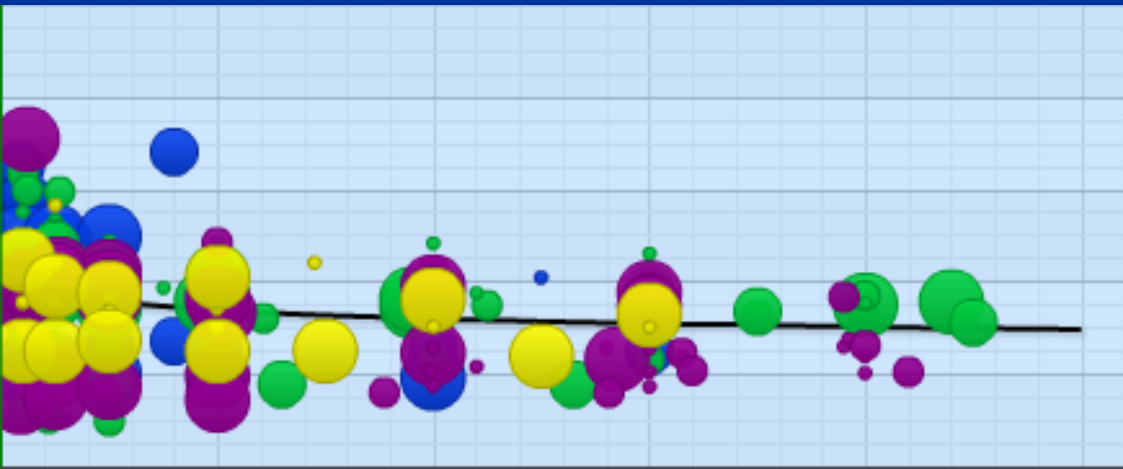


After Transparency, How to Define Responsible Pricing?

Chuck Waterfield
CEO

MicroFinance Transparency
December 2013



Sign in a pub in Frankfurt Germany





FREE

WI-FI

GREAT

BEER

GREAT SERVICE

ALL DAY

WAXYS.DE

Do we really have non-transparent pricing in microfinance?

Here's an example of what a client faces in shopping for a loan

Which loan would you pick?

	Zero Interest Loan	Interest and Fees	And Savings	Interest Only
Loan amount:	\$1,000	\$1,000	\$1,000	\$1,000
Loan term:	10 weeks	10 weeks	10 weeks	10 weeks

Which loan would you pick?

	Zero Interest Loan	Interest and Fees	And Savings	Interest Only
Loan amount:	\$1,000	\$1,000	\$1,000	\$1,000
Loan term:	10 weeks	10 weeks	10 weeks	10 weeks
Interest Rate:	0%			
Upfront fee:	5%			
Savings:	0%			

Which loan would you pick?

	Zero Interest Loan	Interest and Fees	And Savings	Interest Only
Loan amount:	\$1,000	\$1,000	\$1,000	\$1,000
Loan term:	10 weeks	10 weeks	10 weeks	10 weeks
Interest Rate:	0%	15% ("flat")		
Upfront fee:	5%	2%		
Savings:	0%	0%		

Which loan would you pick?

	Zero Interest Loan	Interest and Fees	And Savings	Interest Only
Loan amount:	\$1,000	\$1,000	\$1,000	\$1,000
Loan term:	10 weeks	10 weeks	10 weeks	10 weeks
Interest Rate:	0%	15% ("flat")	12% ("flat")	
Upfront fee:	5%	2%	1%	
Savings:	0%	0%	20%	

Which loan would you pick?

	Zero Interest Loan	Interest and Fees	And Savings	Interest Only
Loan amount:	\$1,000	\$1,000	\$1,000	\$1,000
Loan term:	10 weeks	10 weeks	10 weeks	10 weeks
Nominal Annual Interest Rate	0%	12% ("flat")	12% ("flat")	36% decl

Full APR	0%	1%	1%	0%
Upfront fees	0%	0%	0%	0%
Savings:	0%	20%	20%	0%
Full Transparency = 100				
TCC	\$0	\$50	\$33	\$38
APR	48%	48%	48%	36%
Transparency Index				

Which loan would you pick?

	Zero Interest Loan	Interest and Fees	And Savings	Interest Only
Loan amount:	\$1,000	\$1,000	\$1,000	\$1,000
Loan term:	10 weeks	10 weeks	10 weeks	10 weeks
Interest Rate:	0%	15% ("flat")	12% ("flat")	36% decl
Upfront fee:	5%	2%	1%	0%
Savings:	0%	0%	20%	0%
TCC	\$50	\$50	\$33	\$38
APR	48%	48%	48%	36%
Transparency Index	0	32	25	100

What Prices Do We Charge?

Cardinal Rule in analyzing micro-loans:

Never use averages

**Pricing for Sustainability must
address the reality of the COST
curve**

Reality of a Delivery Cost curve

Efficiency	1	2	3
Operating Cost per Loan			\$50
Loan Size			\$500
Operating Cost Ratio			10%

Reality of a Delivery Cost curve

Efficiency	1	2	3
Operating Cost per Loan			\$50
Loan Size		\$250	\$500
Operating Cost Ratio			10%

Reality of a Delivery Cost curve

Efficiency	1	2	3
Operating Cost per Loan		\$50	\$50
Loan Size		\$250	\$500
Operating Cost Ratio		20%	10%

Reality of a Delivery Cost curve

Efficiency	1	2	3
Operating Cost per Loan		\$50	\$50
Loan Size	\$100	\$250	\$500
Operating Cost Ratio		20%	10%

Reality of a Delivery Cost curve

Efficiency	1	2	3
Operating Cost per Loan	\$30	\$50	\$50
Loan Size	\$100	\$250	\$500
Operating Cost Ratio	30%	20%	10%

Cost Components that Affect Pricing

Component	
Financial Costs	10%
Loan Loss	2%
Operating Costs	20%

Cost Components that Affect Pricing

Component	
Financial Costs	10%
Loan Loss	2%
Operating Costs	20%
Profit	3%
Total Price	35%

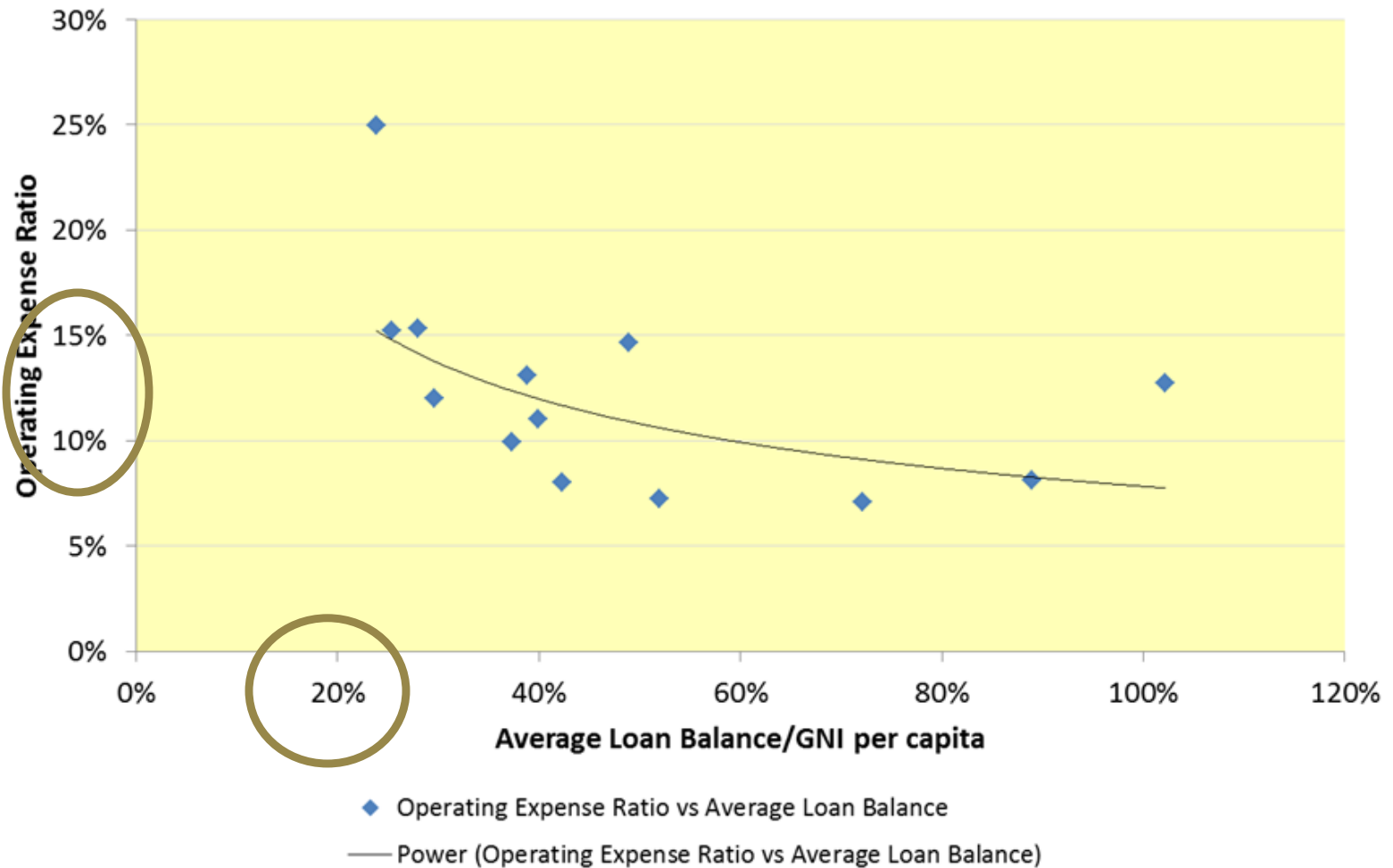
Cost Components that Affect Pricing

Component	\$1000	\$500	
Financial Costs	10%	10%	
Loan Loss	2%	2%	
Operating Costs	20%	30%	
Profit	3%	3%	
Total Price	35%	45%	

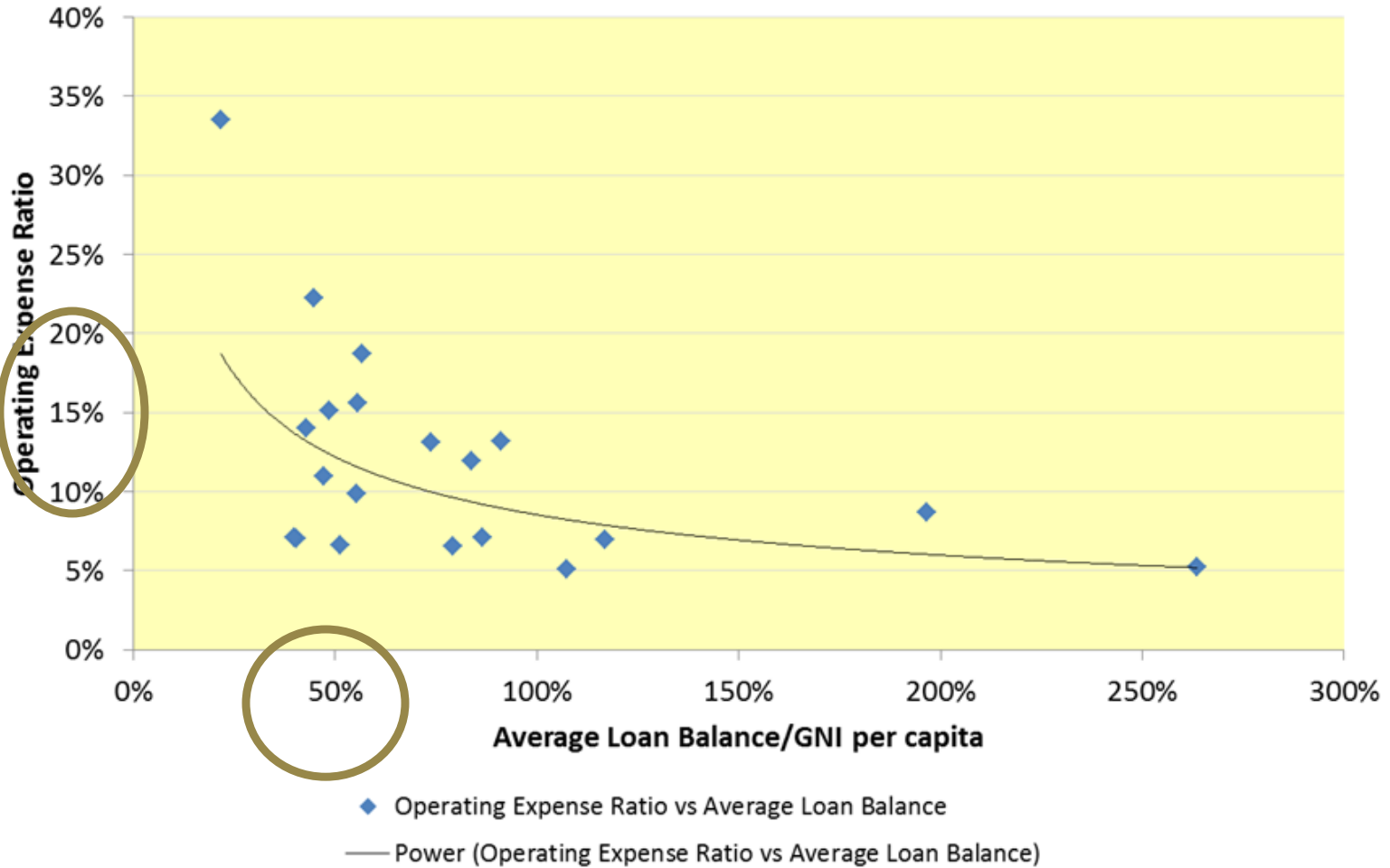
Cost Components that Affect Pricing

Component	\$1000	\$500	\$1000
Financial Costs	10%	10%	10%
Loan Loss	2%	2%	2%
Operating Costs	20%	30%	20%
Profit	3%	3%	13%
Total Price	35%	45%	45%

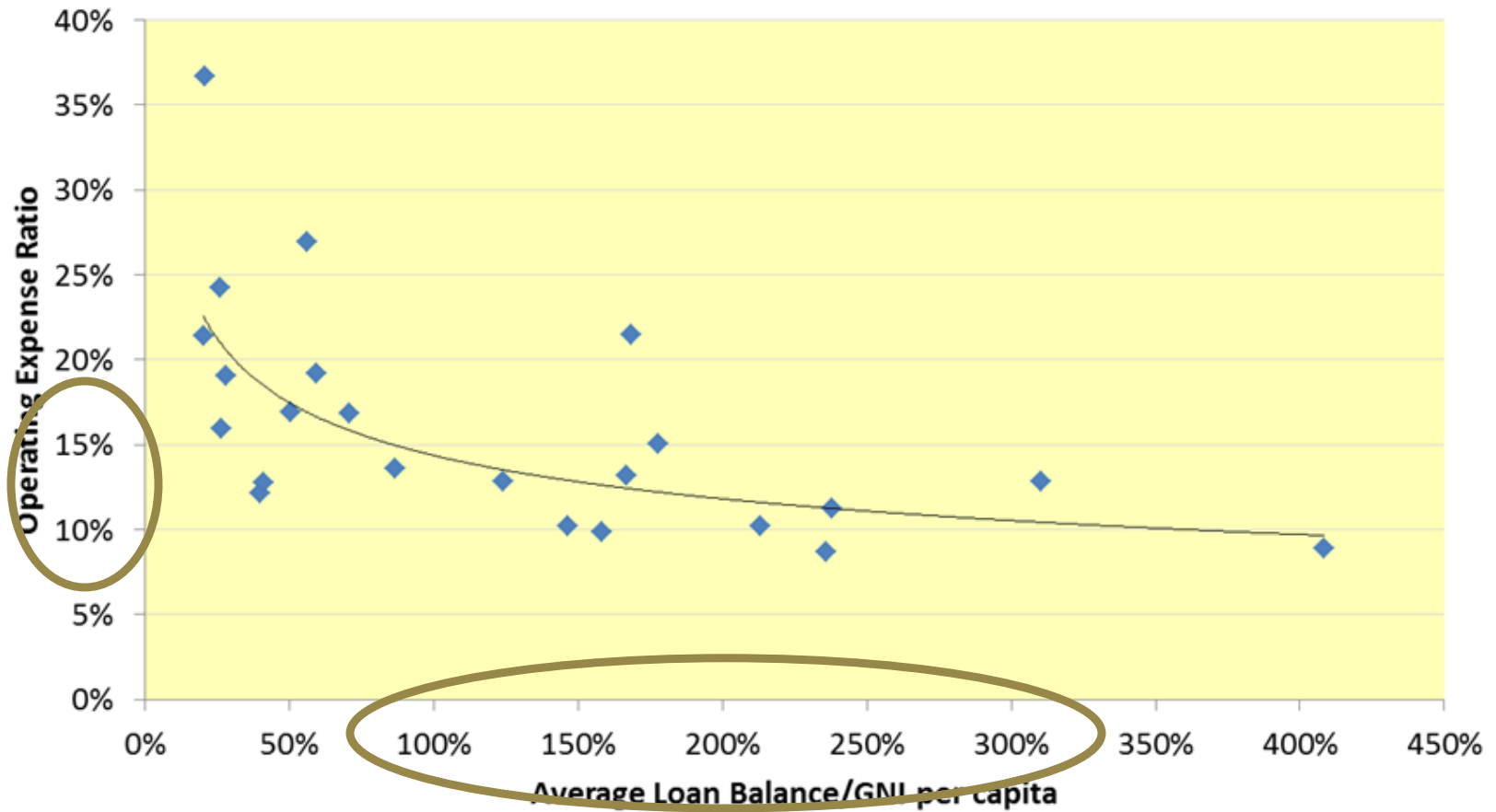
Operating Expense Ratio vs Average Loan Balance Bosnia and Herzegovina, 13 MFIs



