



Microfinance Law, Regulation and Enforcement Client Protection Principles

Marjola Trebels – van Bolhuis



Cooperation agreement EY and NpM

Agreement EY and NpM to jointly research law and regulation on Consumer Protection in Microfinance by making use of the knowledge and the experience of local EY offices

Phase 1: Preliminary (desk) research, selection of countries and draft of questionnaire

Phase 2: Send out questionnaires to the local EY offices and analyse the responses

Outcome: The current state of law and regulation in the selected countries



Phase 1: Research process

Spring 2014

- ✓ Agreement EY and NpM
- ✓ (Preliminary) desk research, phonecalls with prominent third parties in the sector
- ✓ Interviews NpM members to receive input on their needs regarding the research question

Summer 2014

- ✓ Final country selection and draft research questionnaire
- ✓ Send questionnaires to EY offices and follow up
- ✓ Collect and analyse responses
- ✓ Preparation of the report

November 12-14

- ✓ Presentation at e-mfp week

February, 2015

- ✓ Present the outcome at EY roundtable



Interview questions NpM members

- Q 1: Which of the 7 Client Protection Principles are most important to your organization?
- Q 2: What research on rules and regulation would benefit your organization most?
- Q 3: What has the NpM member done/is doing with respect to customer protection rules? (research, work, due diligence, checklists, etc)
- Q 4: What documents or research regarding customer protection can you share?
- Q 5: In which countries would your organization like to know more about these customer protection rules?
- Q 6: Do you have other remarks, attention points regarding this study?



Feedback interviews NpM members

Most important Client Protection Principles:

1. Prevention of over-indebtedness,
2. Transparency
3. Responsible pricing

What **law & regulation** is in place and what does it mean in practice for MFIs?

What about **supervision & enforcement** or **self-regulation**?

What experiences, best practices can be shared?

Client protection (principles) subject of advocacy, due diligences, checklists, questionnaires and self – assessments of MFIs but in general not relating to compliance with prudential or non-prudential laws and regulations

Top 5 countries:

1. Bolivia & Peru
2. India
3. Cambodia
4. Kenya
5. Uganda



Highlights calls prominent third parties

Anne Hastings - Microfinance CEO Working Group & **Mary Chaffin** - ACCION International

- Model legislative provisions based on the Smart Campaign's client protection principles for microfinance institutions. The goal will be to provide a useful resource to assist legislators and regulators to prepare or strengthen microfinance laws in their countries.

Jami Solli – Consultant on Financial Services Consumer Protection

- SmartCampaign research project to explore what happens to microfinance clients who default. The project focuses on how microfinance practitioners treat defaulting clients in Peru, India and Uganda.

Chuck Waterfield – Microfinance Transparency

- Country surveys

Douglas Pearce – World Bank

- **Global Survey on Consumer Protection and Financial Literacy:** Key indicators from over 100 countries on financial consumer protection and financial literacy framework and implementation arrangements.
- **Diagnostic Reviews:** In-depth assessments of the legal, policy and institutional framework for financial consumer protection and financial literacy.



Highlights desk research (1)

World Bank

Global Survey on Consumer Protection and Financial Literacy: Key indicators from over 100 countries on financial consumer protection and financial literacy framework and implementation arrangements.

<http://responsiblefinance.worldbank.org/surveys/providers-of-financial-services>

Diagnostic Reviews: In-depth assessments of the legal, policy and institutional framework for financial consumer protection and financial literacy.

<http://responsiblefinance.worldbank.org/Diagnostic-Reviews>

Boston University Center for Finance, Law & Policy:

Financial Inclusion Guide: A Practitioner's Resource for Navigating the Financial Inclusion Legal Environment.

Overview page:

<http://www.bu.edu/bucflp/initiatives/financial-inclusion-guide/>

Microfinance Banking Laws / regulations by country:

<http://www.bu.edu/bucflp/laws/by-type/microfinance-banking/>

Consumer Protection Laws / regulations by country:

<http://www.bu.edu/bucflp/laws/by-type/consumer-protection/>



Highlights desk research (2)

ACCION Center for Financial Inclusion:

Status of client protection in financial services by country:

<http://www.centerforfinancialinclusion.org/publications-a-resources/client-protection-library>

The Consultative Group to Assist the Poor - CGAP:

Implementing the Client Protection Principles:

<http://www.cgap.org/sites/default/files/CGAP-Technical-Guide-Implementing-the-Client-Protection-Principles-A-Technical-Guide-for-Investors-Jan-2011.pdf>

Policy consumer protection:

<http://www.cgap.org/topics/consumer-protection>

Policy regulation and supervision:

<http://www.cgap.org/topics/regulation-and-supervision>



Final definition research question

- What does the law and regulation & supervisory landscape look like in the selected countries with respect to the client protection principles, in particular: over-indebtedness, responsible pricing and transparency? Where are these laws and regulations different for MFIs compared to regular financial institutions and how are they enforced?
- Final selection of countries included in the study: **Azerbaijan, Bolivia, Cambodia, Ghana, India, Kenya, Peru, Philippines, Russia, Rwanda, Tanzania & Uganda.**

Division of research questions into three categories:

- Regulatory framework
- Oversight and enforcement
- Trends and concerns

