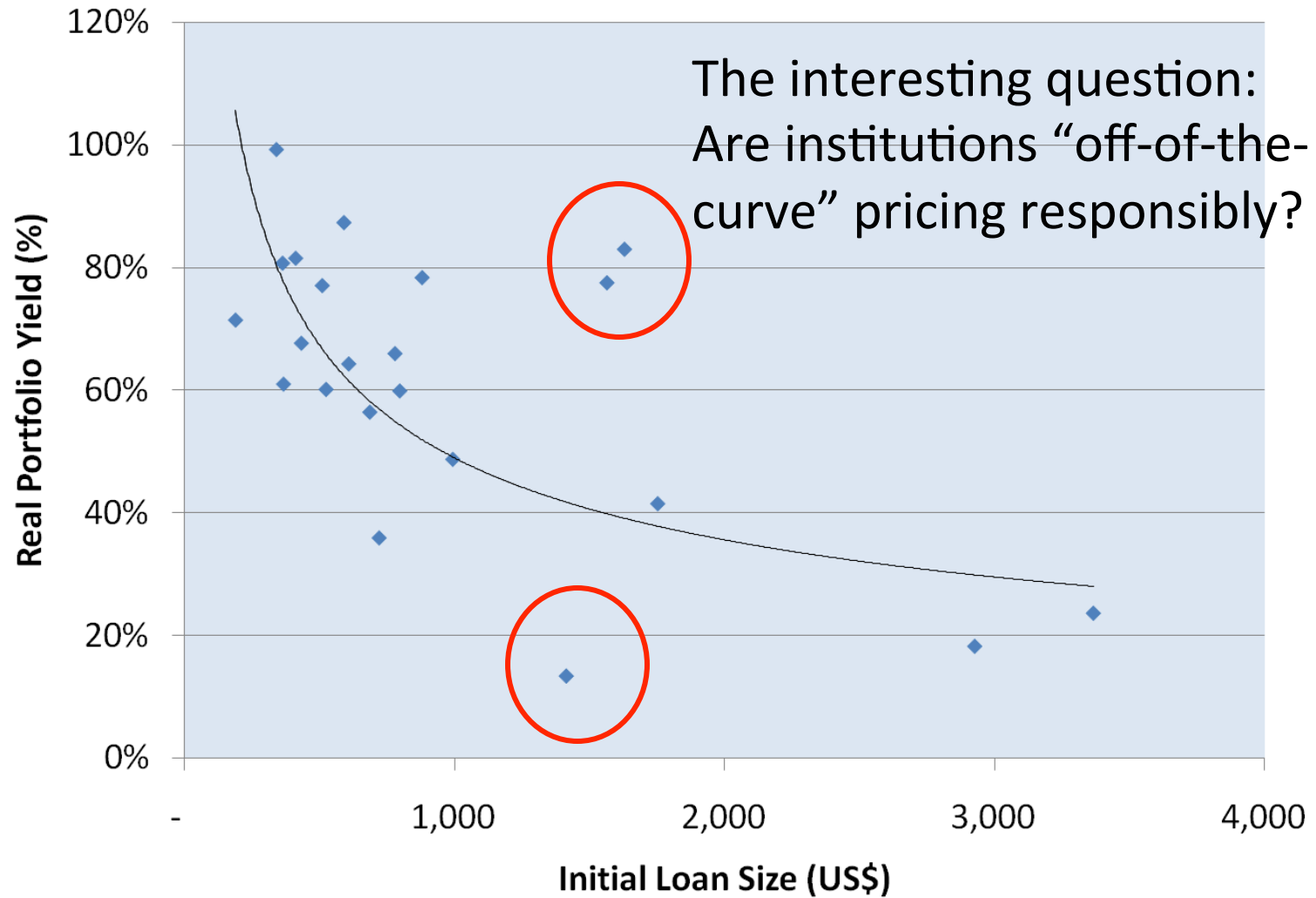
## Loan Size and Interest Rate (31 MFIs in Ecuador)