Operating Expense Ratio vs Average Loan Balance Bulgaria, 20 MFIs

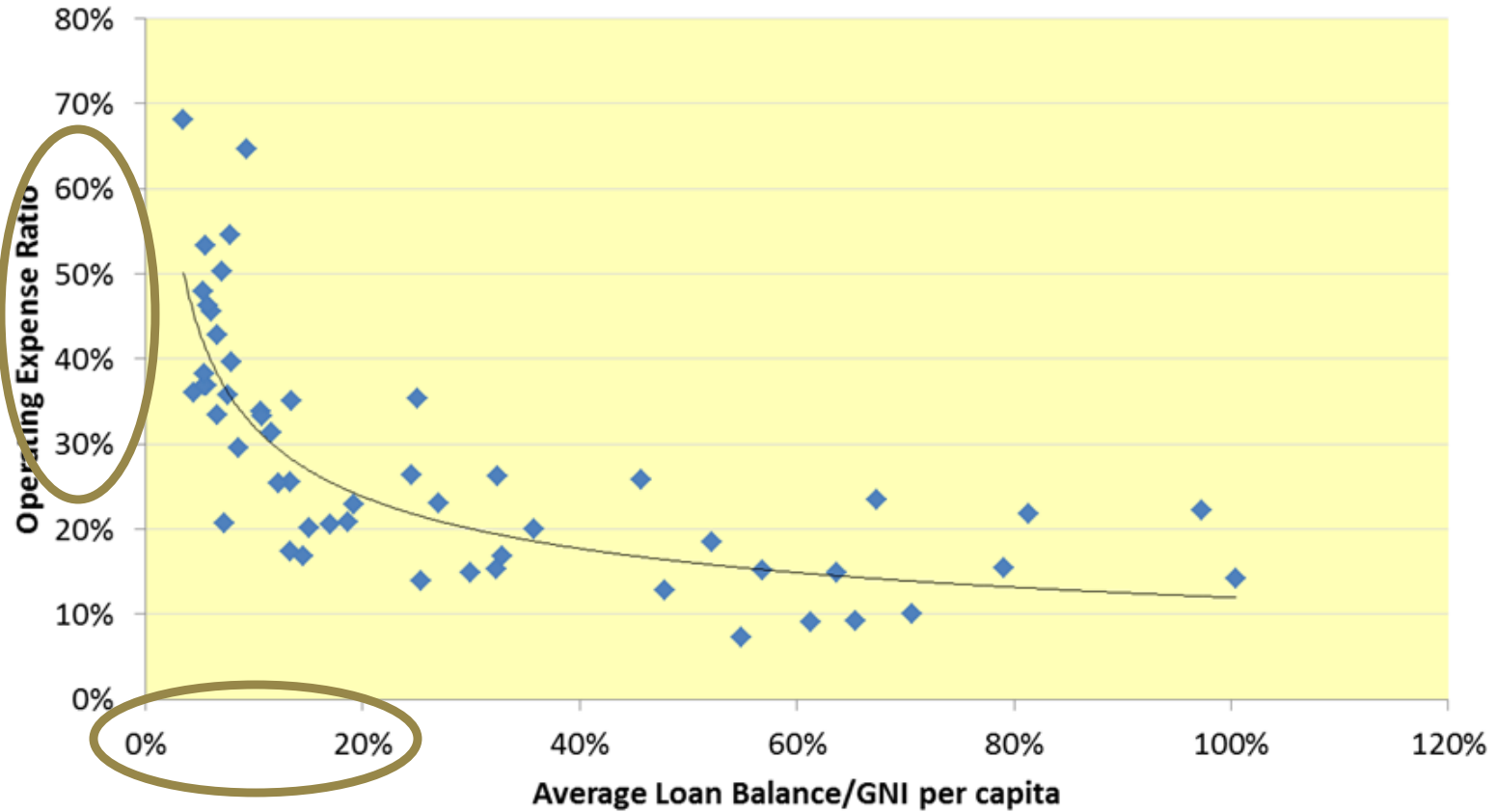


Operating Expense Ratio vs Average Loan Balance Bolivia, 23 MFIs



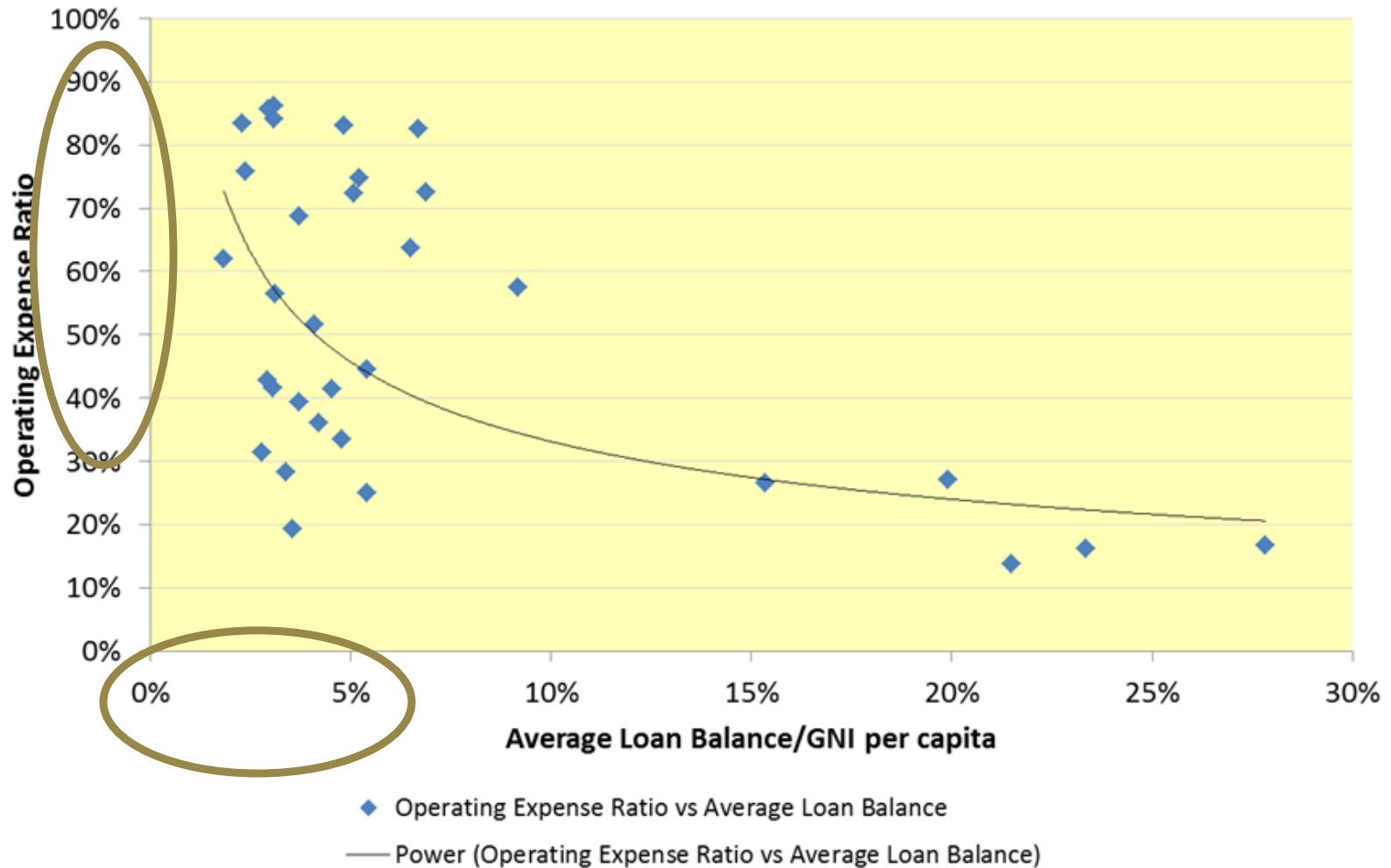
- ◆ Operating Expense Ratio vs Average Loan Balance
- Power (Operating Expense Ratio vs Average Loan Balance)

Operating Expense Ratio vs Average Loan Balance Philippines, 59 MFIs

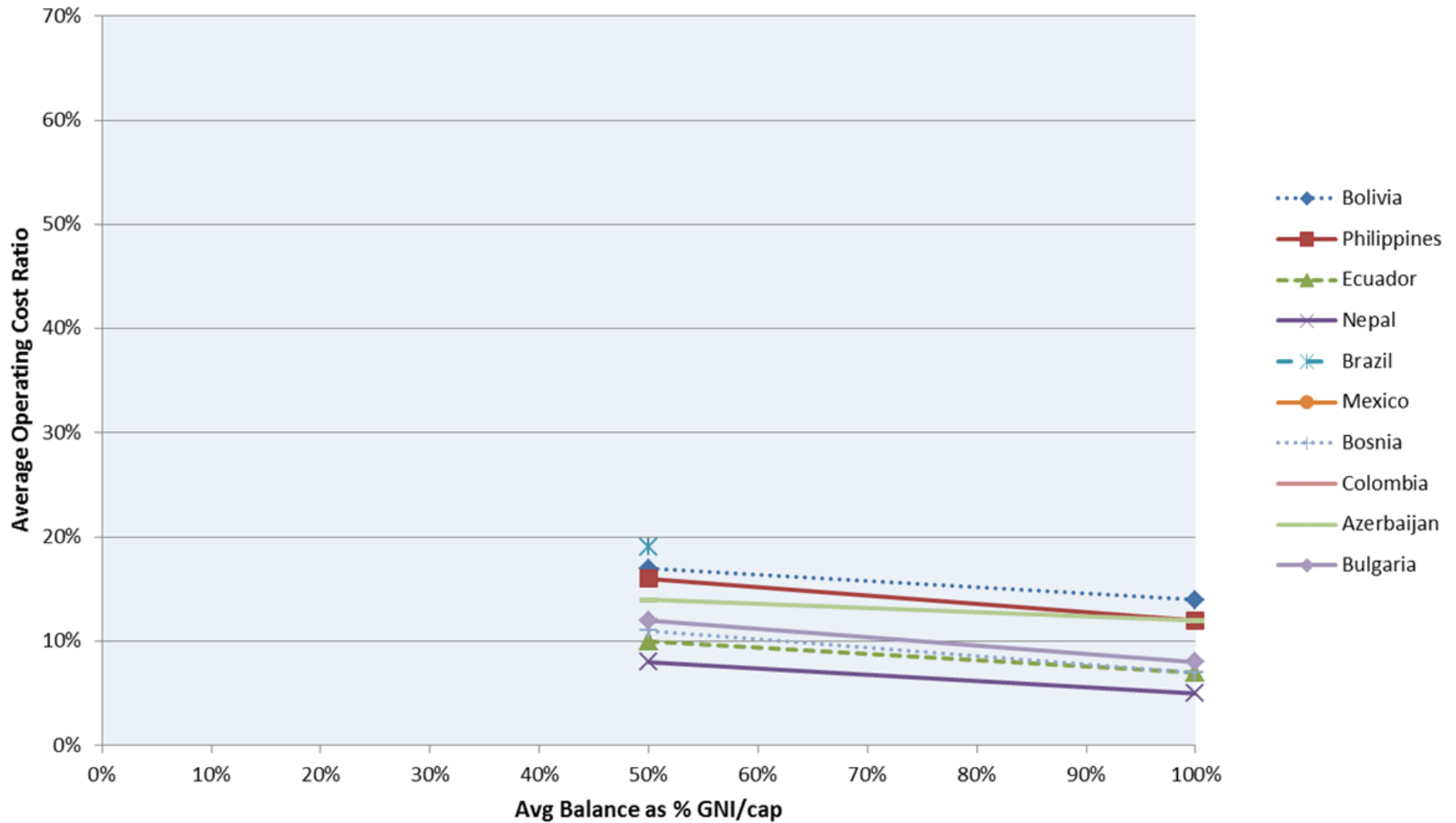


- ◆ Operating Expense Ratio vs Average Loan Balance
- Power (Operating Expense Ratio vs Average Loan Balance)

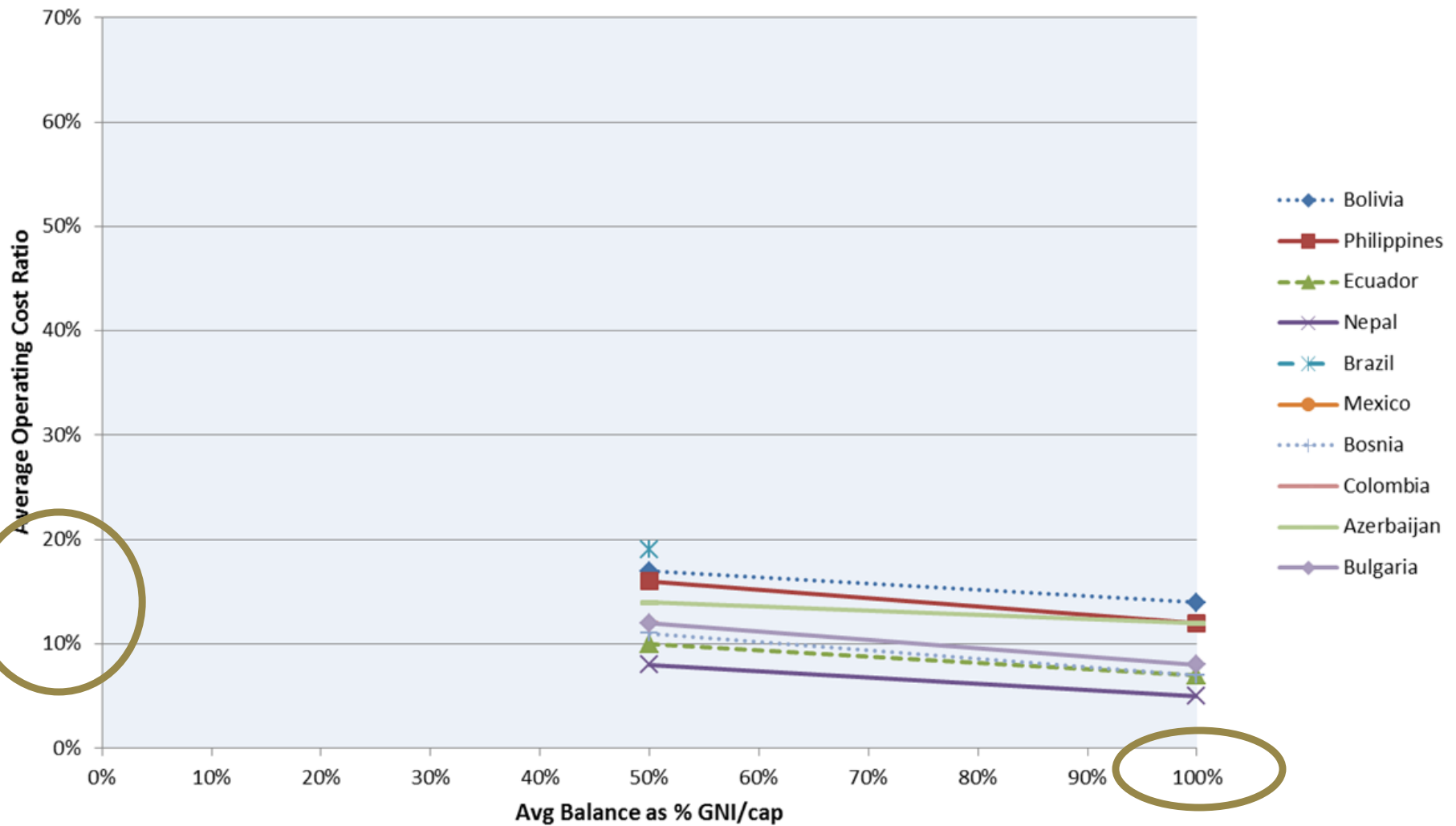
Operating Expense Ratio vs Average Loan Balance Mexico, 32 MFIs



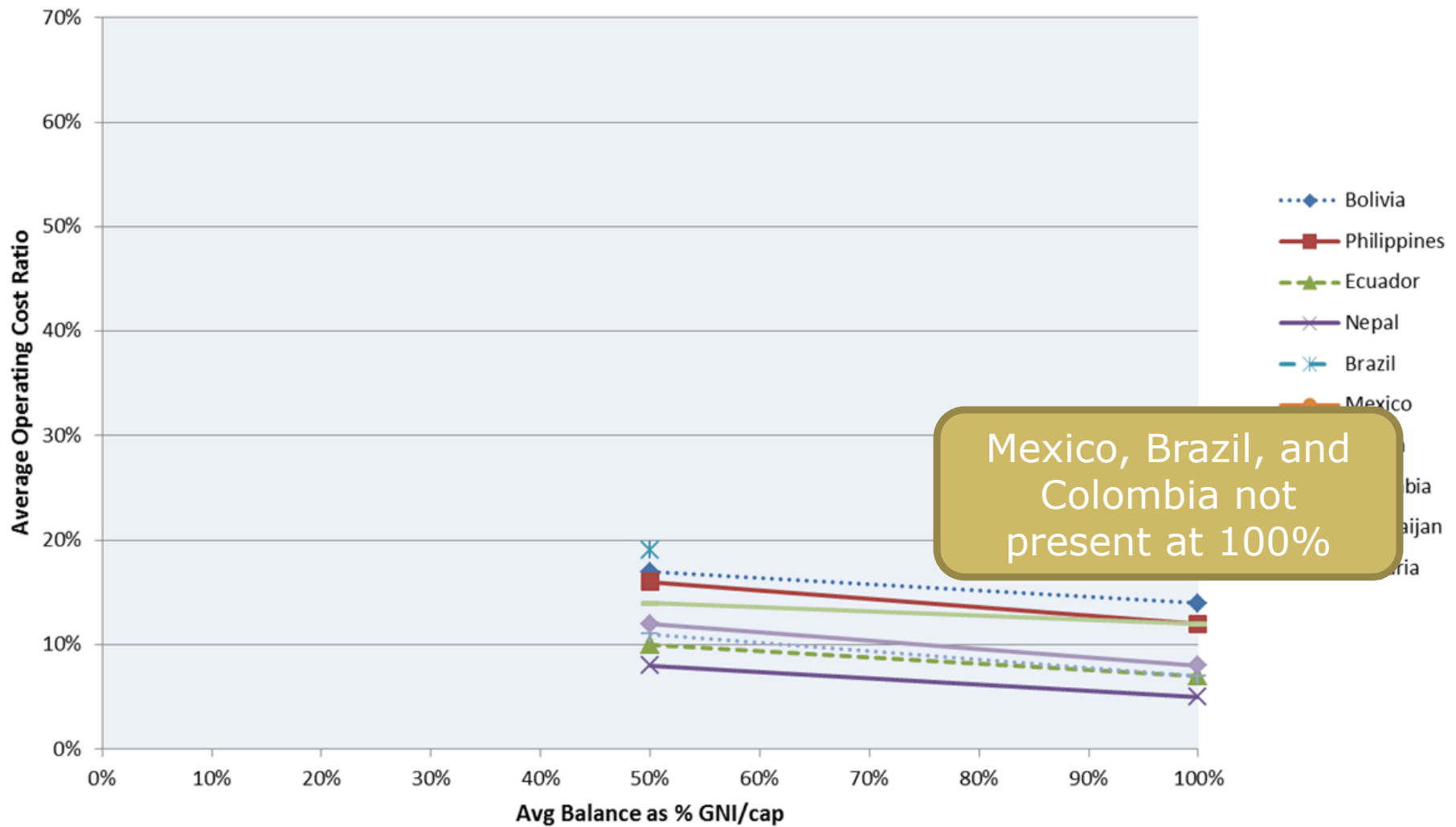
Average Op Cost Ratio by Loan Scale, selected countries



