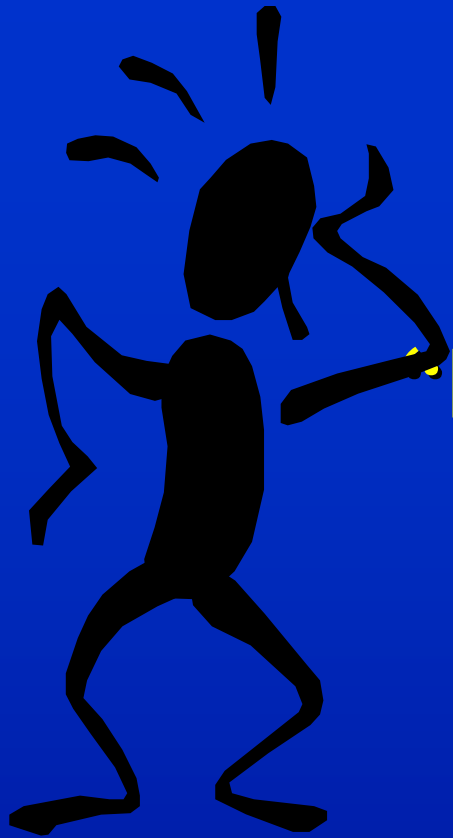


Consumer Protection Financial Education

Heather A. Clark
24 September 2009

**6th ADBI - TDLC Microfinance
Distance Learning Course
MFTOT 6**

The views expressed in this presentation are the views of the author and do not necessarily reflect the views or policies of the Asian Development Bank Institute (ADBI), the Asian Development Bank (ADB), its Board of Directors, or the governments they represent. ADBI does not guarantee the accuracy of the data included in this paper and accepts no responsibility for any consequences of their use. Terminology used may not necessarily be consistent with ADB official terms.



“Let the buyer beware!!”

“An educated consumer is
our best customer!!”