## Monto Prestado y Rendimiento de Cartera (Real) (39 MFIs en Peru)



## Loan Size and Real Portfolio Yield (22 MFIs in Mexico)

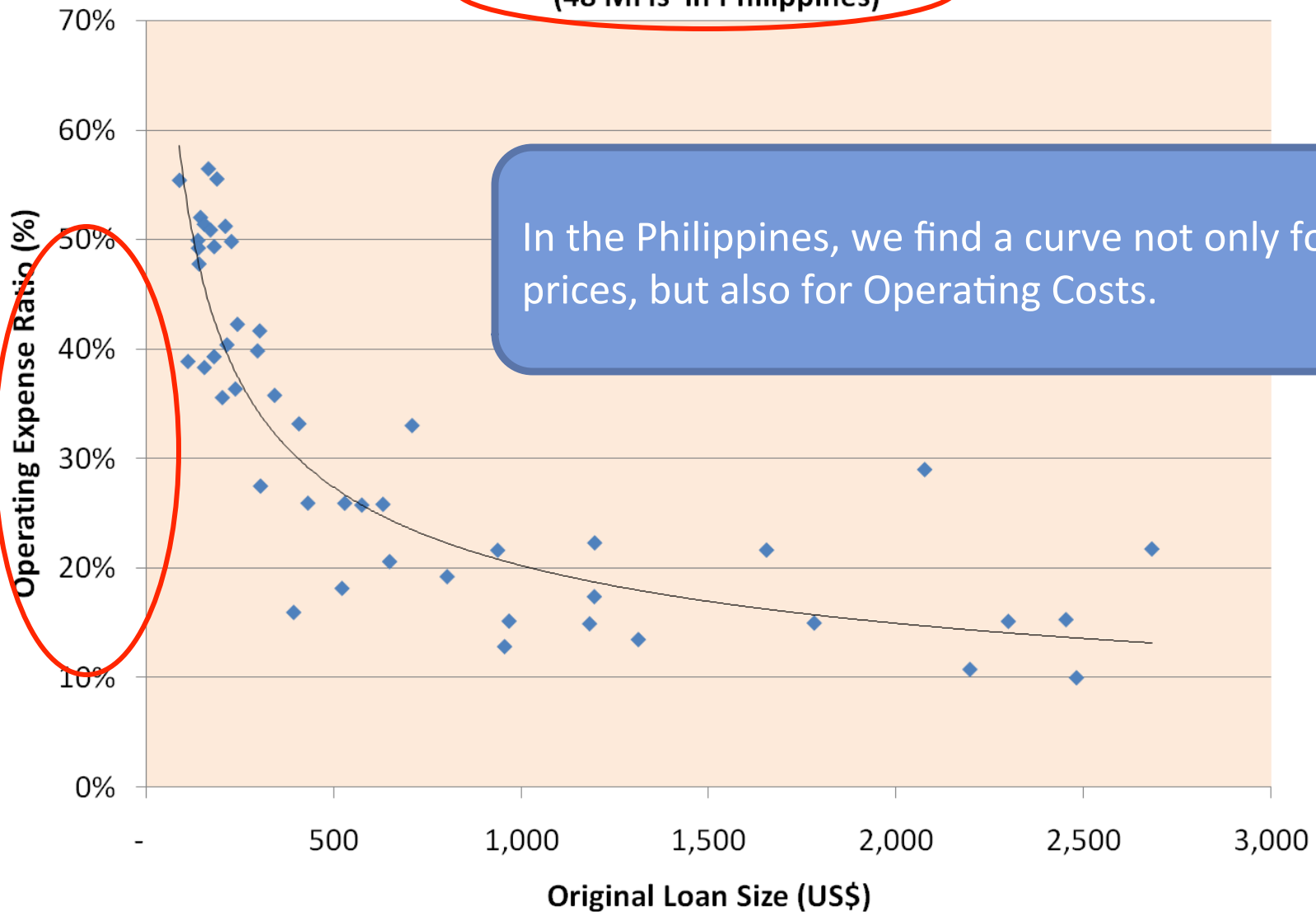


## Possible Conclusion:

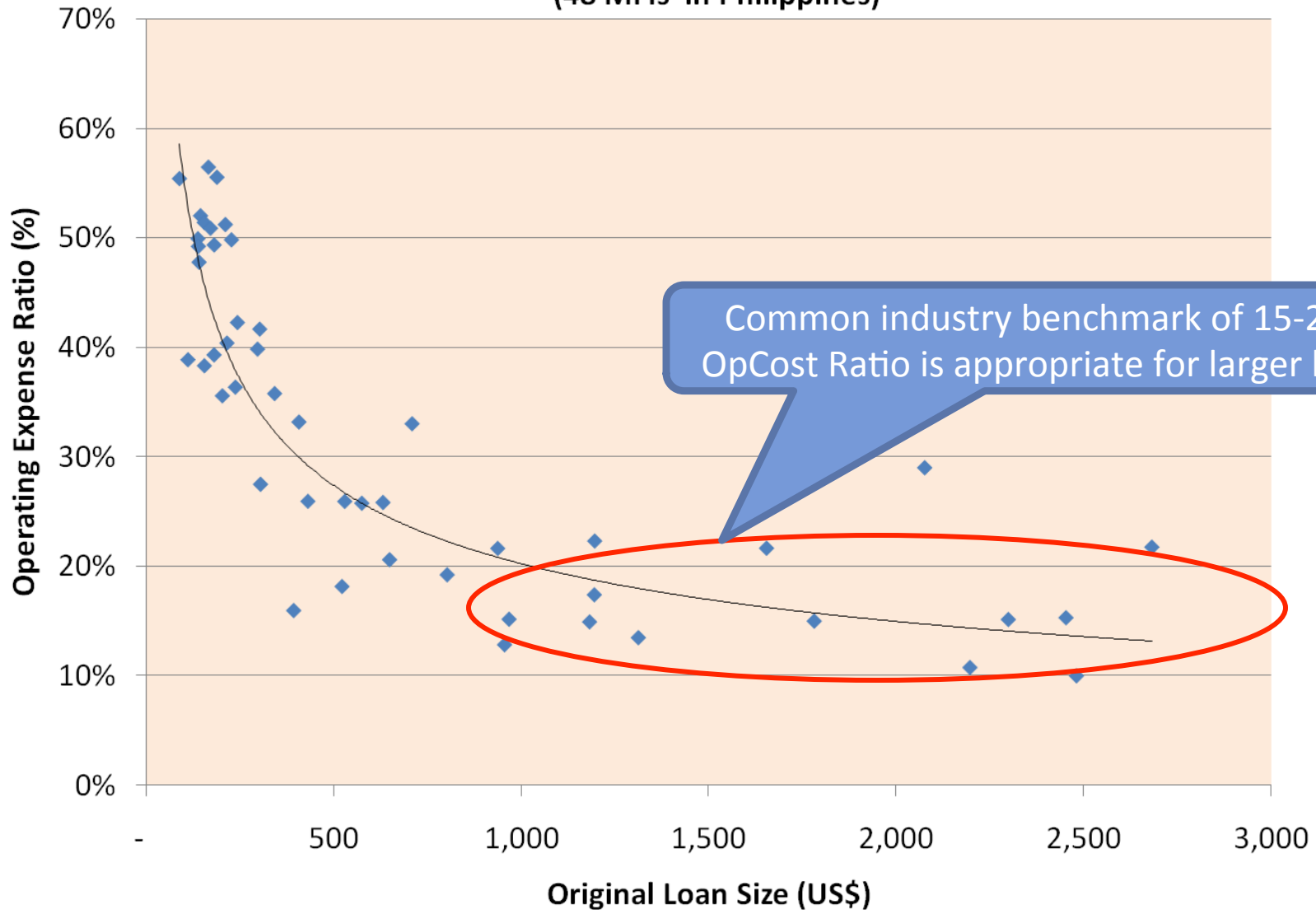