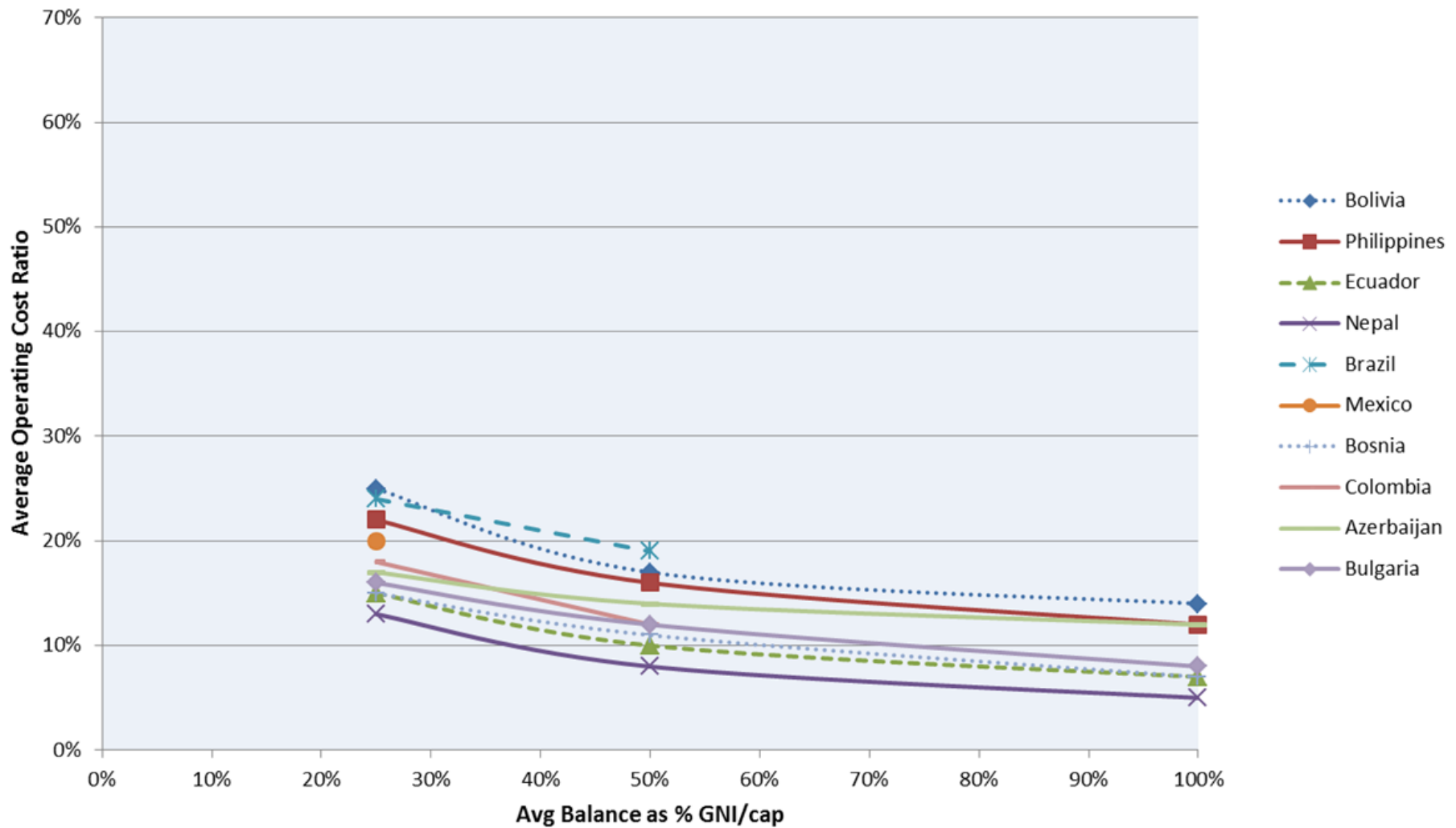
Average Op Cost Ratio by Loan Scale, selected countries



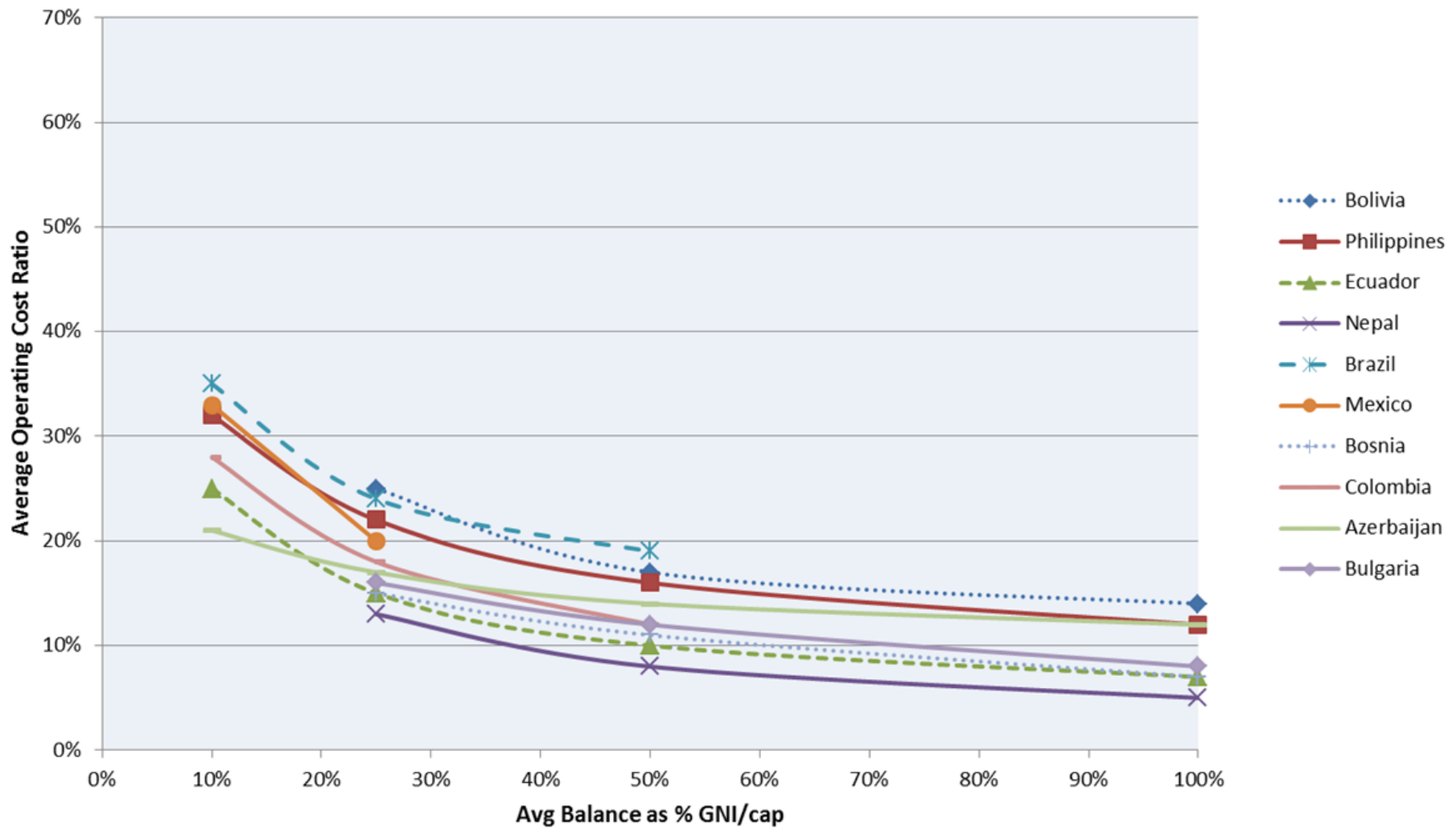
Average Op Cost Ratio by Loan Scale, selected countries



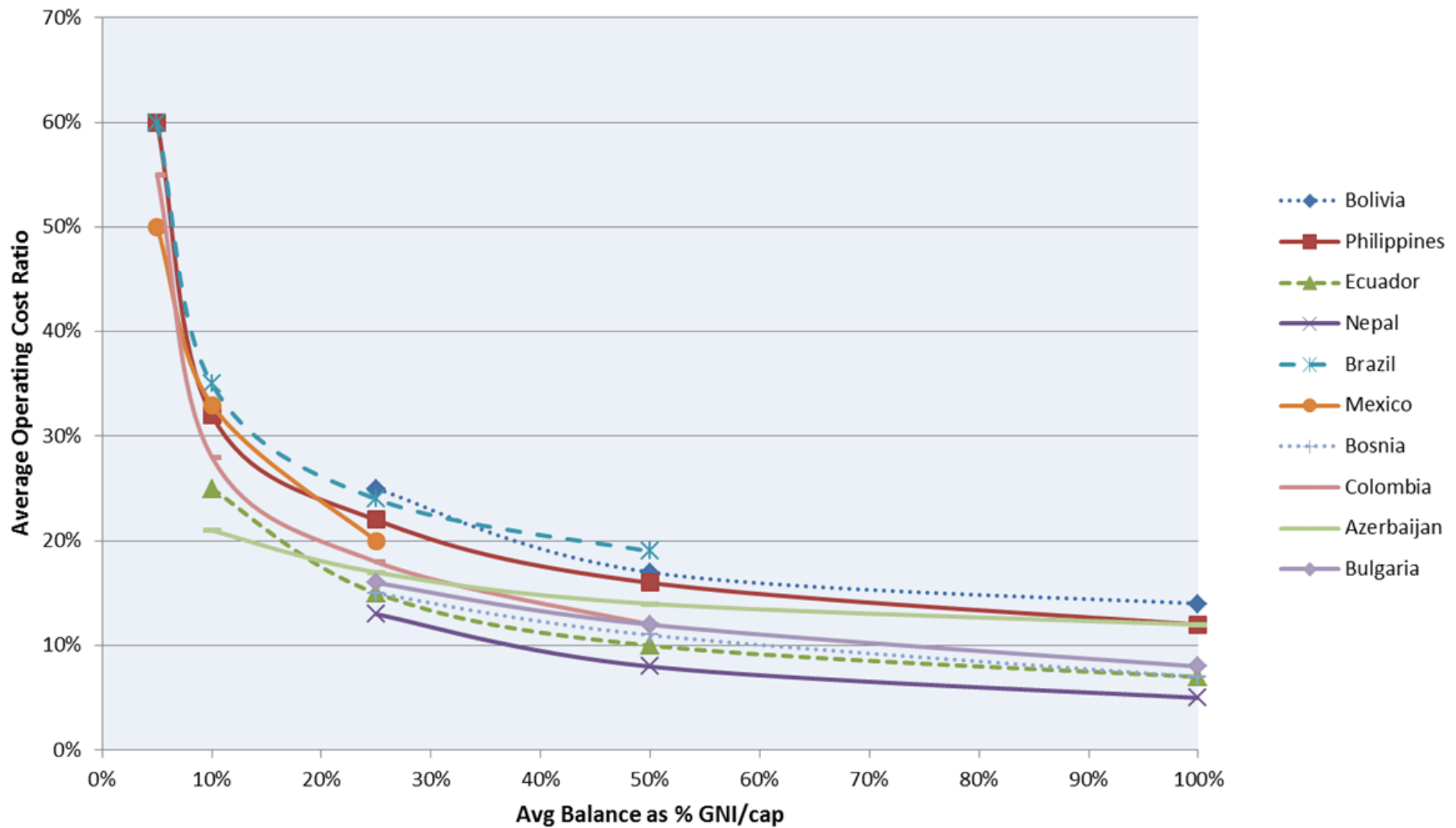
Average Op Cost Ratio by Loan Scale, selected countries



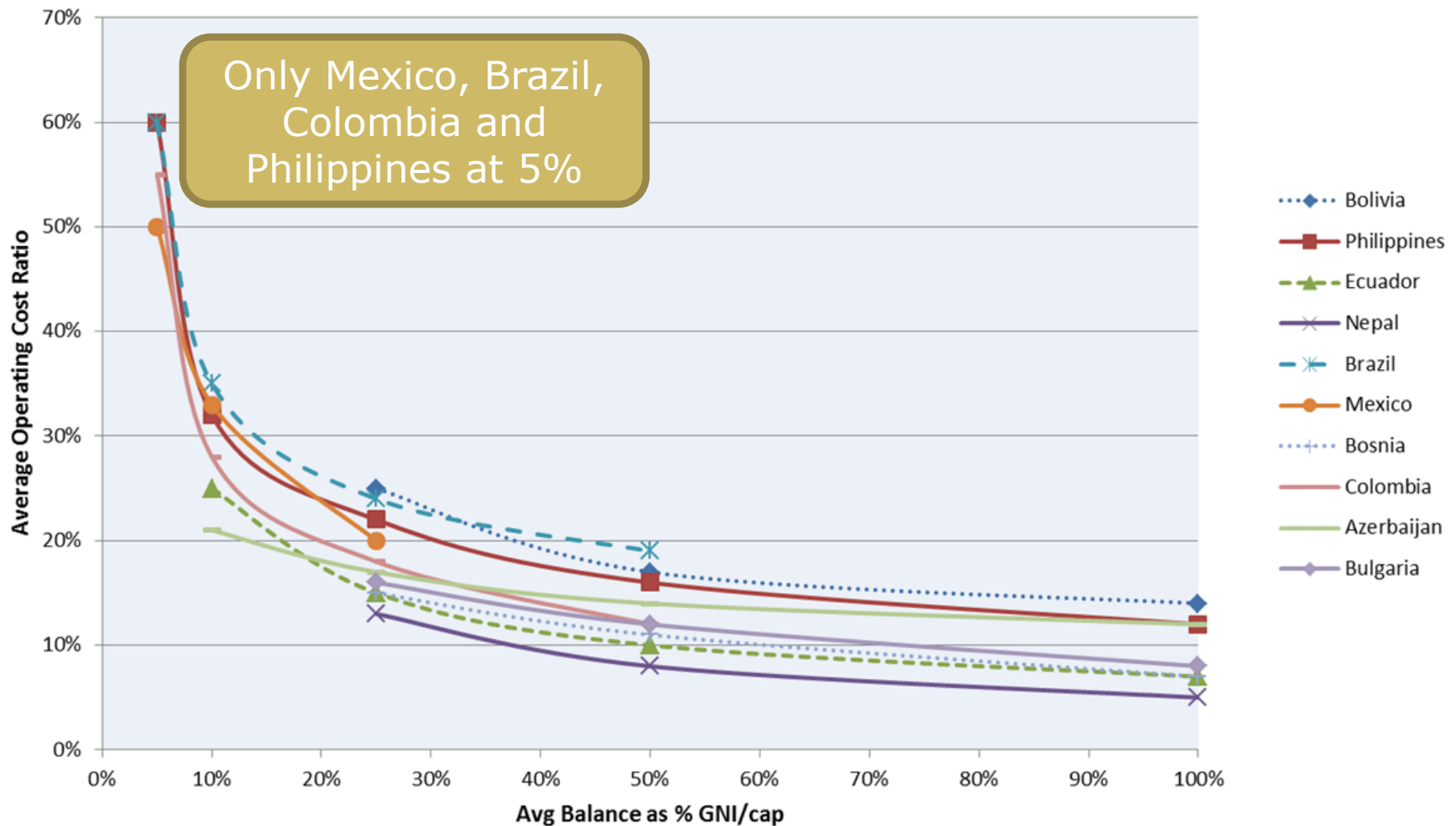
Average Op Cost Ratio by Loan Scale, selected countries



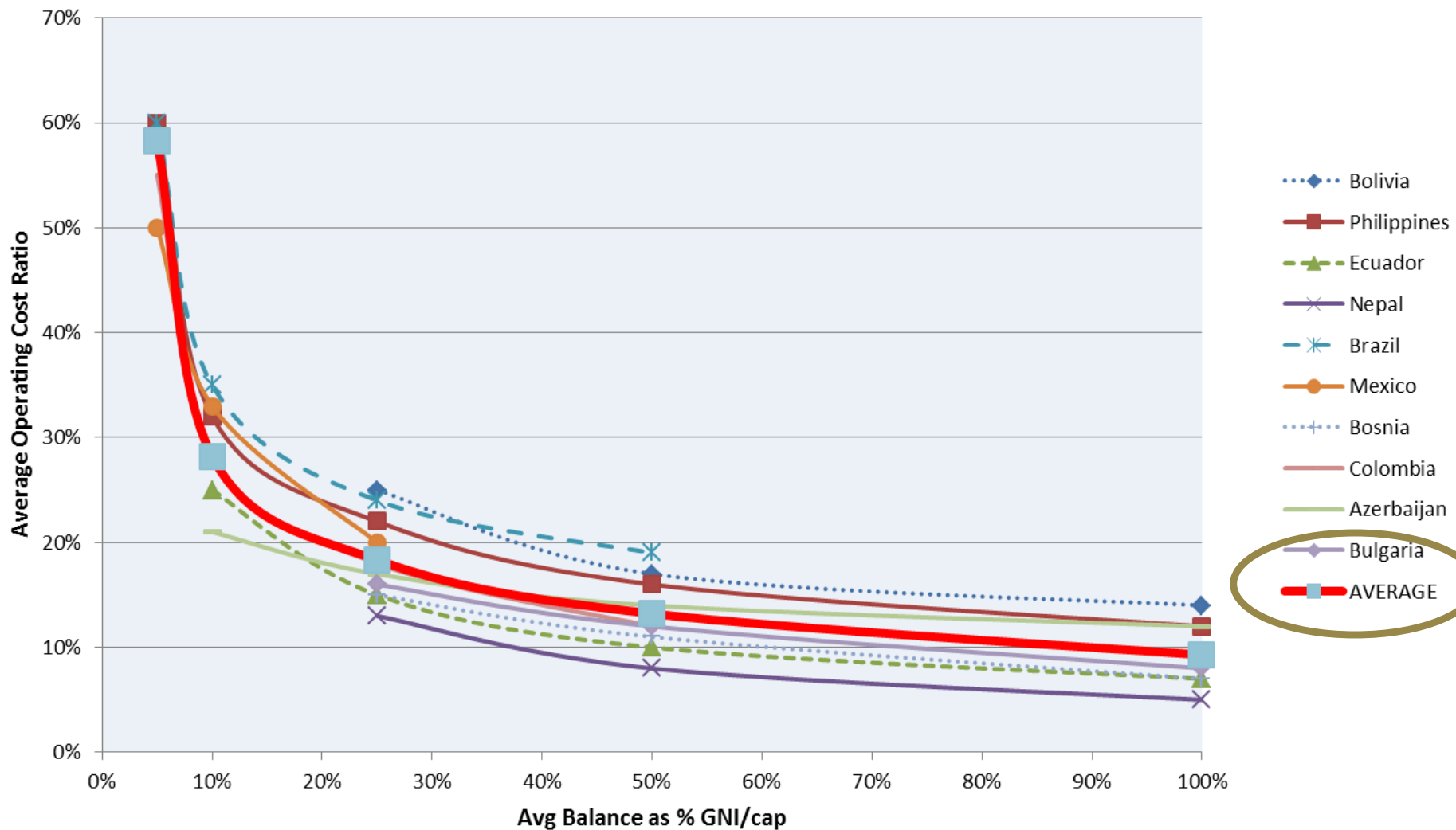
Average Op Cost Ratio by Loan Scale, selected countries