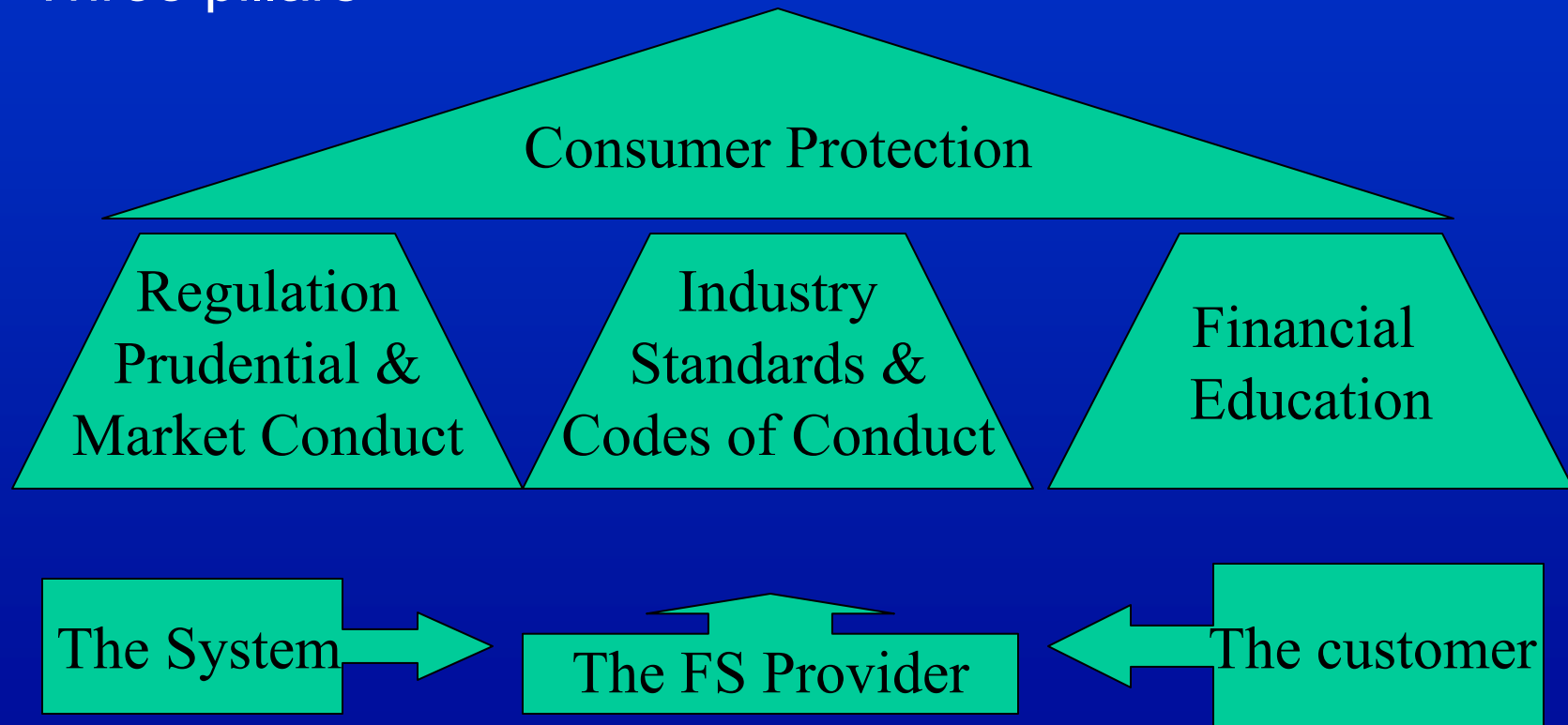


Consumer Protection

- Concerned with the unequal relationship between the buyer and the seller
- Some theory:
 - seller (lender) knows more about the product or service (e.g. loan terms);
 - buyer (borrower) knows more about ability to repay
- Responsibility of the buyer, seller and the system

Consumer Protection as Responsible Finance

Three pillars



Why consumer protection in microfinance is timely & important

- **The principles of consumer protection are widely agreed upon.**
- **Networks and MFIs created client protection codes and are moving to implementation**
- **Socially responsible investors and regulators are increasing looking for assurances about consumer protection within the financial sector.**
- **Social investors and funders are looking for a certification process as part of their due diligence**
- **Policy makers are considering consumer protection legislation or have enacted it.**

Why consumer protection in microfinance is timely & important

Attention heightened by:

- Competition from consumer lenders who are feared not to subscribe to the same standards of consumer treatment as microfinance institutions
- Crises in several countries related to over-indebtedness
- Concern over interest rates and lack of transparency
- Deep concern on the part of financial institutions to stay true to their social missions
- Recognition of the business case and ethical case for some elements of consumer protection

The Six Basic Principles

1. Prevent over-indebtedness
2. Transparent pricing
3. Appropriate collections practices
4. Ethical staff behavior
5. Mechanisms for complaints and redress
6. Privacy and security of client data

Preventing Over-indebtedness

Why it matters:

Focus on confidence that borrowers can afford & repay loans, not just institutions' ability to collect.

What it means in practice:

Risk management systems should:

- incorporate sound loan appraisal techniques –capacity to afford & repay
- avoid sales techniques & incentives that increase the risk of over-selling and mis-selling
- ensure product suitability by design and testing
- avoid increasing debt levels of borrowers who are already indebted beyond their capacity to repay (e.g. caution with re-scheduling/re-financing)

Transparent Pricing

Transparency is more than transparent pricing

Why it matters:

- Clear information is the centerpiece of consumer protection
- Levels of financial literacy are low
- Customers are better able to make decisions about the benefits and risks of financial products and services with clear information on pricing and terms of the products.

What it means in practice:

- Ensure **complete** information is made **available** to customers in **clear language** that is not misleading and that the **customer is able to understand.**

Financial Education

Financial education teaches the knowledge, skills and attitudes that people can use to adopt good money management practices for earning, spending, savings, borrowing and investing.

- Financial education develops financial literacy about a broad range of basic financial skills, from saving to managing debt to investing.
- Not business training. relevant to a broader audience than entrepreneurs; **anyone** who makes decisions about money can benefit by becoming financially literate –rich –poor, men women, youth, retirees.

Financial Education

Consensus on importance

Common Questions & Challenges

- Who provides?
- Costs: who pays?
- Quality
- Distribution systems: what institutions, where?
- Clarity about education vs. marketing
- Tailor to target audiences (who, where and what)
- Massive outreach requires coordination

Appropriate Collections Practices

Why it matters:

Debt collection practices test the institution's commitment to treating customers with respect and dignity.

