



Keeping clients first  
in microfinance

# Emerging Consumer Risks

## Mobile Credit

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# Client Protection Principles

## *The Client Protection Principles*

- 1. Appropriate Product Design and Delivery*
- 2. Prevention of Over-Indebtedness*
- 3. Transparency*
- 4. Responsible Pricing*
- 5. Fair and Respectful Treatment*
- 6. Privacy of Client Data*
- 7. Mechanisms for Complaint Resolution*

Nearly **100 financial institutions**, collectively serving more than **41 million people**, have been certified for adhering to the Campaign's industry-accepted consumer protection standards.

*Are providers overly aggressive in pushing out the loans?*

*Do providers take into account consumers' financial situations when lending?*

*Do clients understand the terms and conditions of their credit?*

*How secure and protected is client data used to make lending decisions?*

*Do consumers know where to turn if they have a complaint?*

# Characteristics of Mobile Credit



**Start to Finish Digitization:** Marketing, appraisal, disbursement, repayment, customer support ---> *all digitized.*

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**Small Amounts That Grow:** Lenders start with small loans of several dollars, with successful repayment, loans can increase to several hundred dollars ---> *no collateral.*

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**Short-Term:** Loan tenure is typically several weeks, ---> *Up to 50 days.*

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**Alternative Data Analytics:** Lenders combine data from new sources to assess creditworthiness, data informs credit decisions ---> *Focus on willingness to repay versus capacity.*

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**Purpose:** Consumption and emergencies --> *vs building income and assets.*

# Appropriate Product Design & Delivery



- **Suitable Product Design:**
  - > Short-term liquidity needs
- **Suitable product delivery:**
  - > Minimally disruptive
- Dissipated risk aggressive sales by front-line staff
- Sophisticated dropout analysis



- **Suitable Product Design:**
  - > Expensive way to qualify for a larger loan
- **Suitable product delivery:**
  - > Agent illiquidity and service downtime
  - > No waiting or cooling off periods
- “Push” marketing methods and temping offers

# Prevention of Over-Indebtedness



- Starting small
- Consistent credit appraisal
- Create a credit record/profile
- Real-time monitoring of portfolio quality

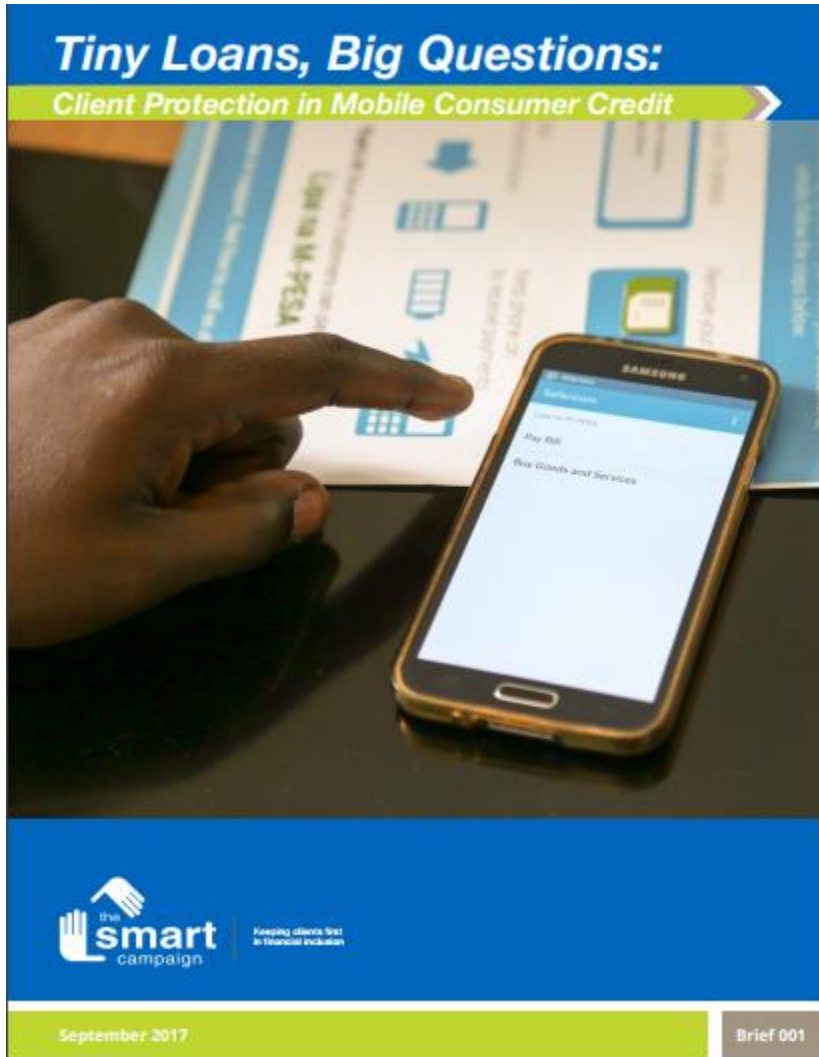


- Capacity to repay
- Algorithm growing pains
- Client blacklisting
- Multiple borrowing (can be invisible)



Daily Nation. Kenya.





- This Brief enumerates and discusses emerging consumer risks posed by these instant small mobile loan products, using the Client Protection Principles as an organizing framework.
- We hope it will assist participants in the mobile financial sector to articulate and build a consensus about responsible practices, though this framework should not limit the discussion.