Average Op Cost Ratio by Loan Scale, selected countries

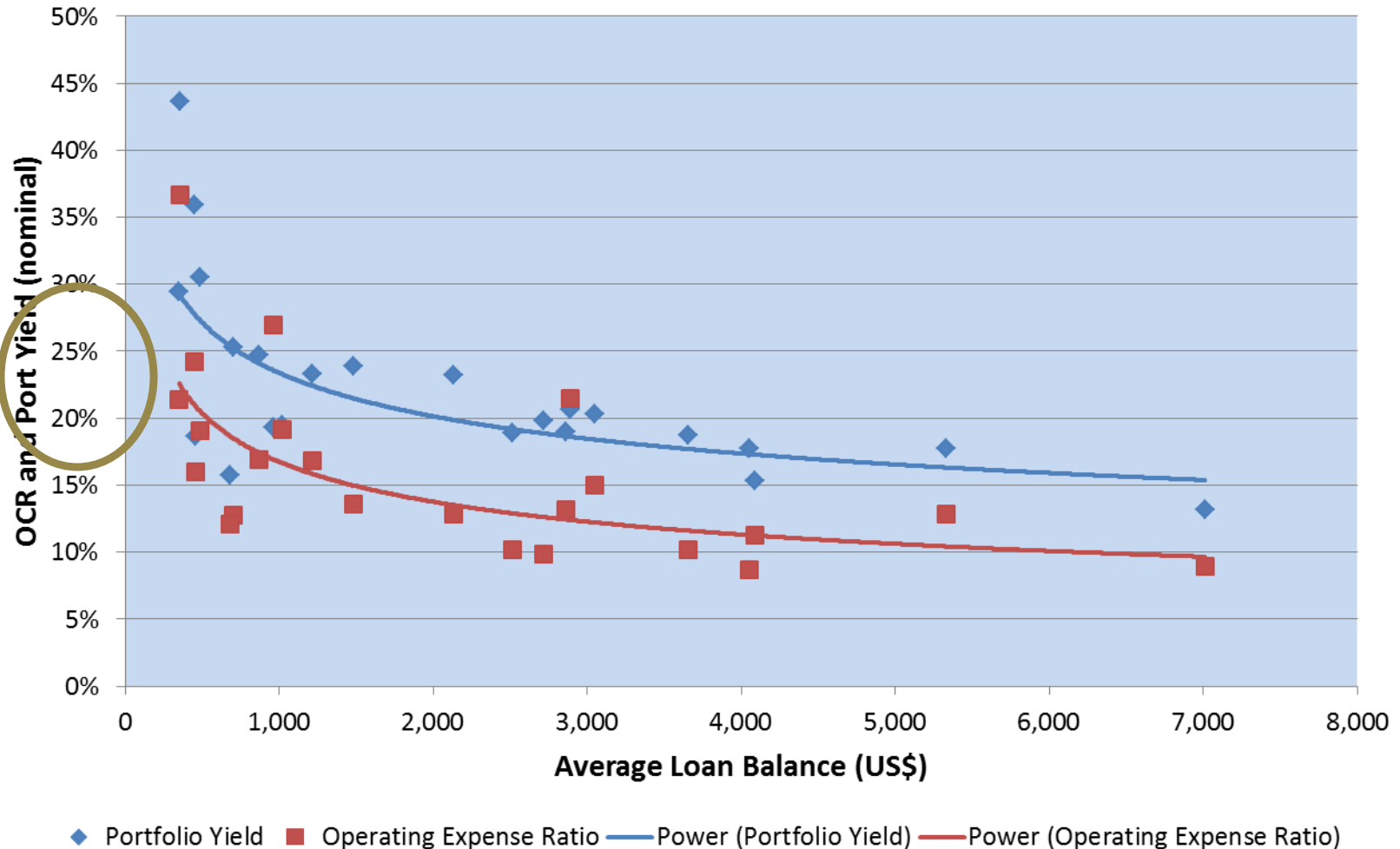


Average Op Cost Ratio by Loan Scale, selected countries



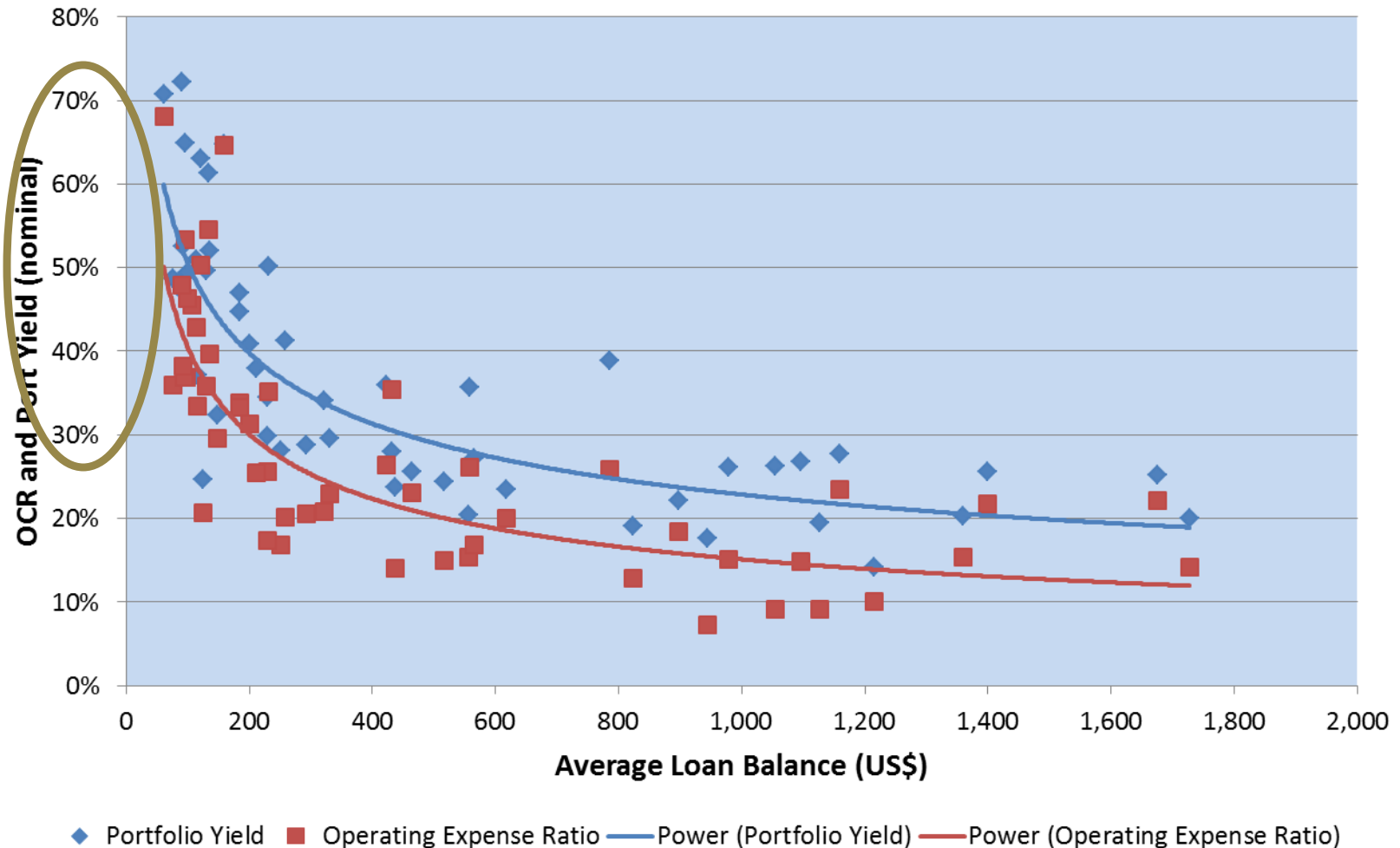
Price curve follows cost curve

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



Price curve follows cost curve

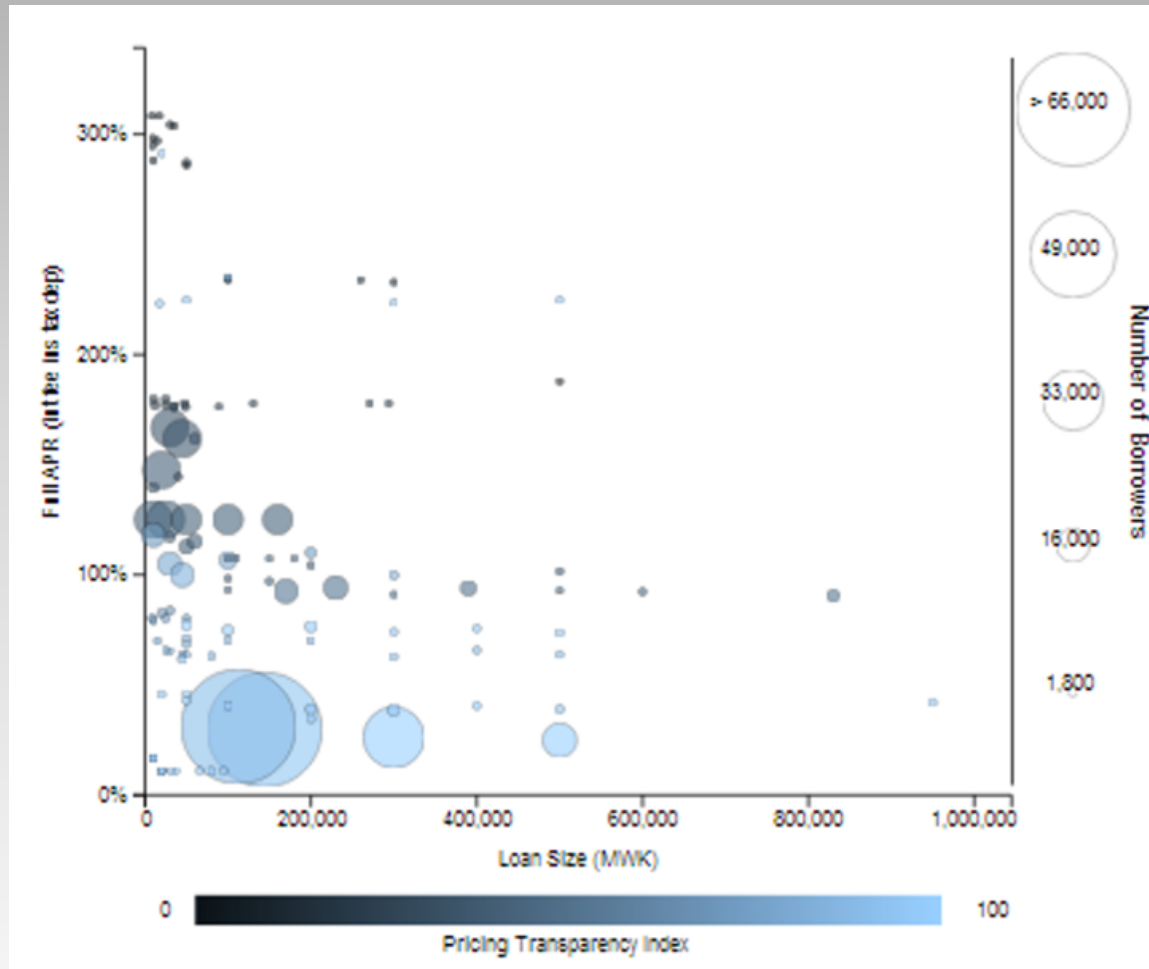
Portfolio Yield & OER vs Average Loan Balance
Philippines, 59 MFIs



A new way to look at the data

1. Is an MFI close to the curve in its country for costs?
For portfolio yield?
2. If not, why not?
3. What spread has the MFI selected between its costs and the price it has chosen?

The MFT Website has a wealth of information



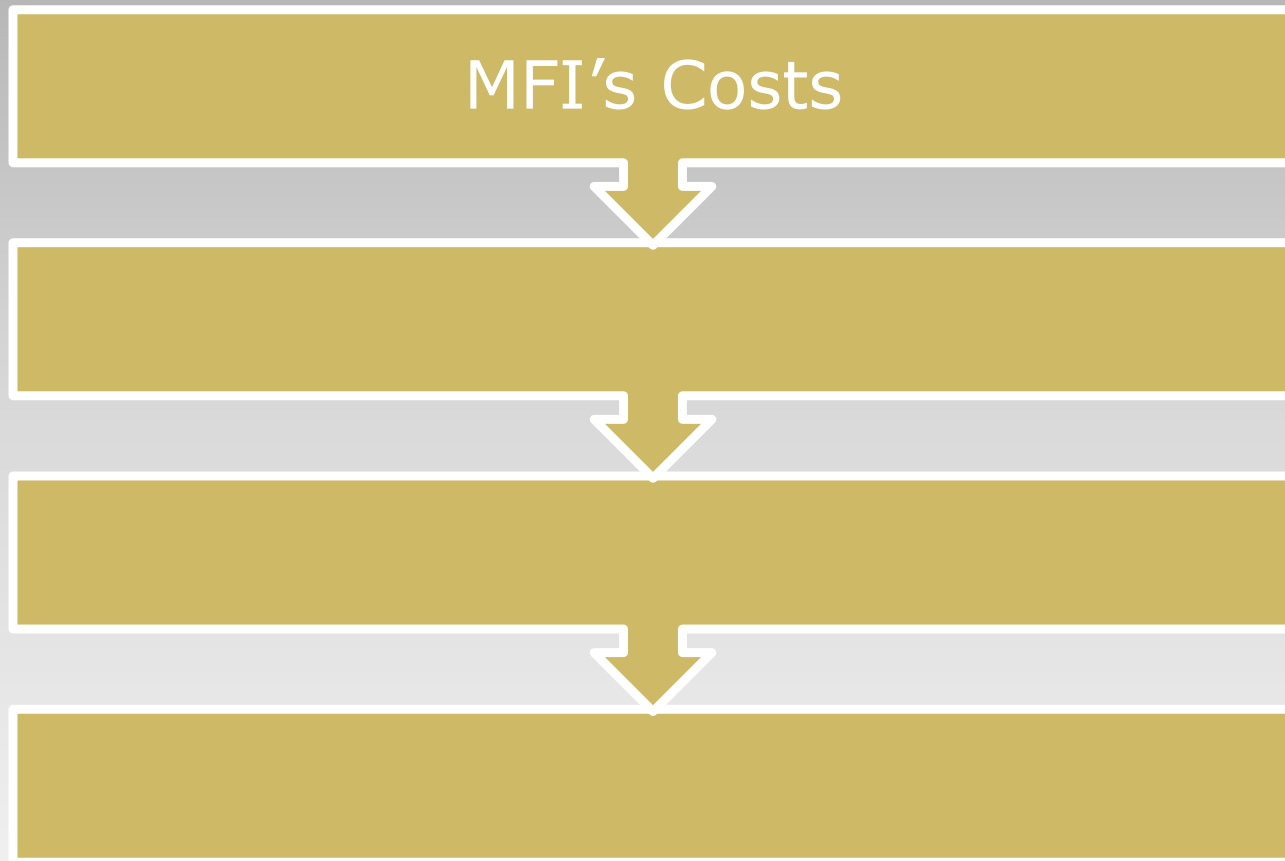
Opaque

Transparent

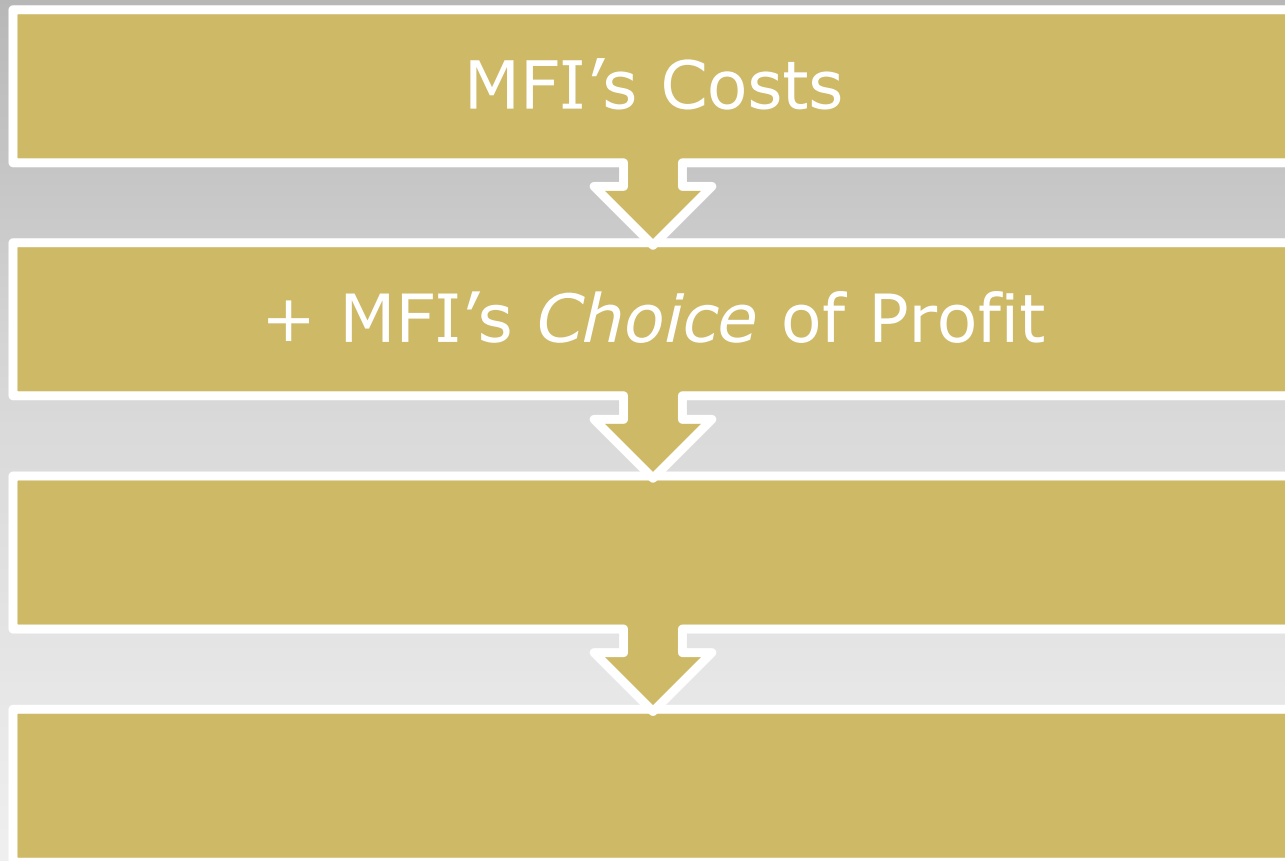
Responsible

- Transparent Prices
 - Now we know more about **what** prices we are charging
 - We know more about **why** we charge those prices
- Responsible Prices
 - Now we are moving forward to discussion of what prices we **should** charge (to support the ideals and values of the microfinance industry)
 - This is arguably the difficult part, the subjective part
 - Should we do it?
 - How would we do it?