**The poorer the client, the more  
we exploit her by charging higher  
prices**



## Loan Size and Op Exp/Port % (48 MFIs in Philippines)



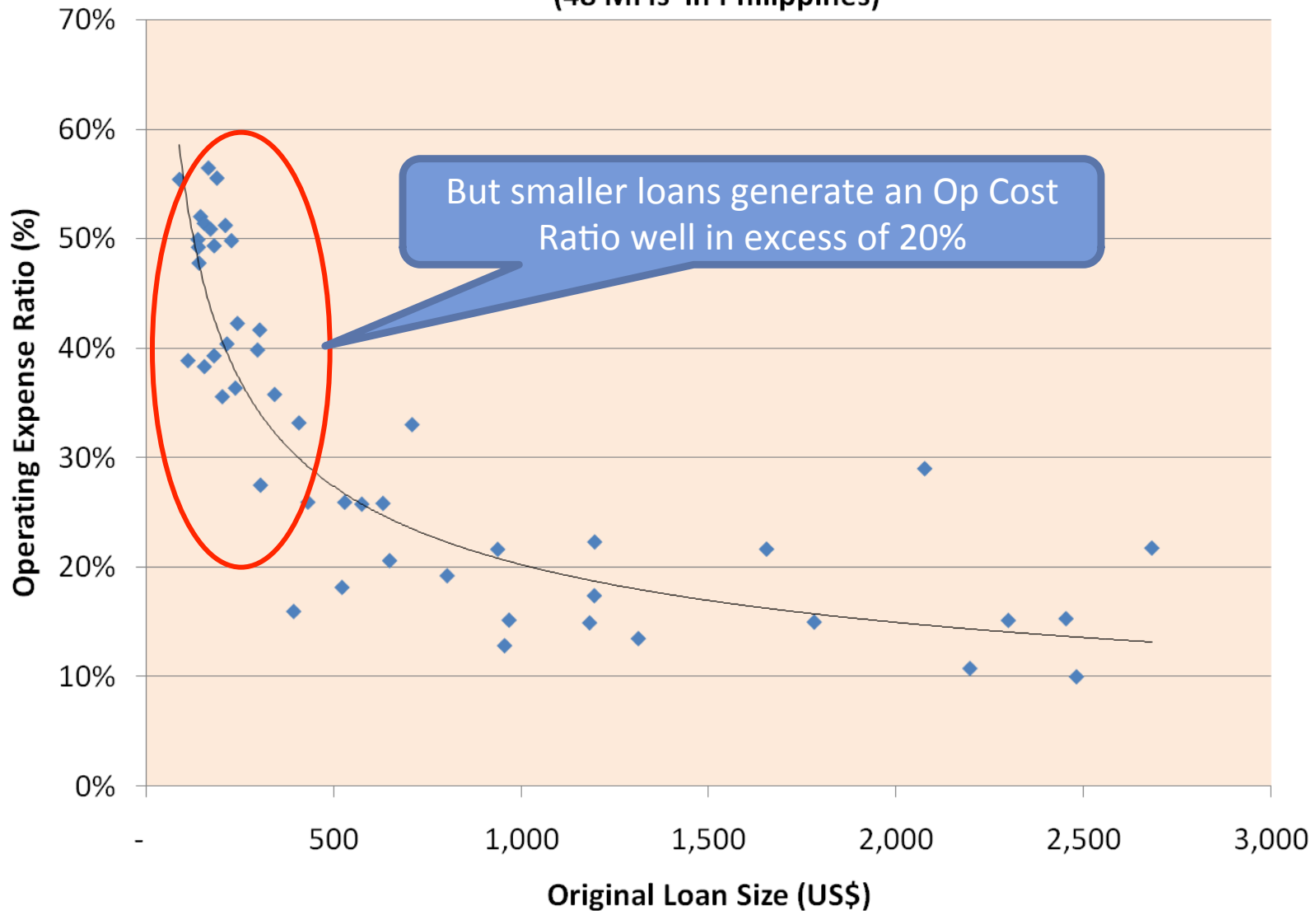
## Loan Size and Op Exp/Port % (48 MFIs in Philippines)