What it means in practice:

- Maintaining high standards of ethical behavior even when clients fail to meet their contractual commitments.
- Collections agents trained in ethics
- Ensure 3rd parties follow same ethical standard
- Monitoring systems set up to detect and sanction violations

Staff Ethics

Why it matters:

- Fundamental principle: treating customers fairly, with dignity and respect
- Image of the institution rests on the behavior of staff

What it means in practice :

- Personnel comply with high ethical standards
- Anti-corruption policies and procedures are in place.
- Monitoring systems set up to detect and sanction violations

Complaints Mechanisms and Problem Solving

Why it matters:

Customers should have the opportunity to register complaints. Standardized complaints processes and procedures can reduce costs, improve business practices and help identify risks.

What it means in practice:

Provide a ready, independent channel with trained staff for customers to have their concerns and complaints heard, addressed and resolved.

Privacy & Security of Client Information

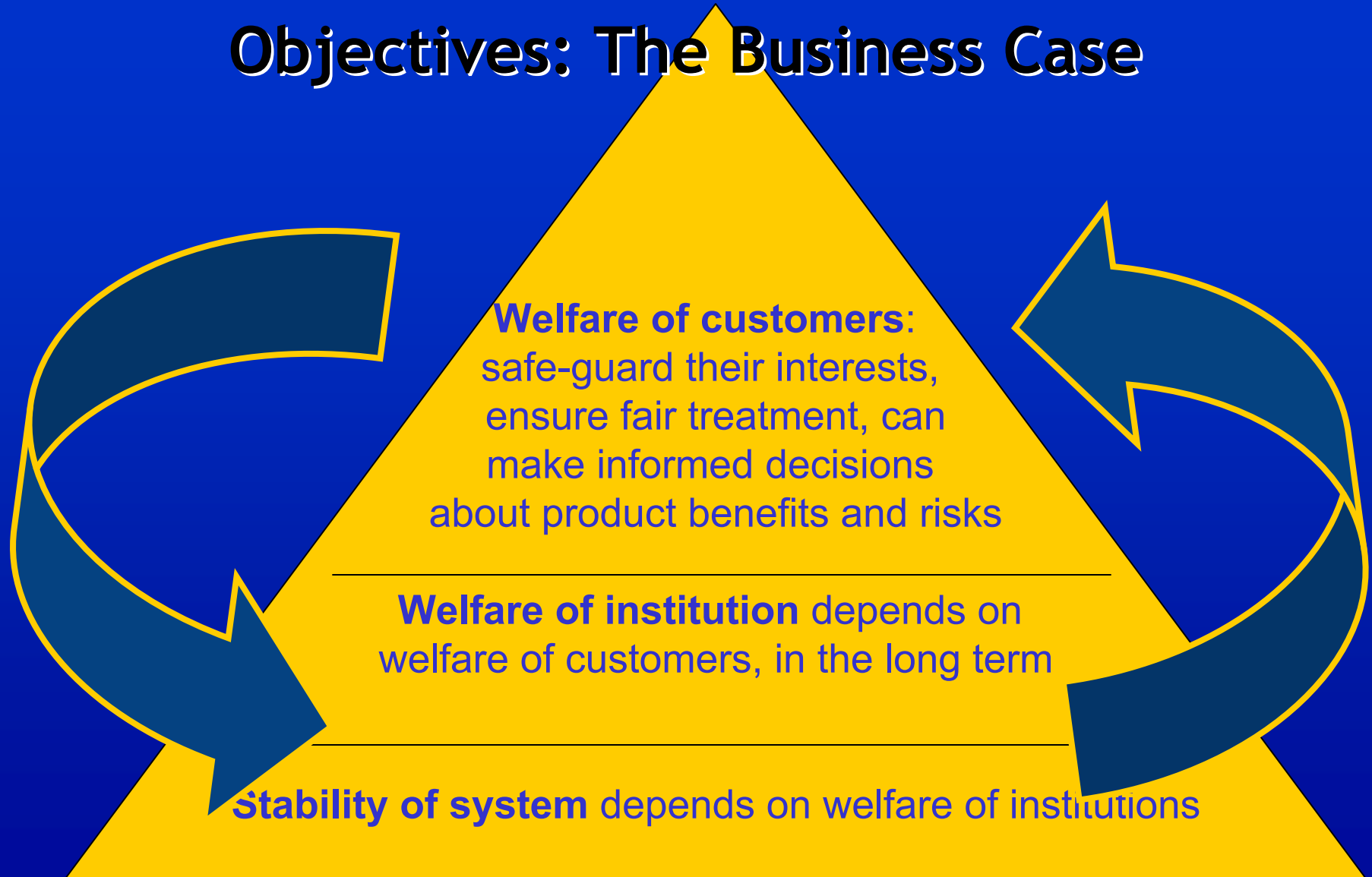
Why it matters:

Customers have the right to expect that their financial information will not be revealed to those who are not authorized to see it, protecting the institution and customers against fraud, theft and untoward pressure

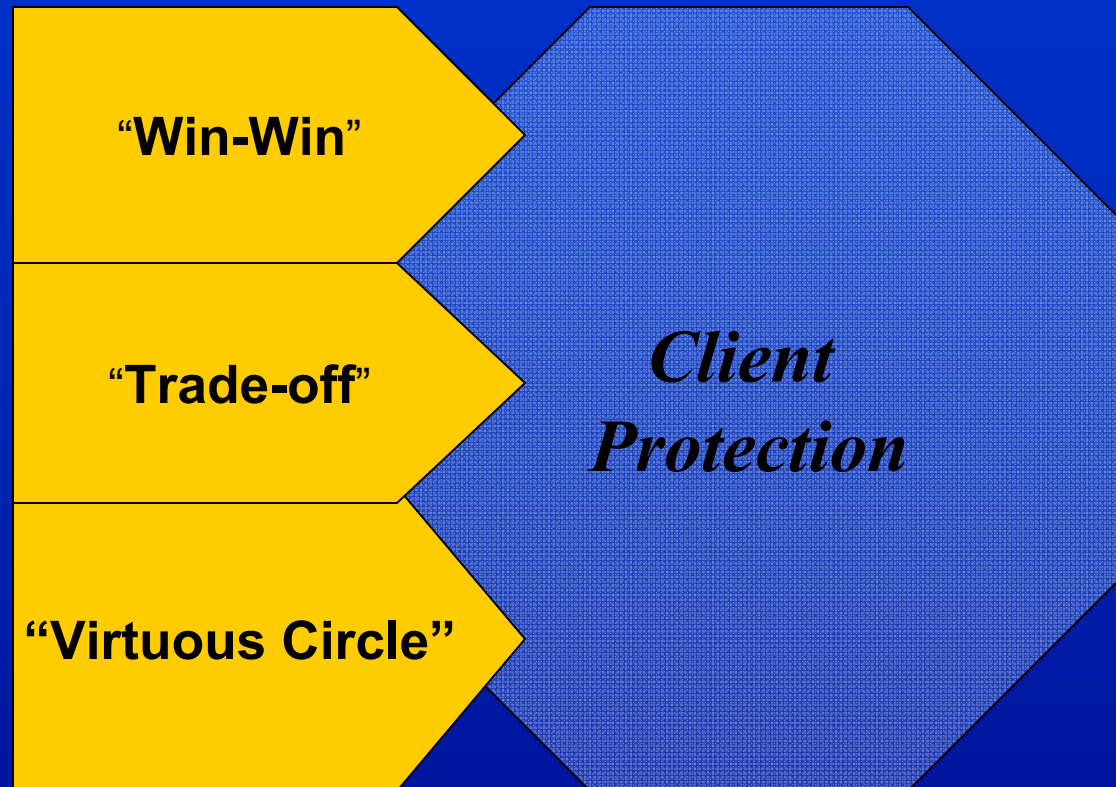
What it means in practice:

- ensure customer information is not shared with outside parties;
- ensure customers know how their information will be used; seek consent for use
- allow customers the opportunity to correct their information
- safeguard unauthorized access to accounts

Financial Returns and Social Objectives: The Business Case



The Business Case : Scenarios



The Business Case : Scenarios

Some Examples



For More Information

- On Consumer Protection in Microfinance visit:

www.campaignforclientprotection.org

- On Financial Education visit:

www.microfinanceopportunities.org

Thank you!

Questions & Comments