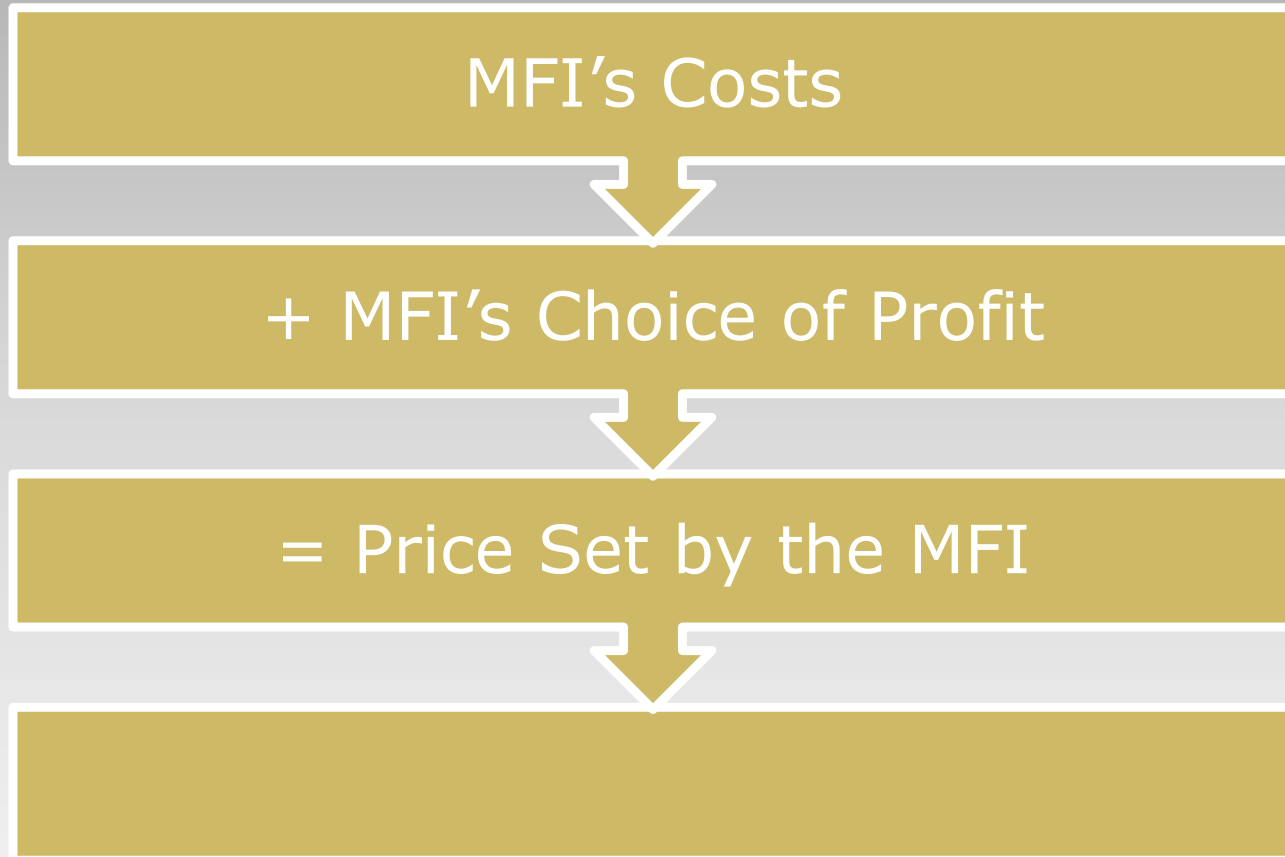
Defining a Responsible Price



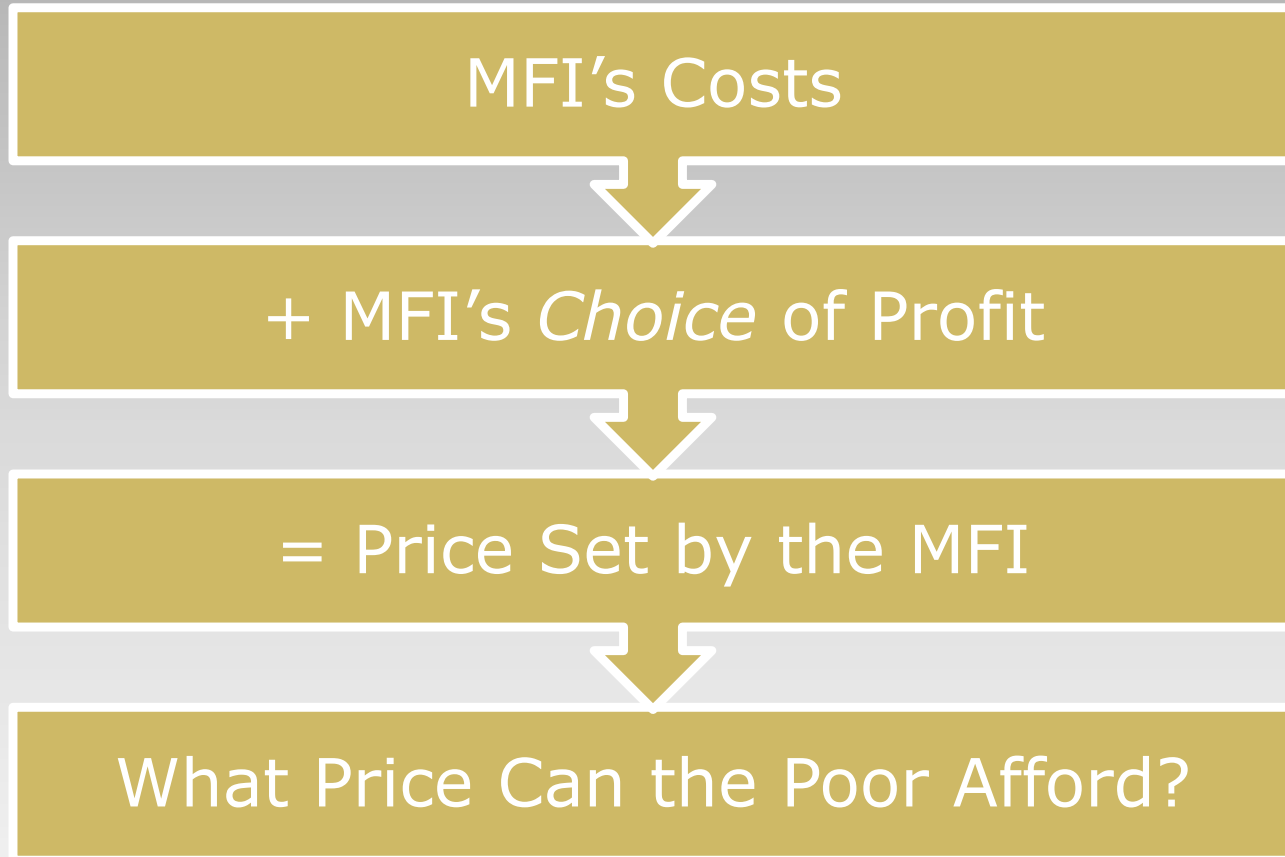
Defining a Responsible Price



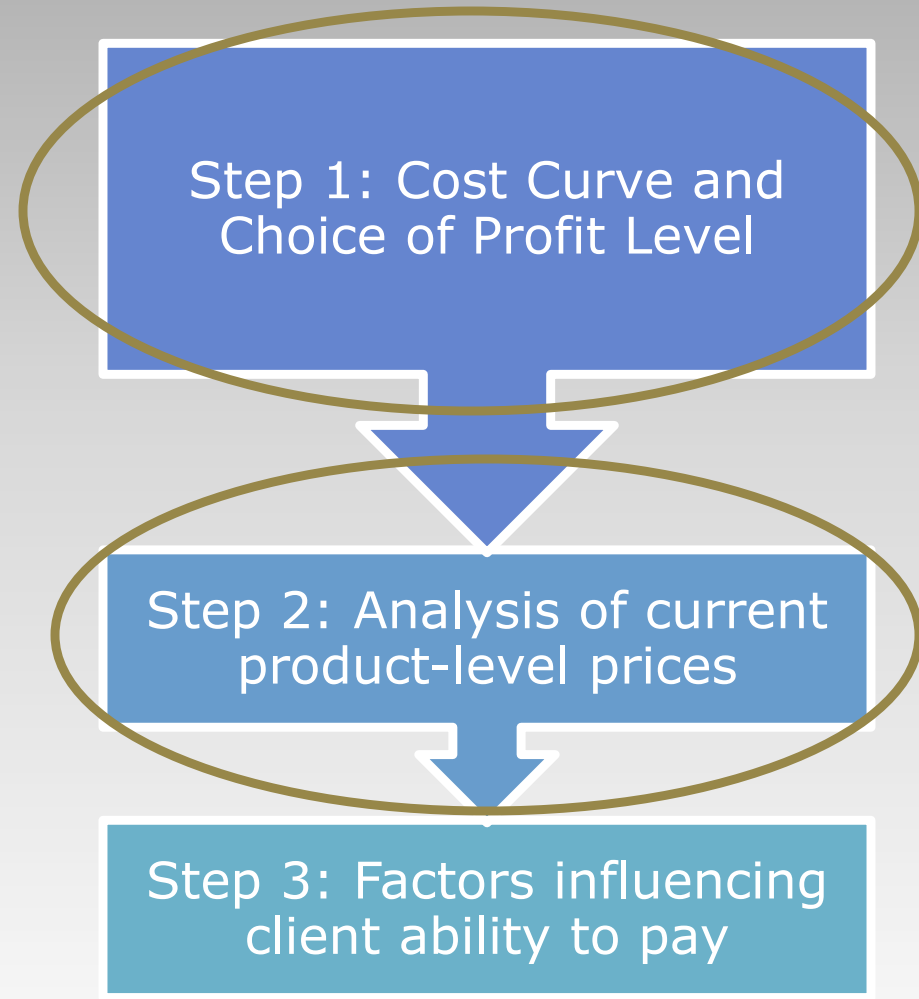
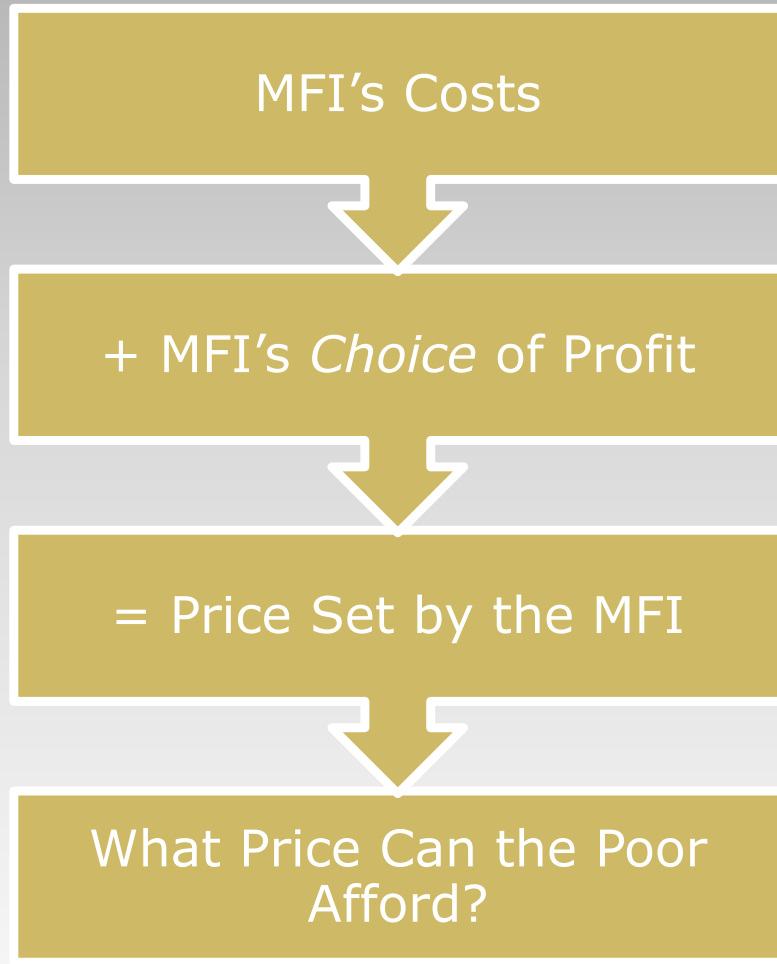
Defining a Responsible Price



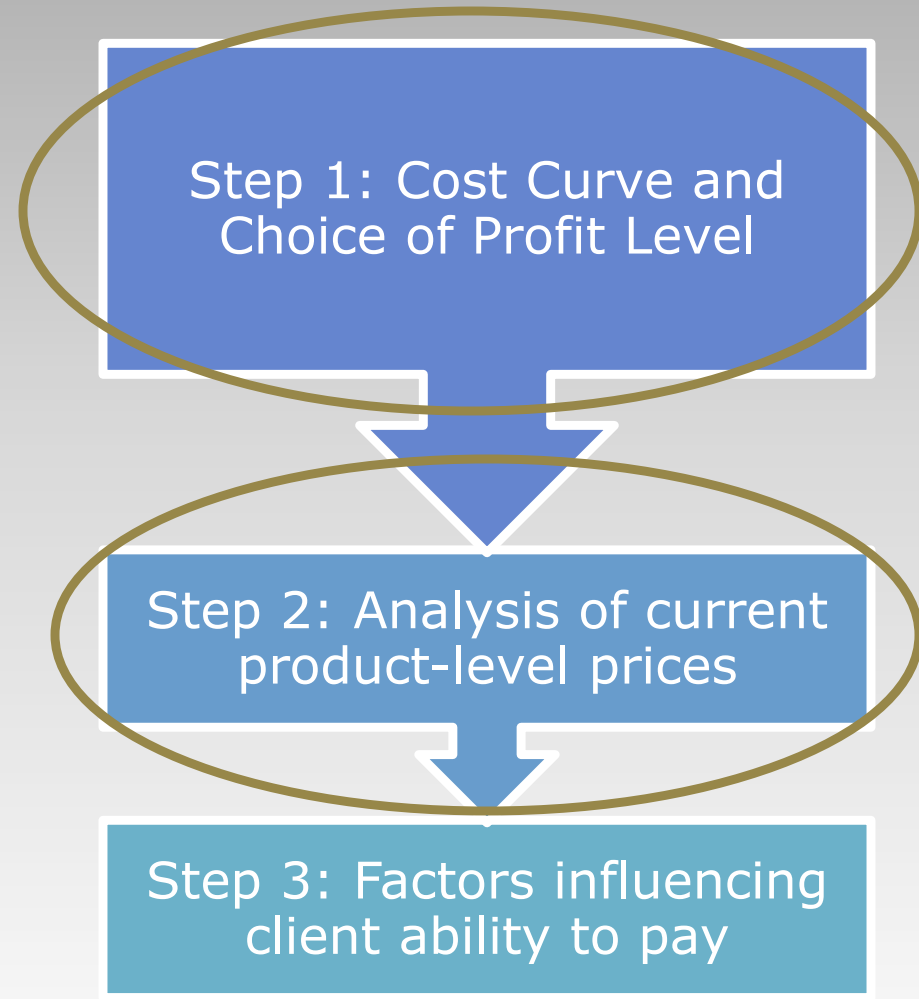
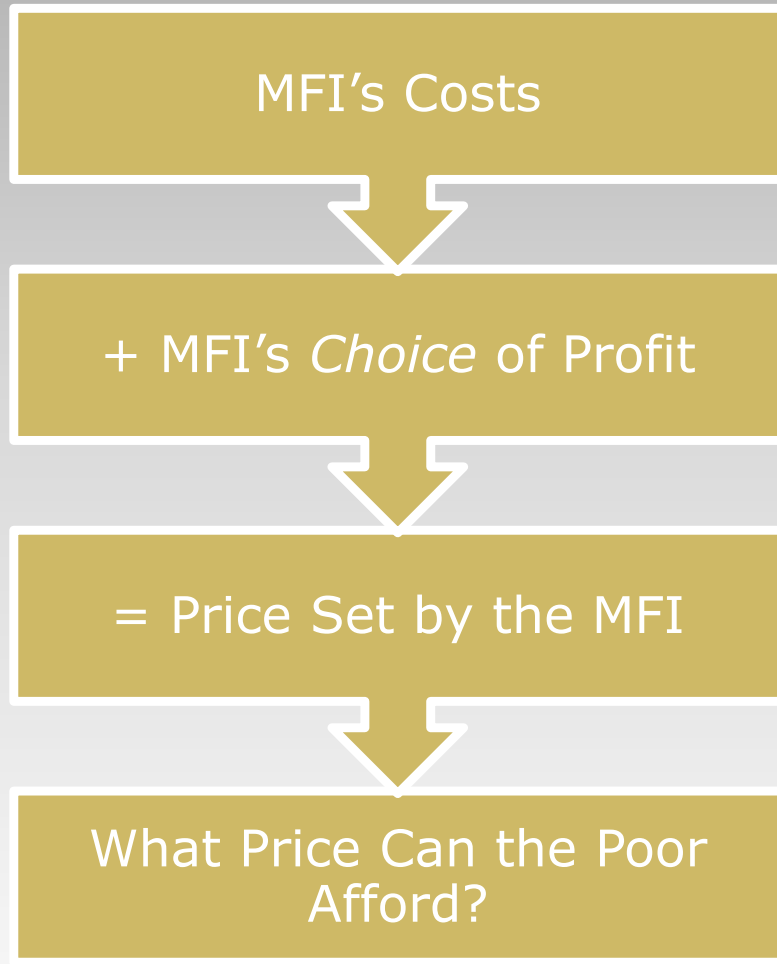
Defining a Responsible Price



Defining a Responsible Price



Defining a Responsible Price



Institution and Client Perspectives

Institution

"Responsible" Price

Client

"Fair" Price

Institution and Client Perspectives

Institution

"Responsible" Price

Global? Product-level? Client Level?