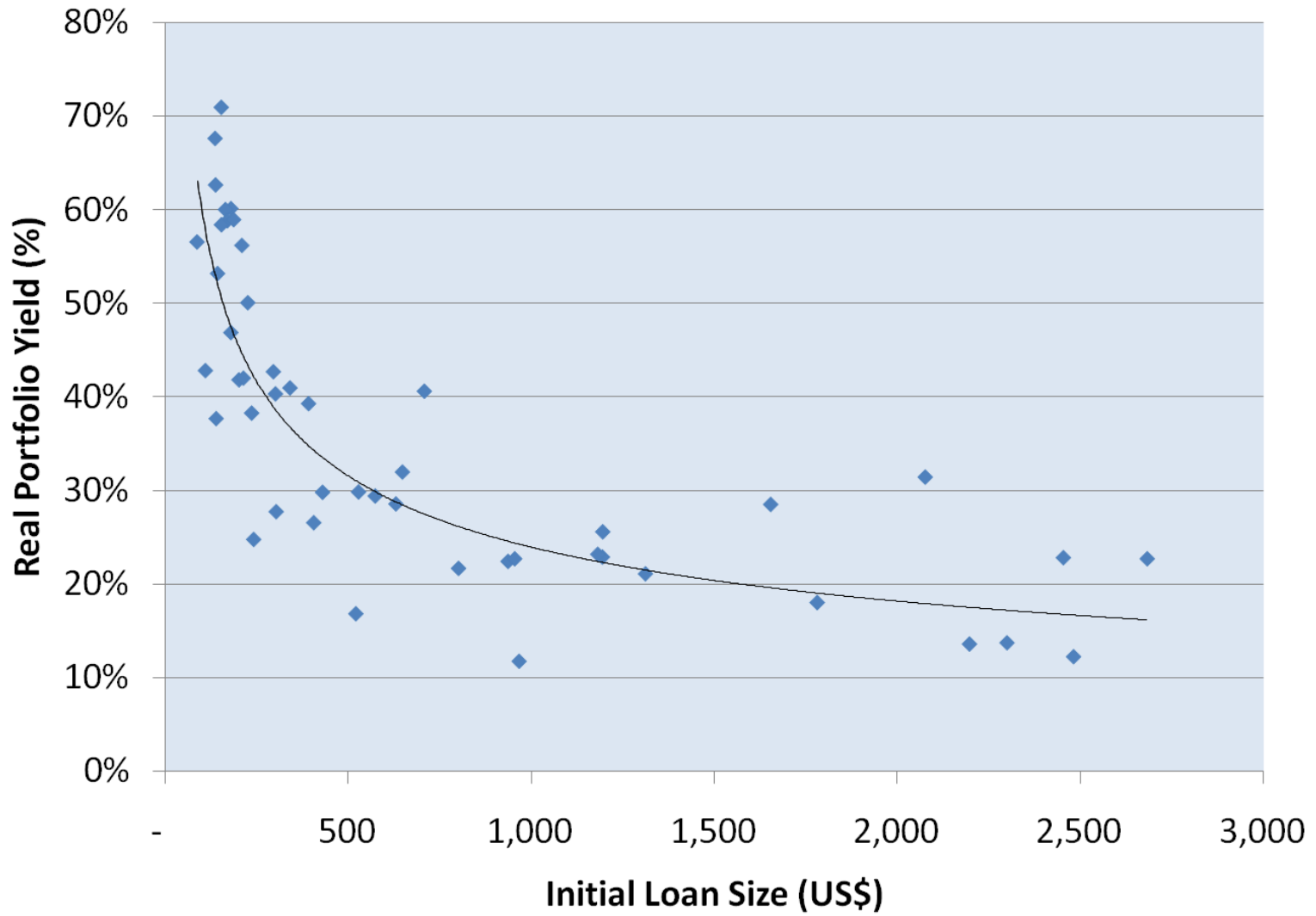
Common industry benchmark of 15-20% OpCost Ratio is appropriate for larger loans