Client

"Fair" Price

Price of the his/her loan

Institution and Client Perspectives

Institution

"Responsible" Price

Global? Product-level?
Client Level?

Bias to consider only
MFI's income

Client

"Fair" Price

Price of the his/her loan

Must consider cost
from client perspective

Institution and Client Perspectives

Institution

"Responsible" Price

Global? Product-level?
Client Level?

Bias to consider only
MFI's income

Possible to treat each
client fairly?

Client

"Fair" Price

Price of the his/her loan

Must consider cost from
client perspective

If client makes informed
decision, is it "fair"?

Pricing for Sustainability

Pricing for Profits

A Deeper Discussion of Profitability

The Institution

- Must the institution be profitable?

A Deeper Discussion of Profitability

The Institution

- Must the institution be profitable?

Each loan product

- Must each product be profitable?
- Fair for the rich to subsidize the poor?
- Fair for the poor to subsidize the rich?

A Deeper Discussion of Profitability

The Institution

- Must the institution be profitable?

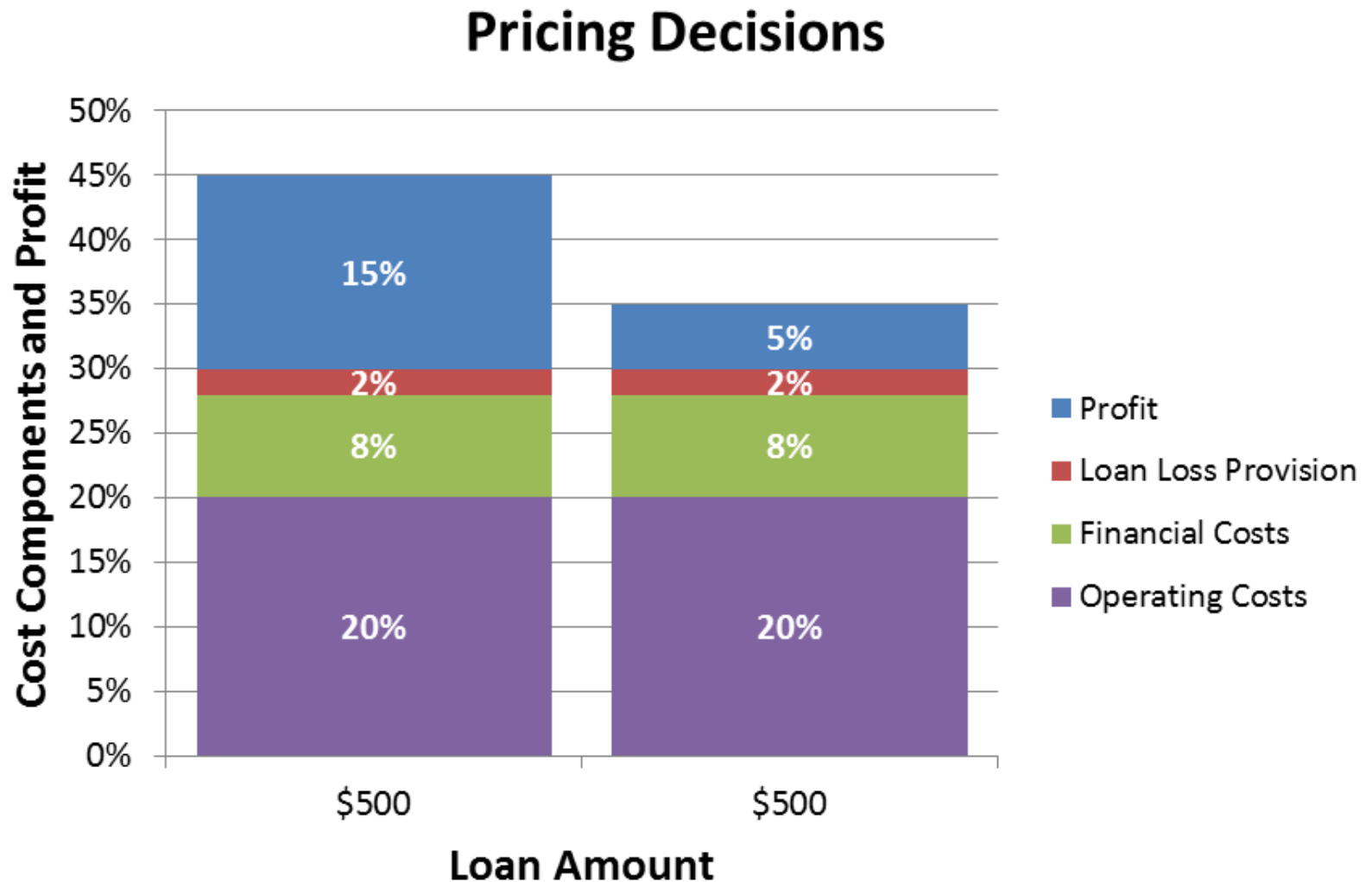
Each loan product

- Must each product be profitable?
- Fair for the rich to subsidize the poor?
- Fair for the poor to subsidize the rich?

Each client within a loan product

- Must each individual loan be profitable?
- Fair for some clients to subsidize others?

The Level of Profit is the *Choice* of Management



What do YOU think?

If your MFI is new, and your costs are therefore high, is it fair to set a high price and hide it from your clients?

What do YOU think?

Is it fair to make profits from your \$2000 loans to subsidize your \$200 loans?

What do YOU think?

If the market is competitive for \$2000 loans, is it fair to make high profits from \$200 loans to subsidize the \$2000 loans?

What do YOU think?

What is the maximum profitability (ROA) that is fair for \$5000 loans?

- A) 2%
- B) 5%
- C) 10%
- D) 20%
- E) no limit

What do YOU think?

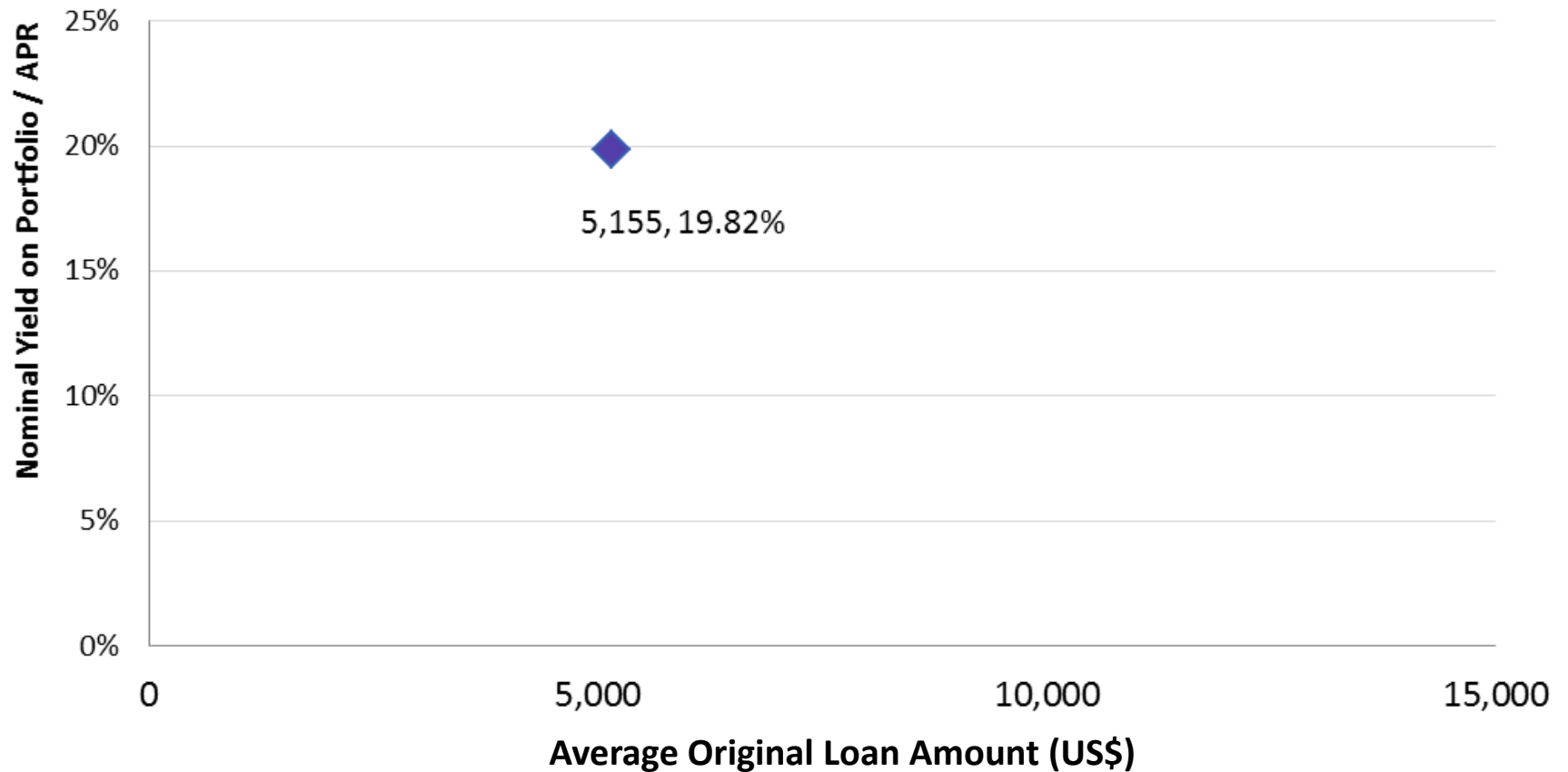
What is the maximum profitability (ROA) that is fair for \$200 loans?

- A) 2%
- B) 5%
- C) 10%
- D) 20%
- E) no limit

Interest Rate vs. Loan Size

BancoSol

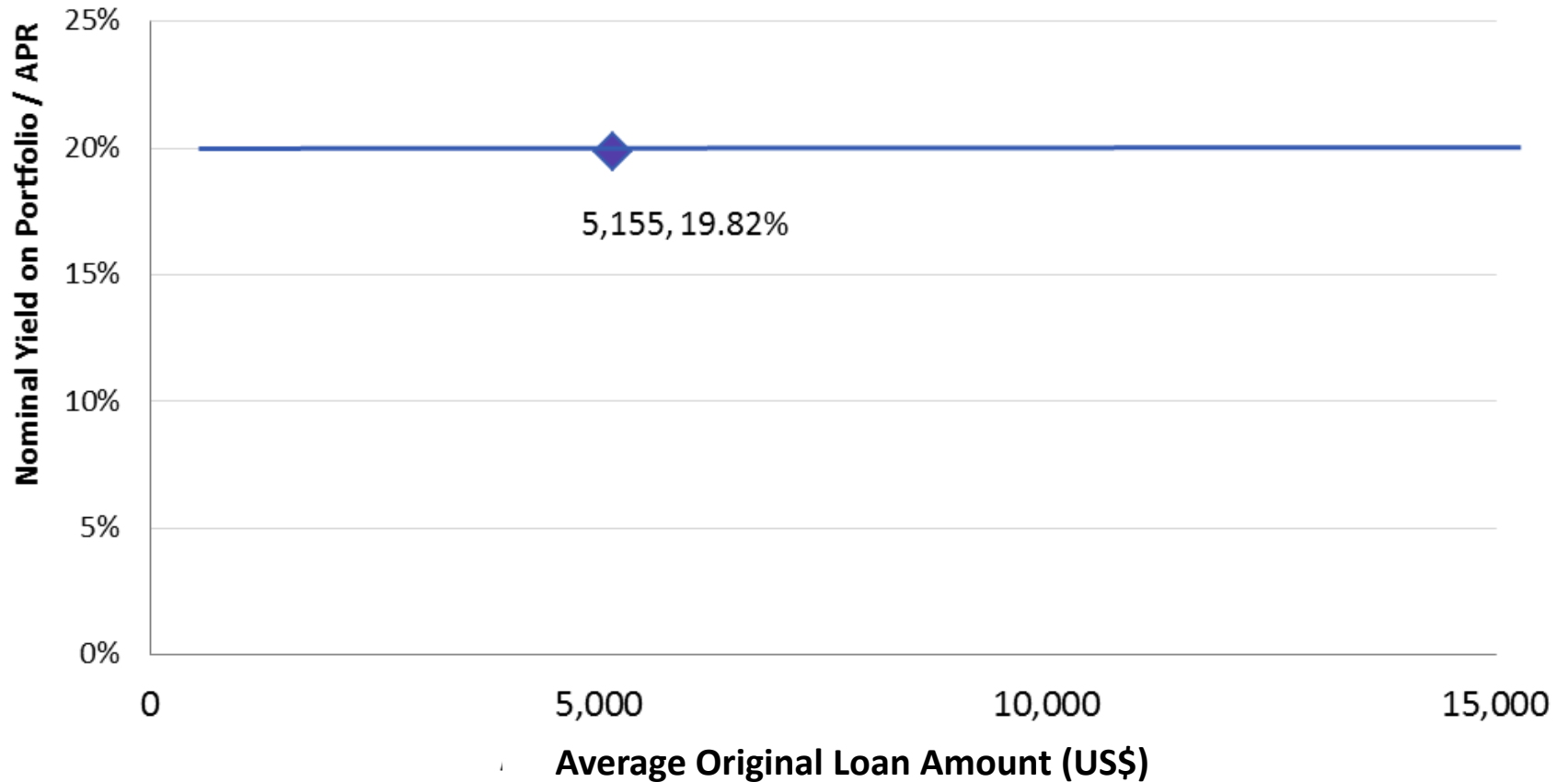
MIX



Interest Rate vs. Loan Size

BancoSol

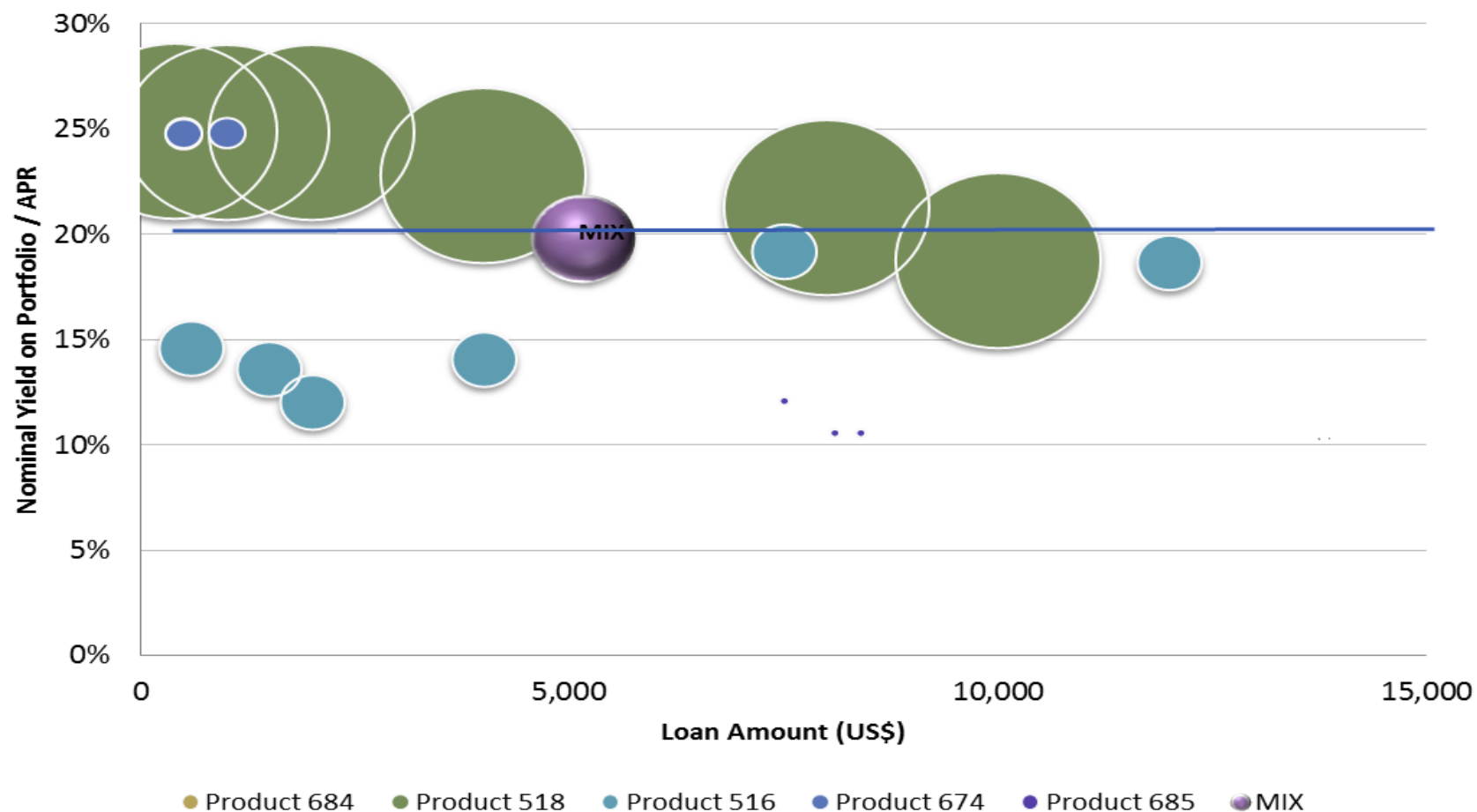
MIX



Interest Rate vs. Loan Size

BancoSol

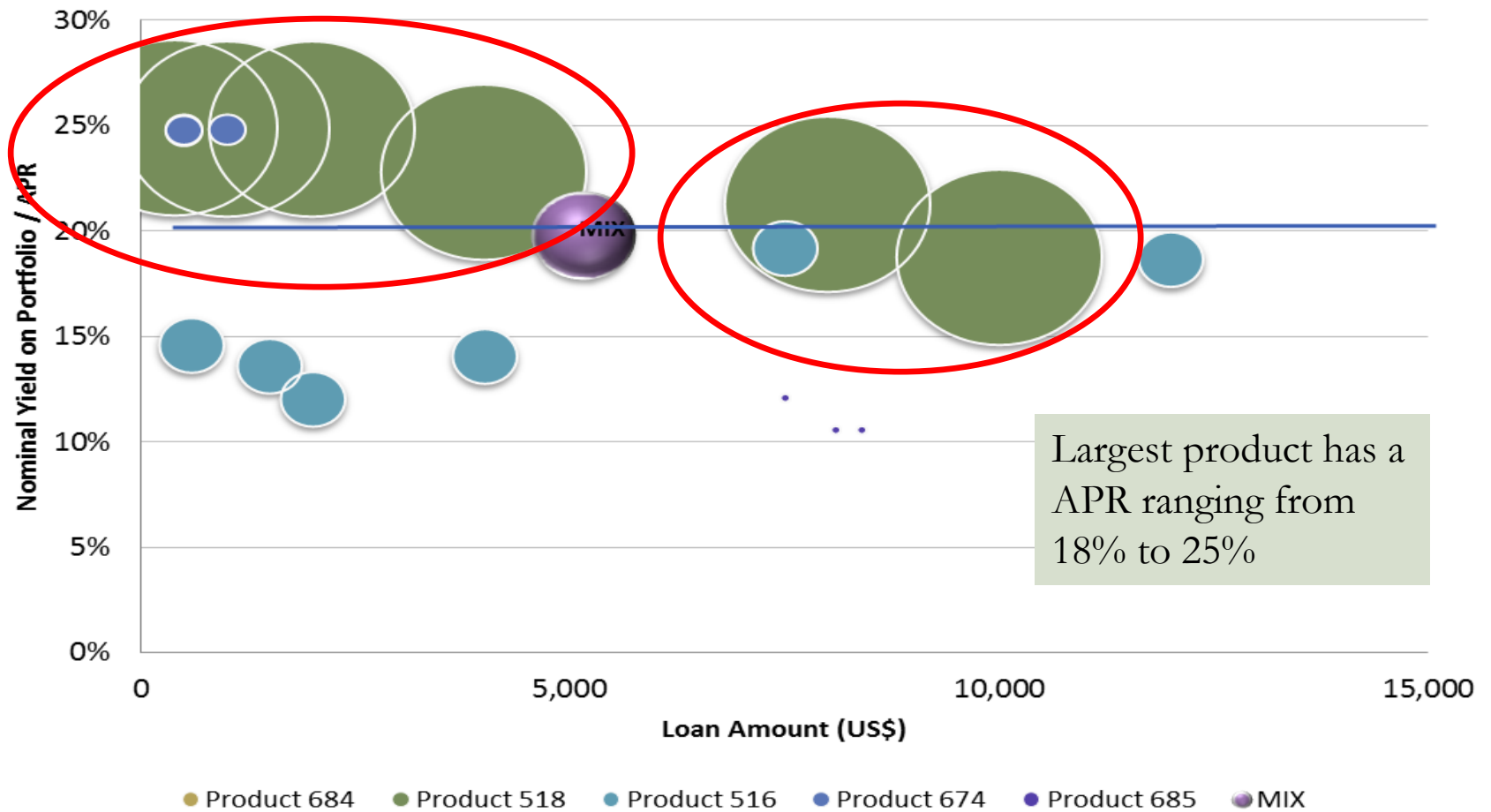
MIX & MFT



Interest Rate vs. Loan Size

BancoSol

MIX & MFT

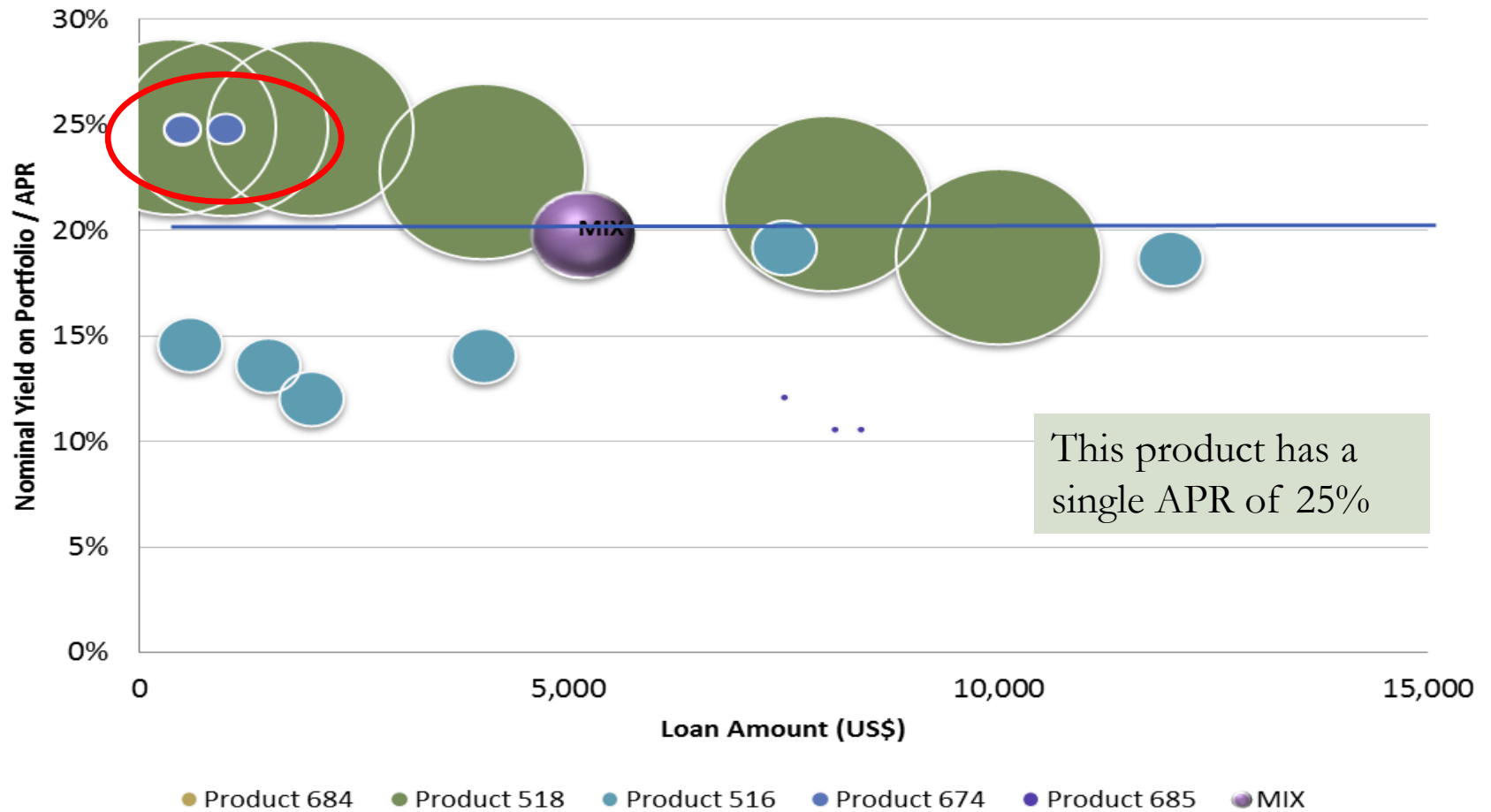


This product has a APR ranging from 12% to 19%

Interest Rate vs. Loan Size

BancoSol

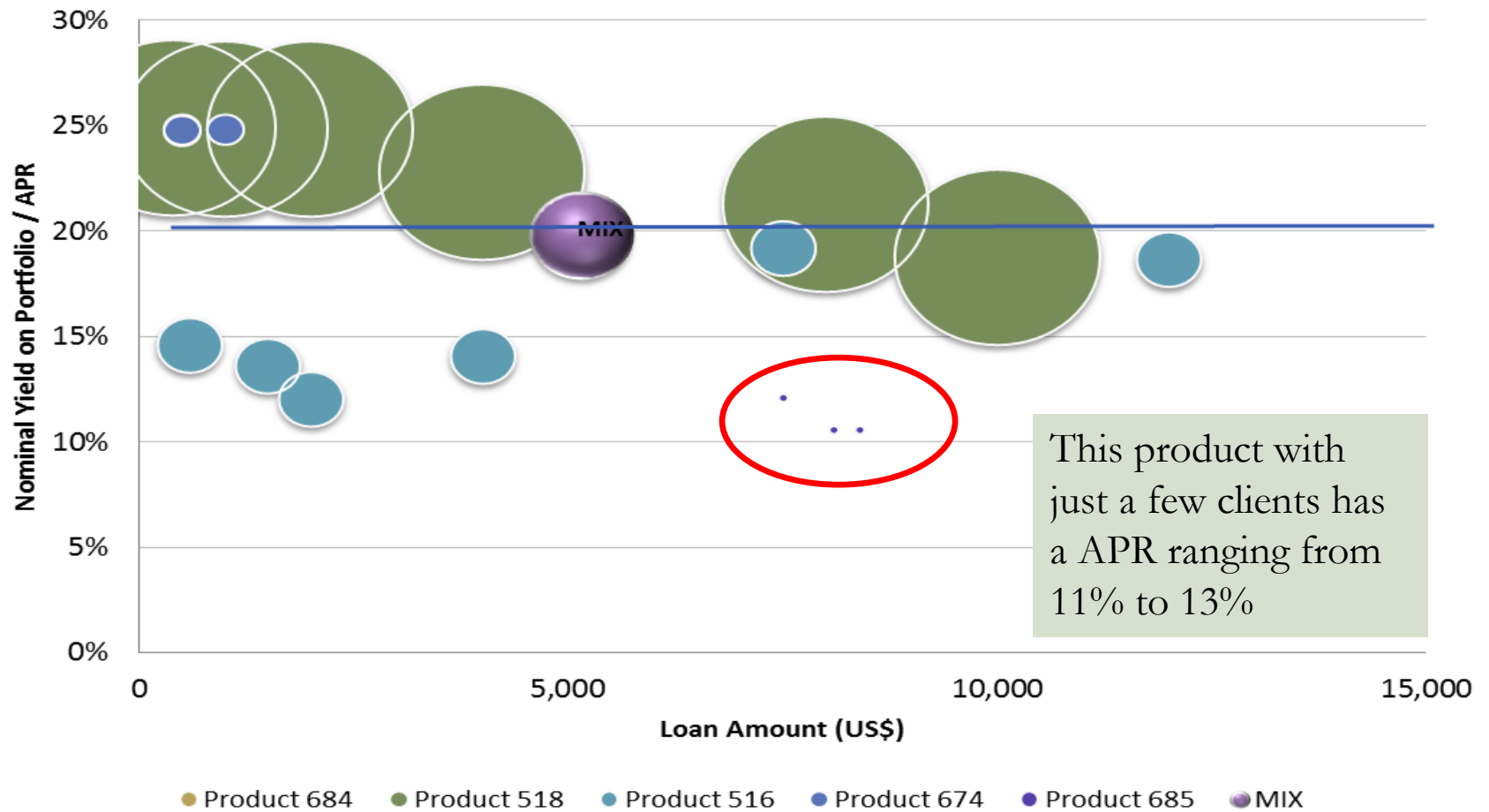
MIX & MFT



Interest Rate vs. Loan Size

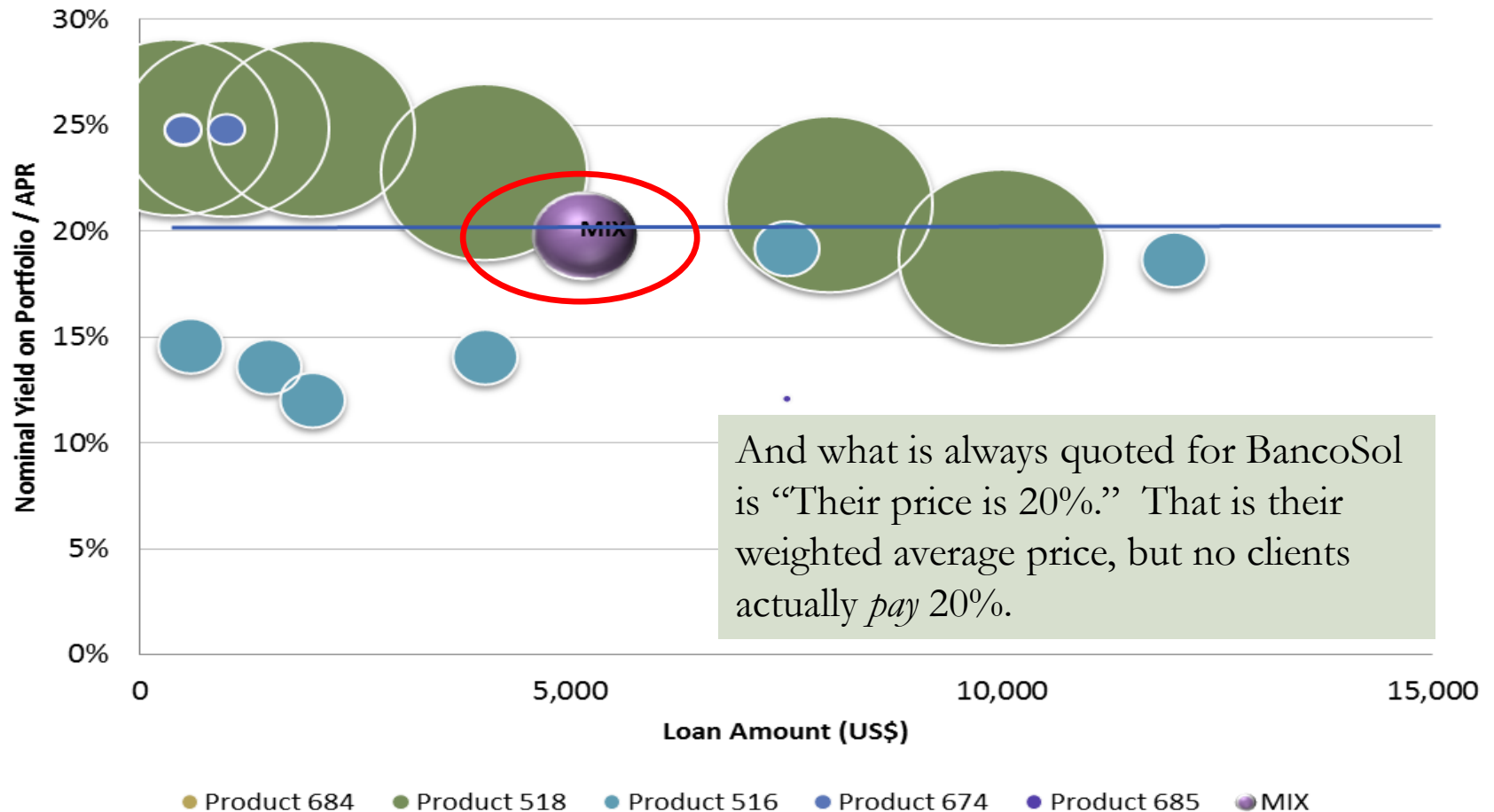
BancoSol

MIX & MFT



Interest Rate vs. Loan Size

BancoSol MIX & MFT



**Advancing on the Collection of
Pricing Data –**

Stakeholder Participation

MFTransparency Results


30 countries

500 lenders

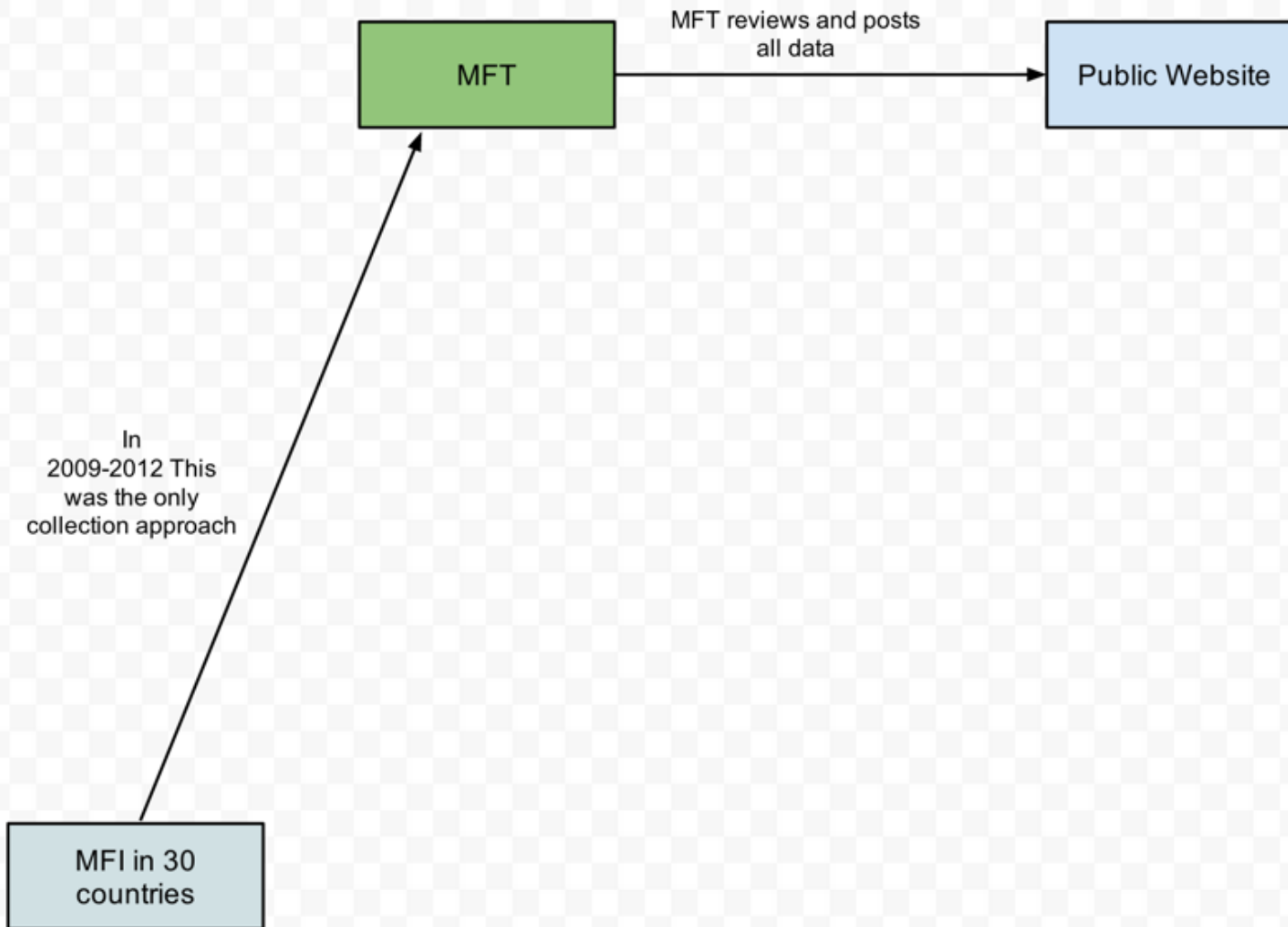
Training to
Regulators from
> 20 countries