## Loan Size and Op Exp/Port % (48 MFIs in Philippines)

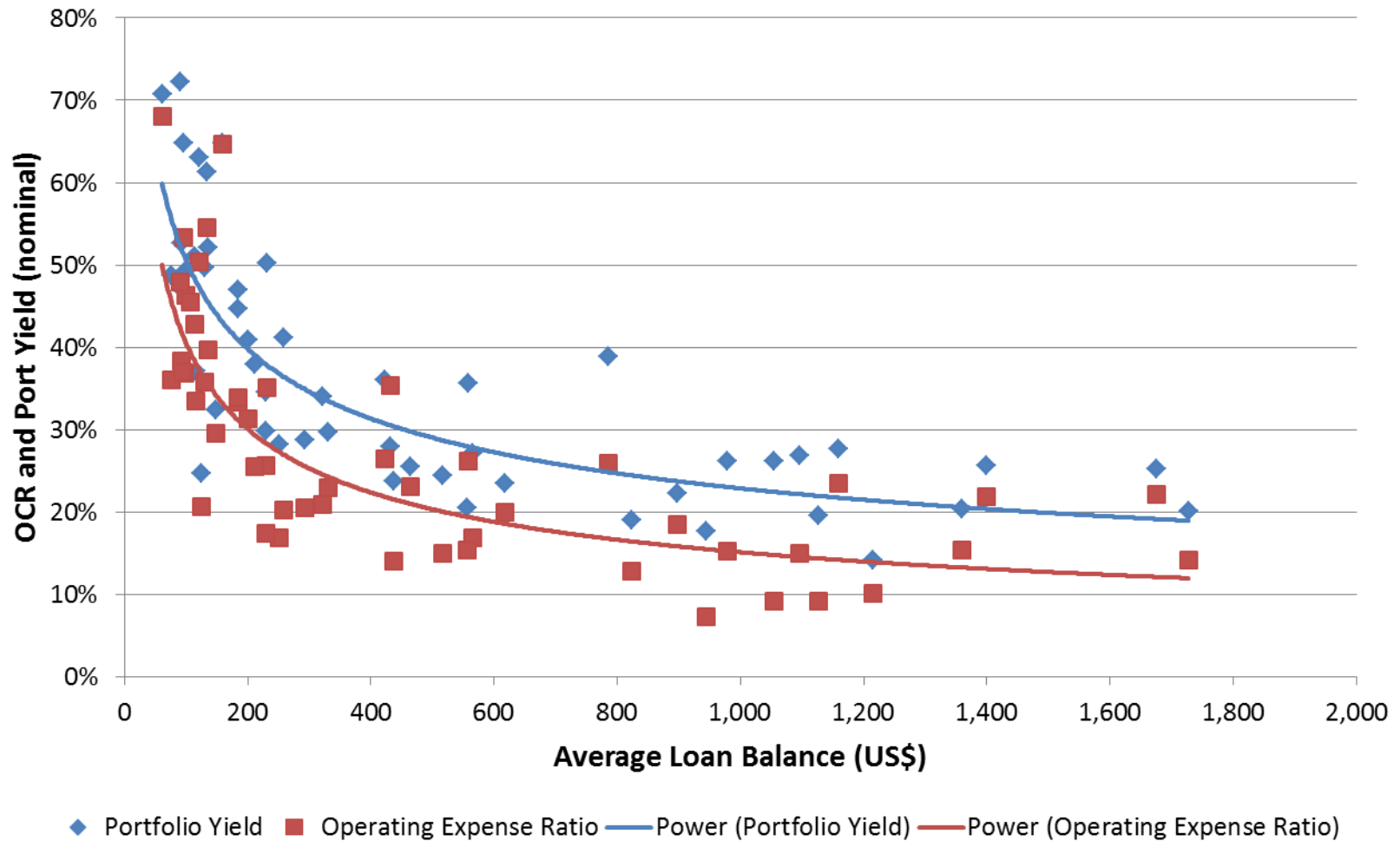


## Loan Size and Real Portfolio Yield (48 MFIs in Philippines)

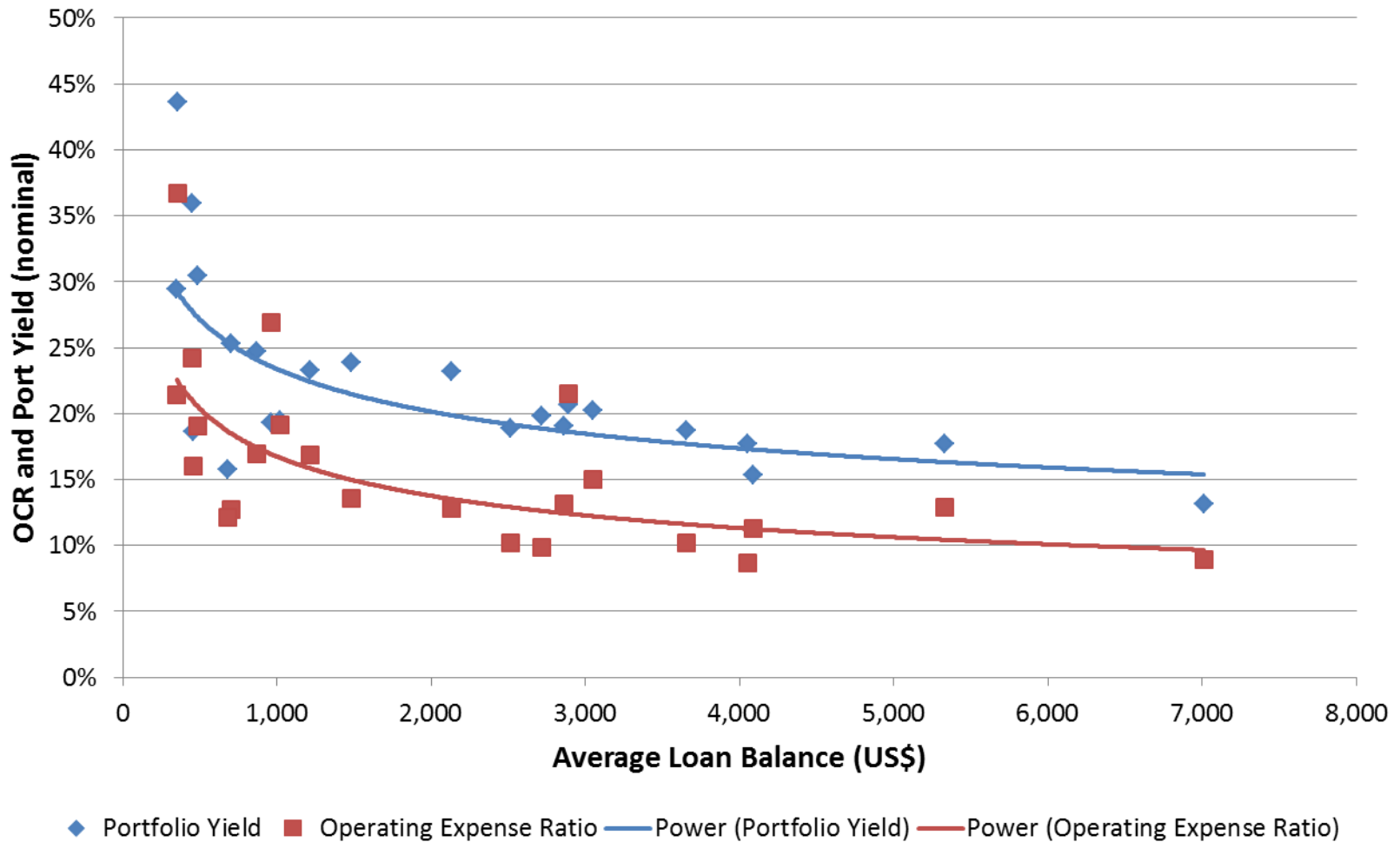


# Comparison of the Cost Curve and the Price Curve

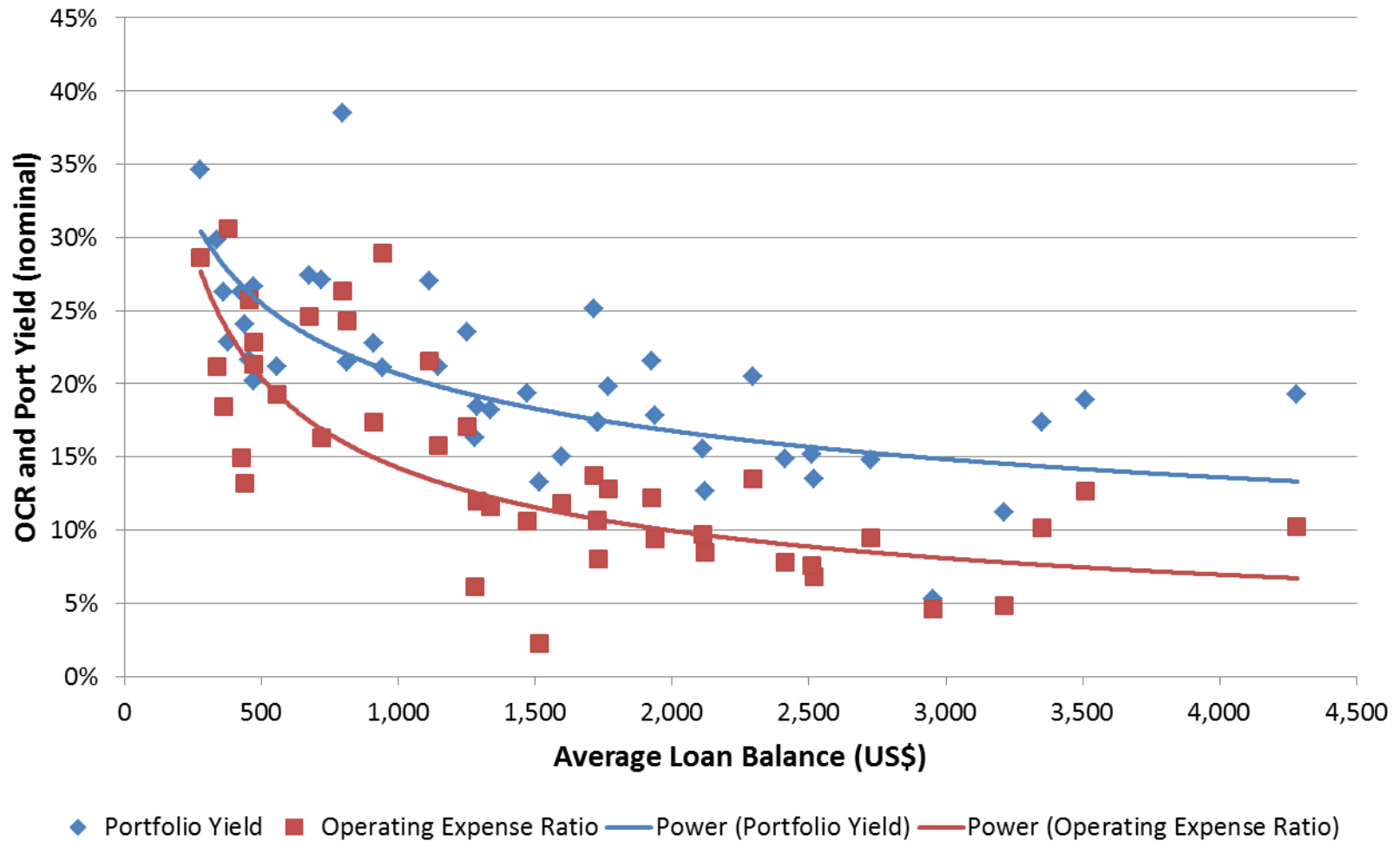
## Portfolio Yield & OER vs Average Loan Balance Philippines, 59 MFIs



## Portfolio Yield & OER vs Average Loan Balance Bolivia, 23 MFIs



## Portfolio Yield & OER vs Average Loan Balance Ecuador, 43 MFIs



# **Lack of Transparent Pricing**

**The way we communicate prices  
to our clients is far from  
transparent**

# What is Transparent Pricing?

The pricing, terms, and conditions of financial products will be adequately disclosed to the clients in a clear manner that allows both

- Accurate understanding of prices, and
- Ability to compare different products.