50+ million clients

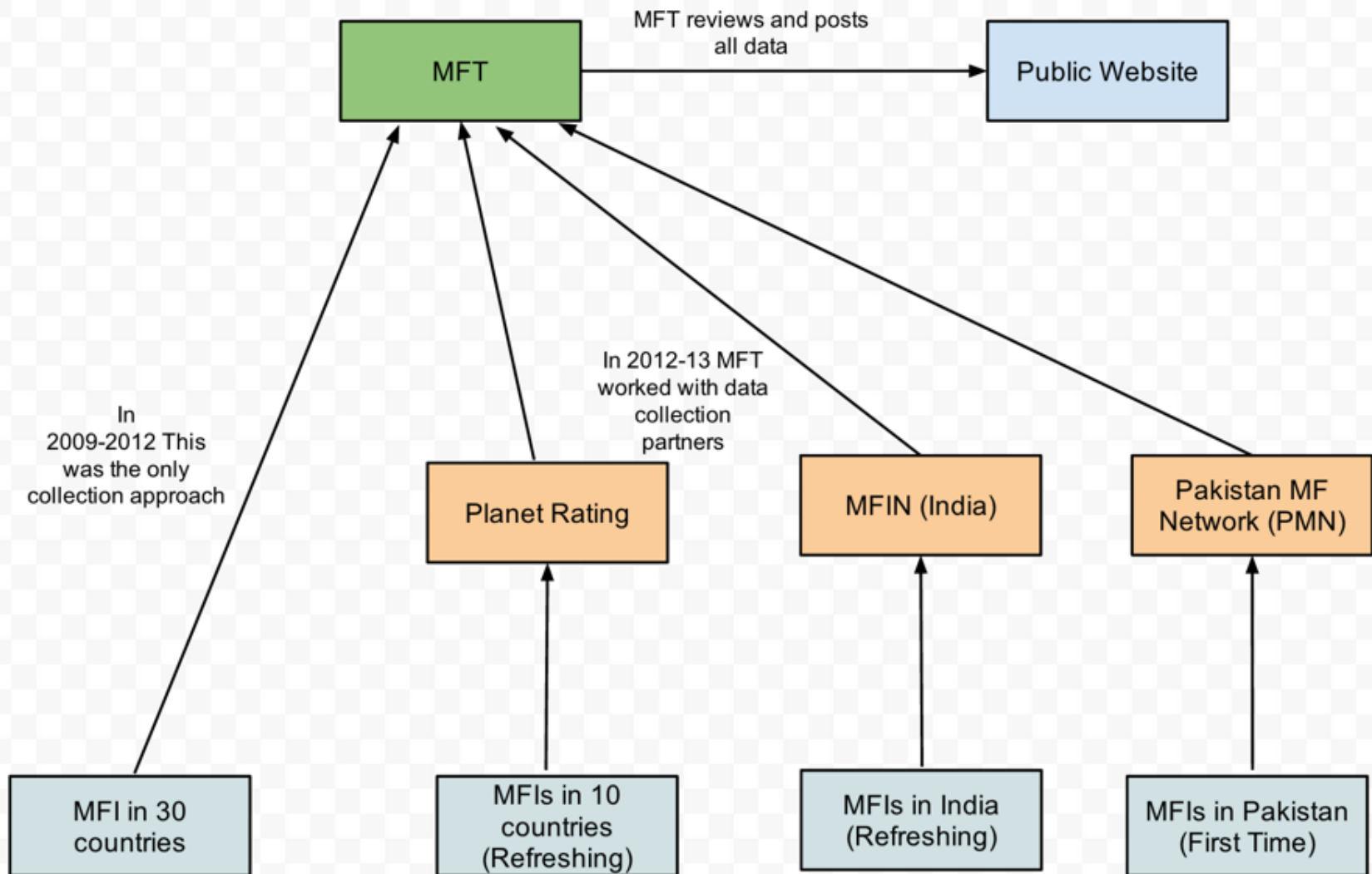
80% women

 Countries where MFTransparency has worked

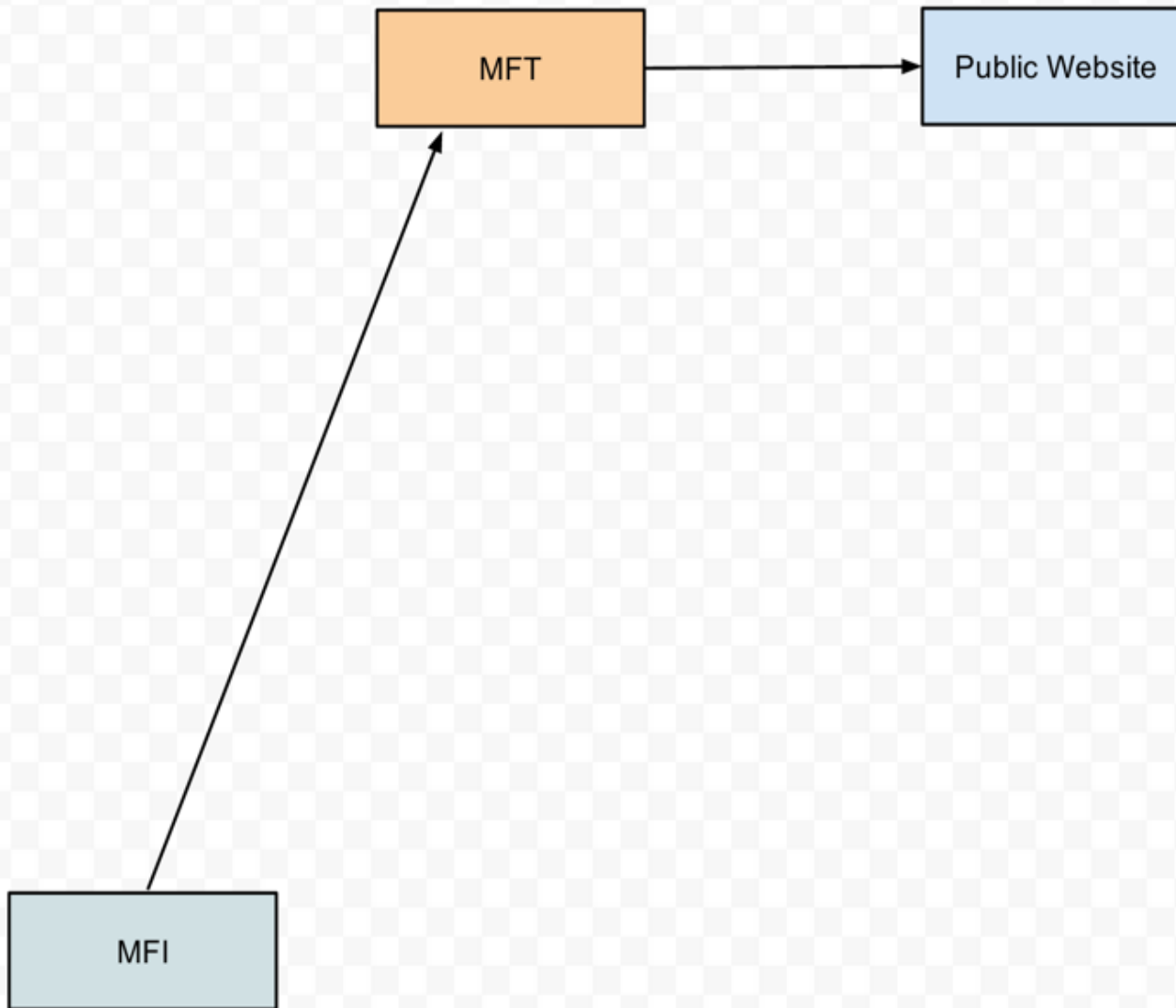
Data Collection Process, 2009-2012



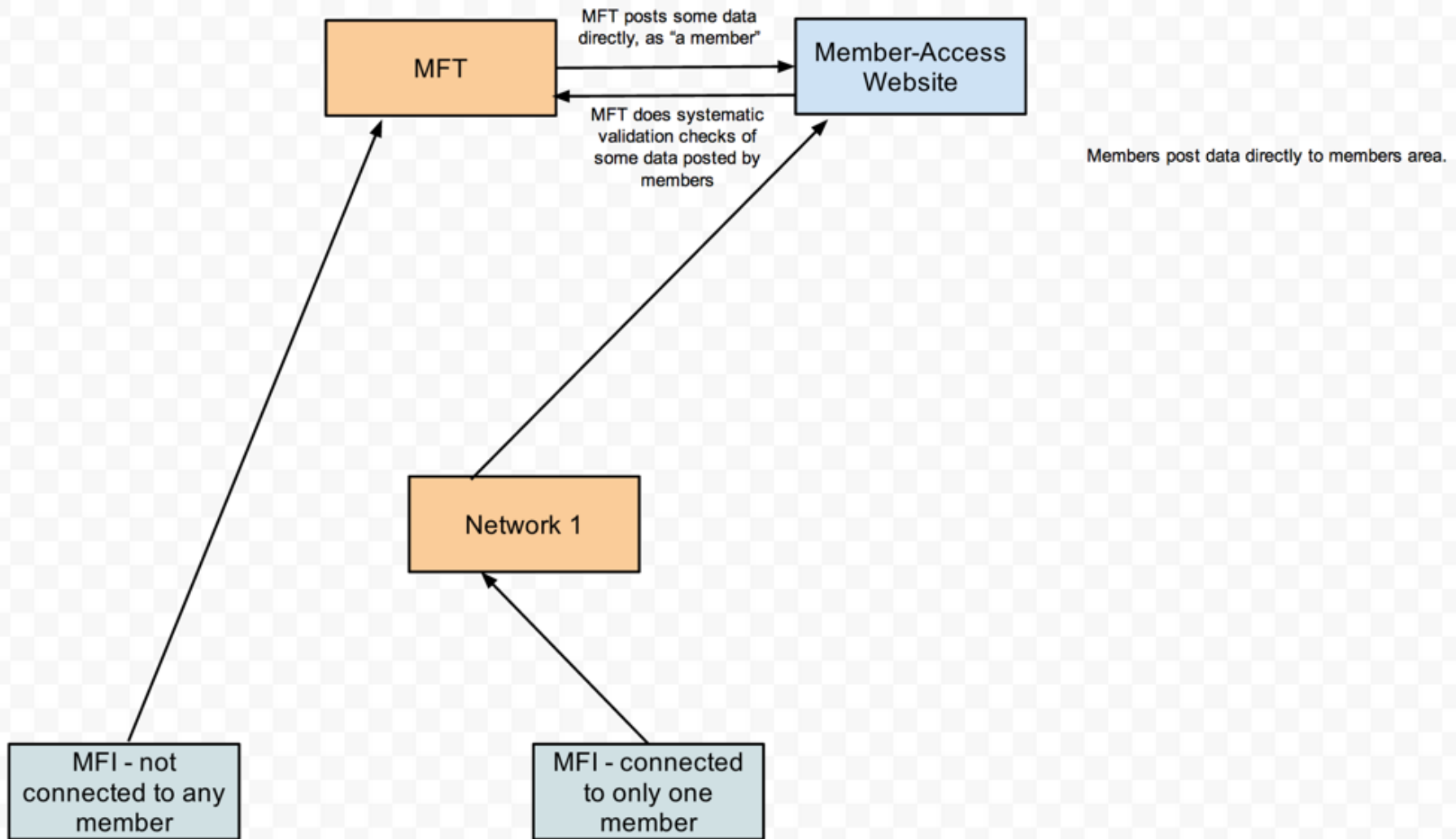
Data Collection Process With Current Partners, 2012-13



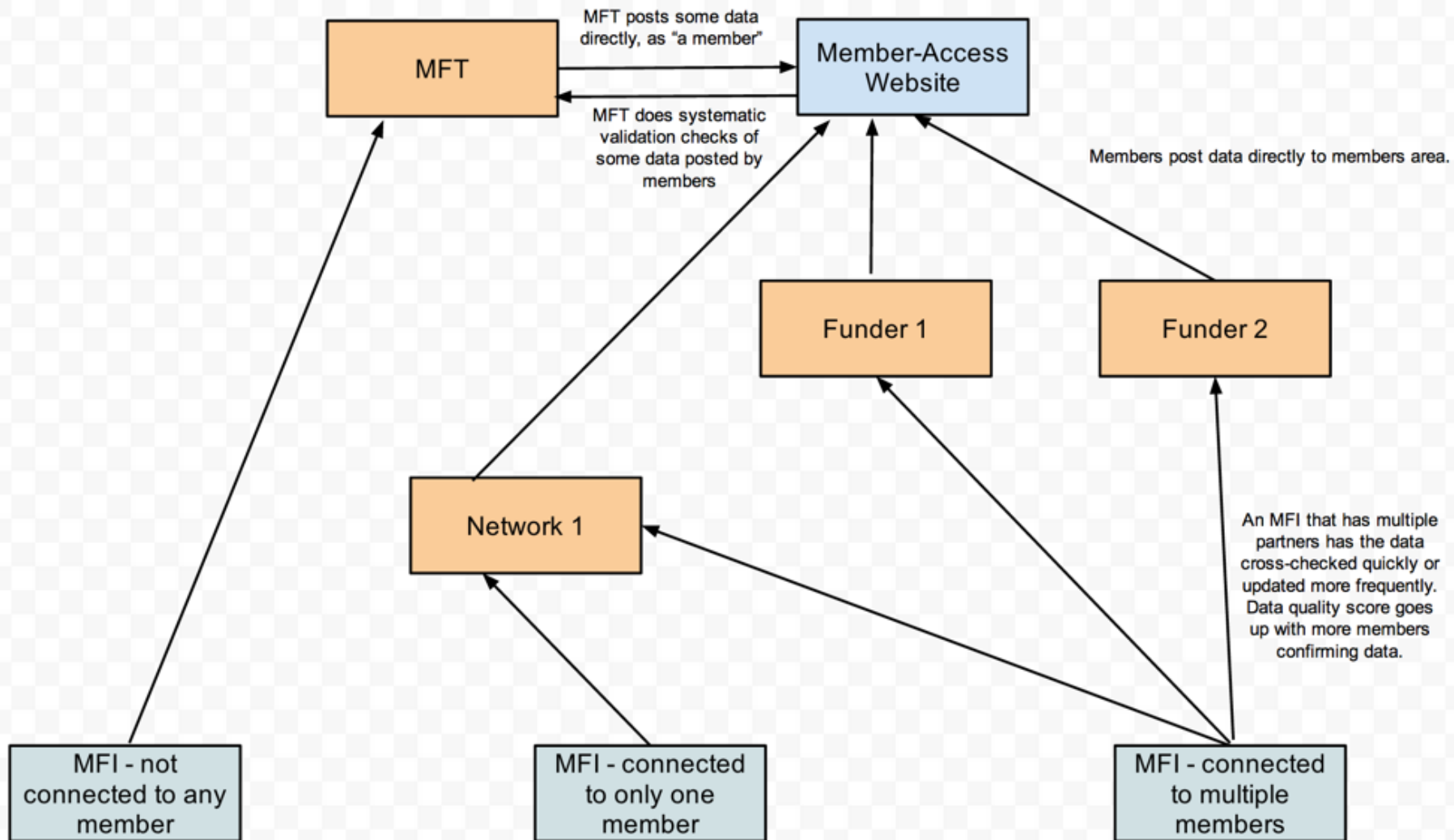
Data Collection Process Options, Slide 1



Data Collection Process Options, Slide 2



Data Collection Process Options, Slide 3



Data Collection Process Options, Slide 4

Data Quality Score Factors: (Example)

30% - Analyst Experience Level - calculated based on time doing these, number of data points submitted, "thumbs up" earned from others

20% - Depth of analysis - we have a "quick shotgun approach (0 points)", a "validated shotgun approach (10 points)" and a "thorough pricing approach (20 points)"

30% - cross-checks from other members - if the data submission is building on a previous data submission, it has a higher weight than a first-time data submission

20% - age of data - As data becomes older, it drops in reliability