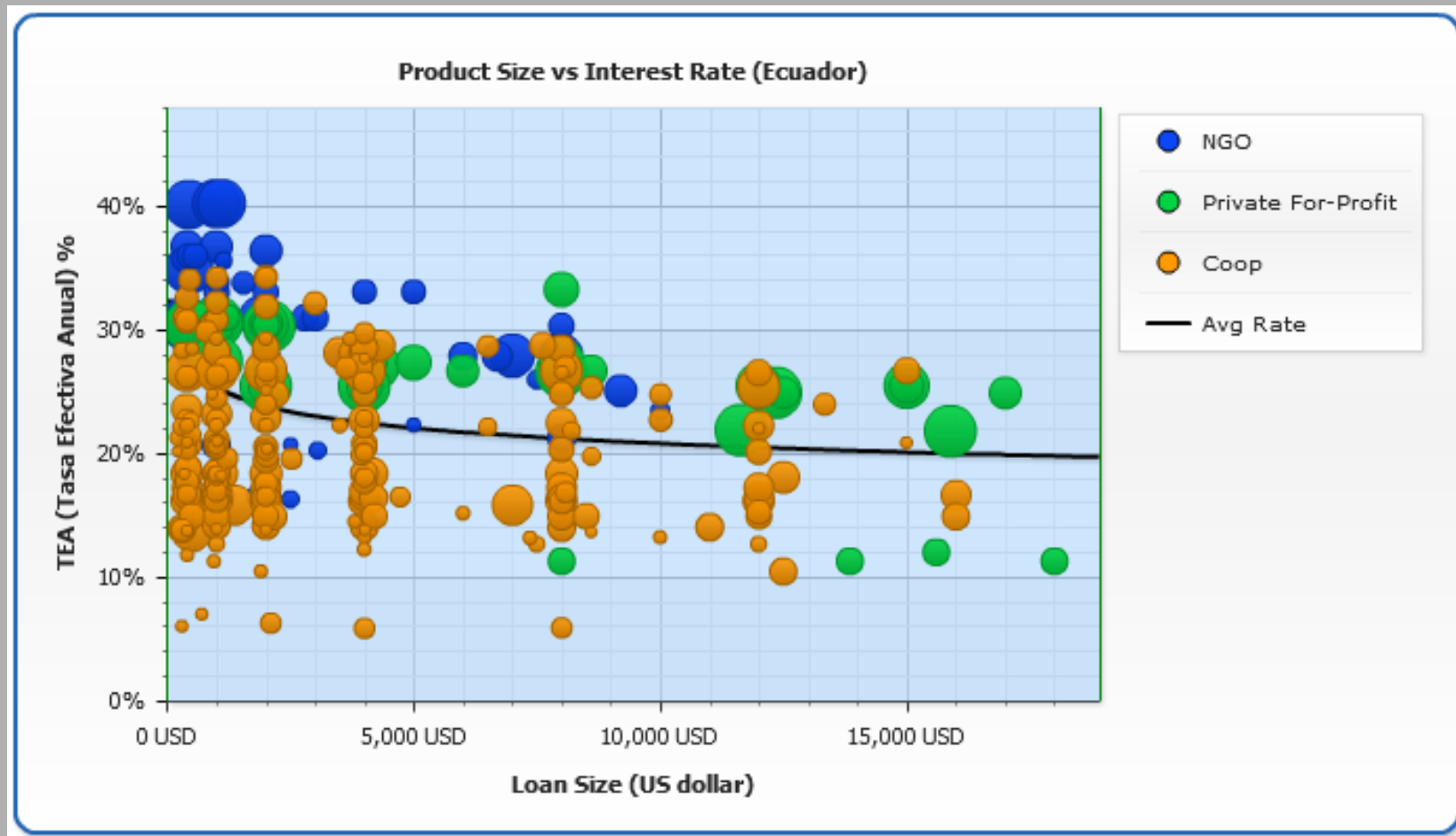
# Which loan would you pick?

	Zero Interest Loan	Interest and Fees	And Savings	Interest Only
Loan amount:	R1,000	R1,000	R1,000	R1,000
Loan term:	10 weeks	10 weeks	10 weeks	10 weeks
Interest Rate:	0%	15% “flat”	12% “flat”	40% decl
Upfront fee:	5%	2%	1%	0%
Security deposit:	0%	0%	20%	0%

<b>APR</b>	<b>49%</b>	<b>47%</b>	<b>49%</b>	<b>40%</b>
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<b>Transparency Index</b>	<b>0</b>	<b>32</b>	<b>25</b>	<b>100</b>
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# Ecuador Data

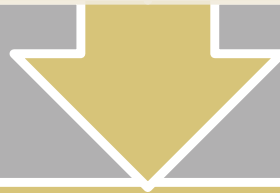


# Results of Non-Transparent Pricing

MFIs do not compete on price but on other factors

Prices therefore can and do vary dramatically

Some MFIs push prices higher to maximize profits



Consumers are often told a much lower price than reality

Consumers buy more expensive loans

Consumers go into more debt than they should

# Transparency Must Come First

**Transparent Pricing**



**Responsible Pricing**

Definition &  
Discussion

Implementation

# Combined Approach

Self Regulated  
Practice of  
Transparent  
Pricing

Supportive  
Government  
Regulation

Responsible  
Pricing

# What does transparency mean for responsible pricing?

No transparency = less competition



Less competition = wider range in prices



We improve transparency and price competition...



**Competitive prices = Responsible prices**



# Promoting Transparent Pricing in the Microfinance Industry

