

Non-Prudential Regulation Consumer Protection – Experience from Kyrgyzstan

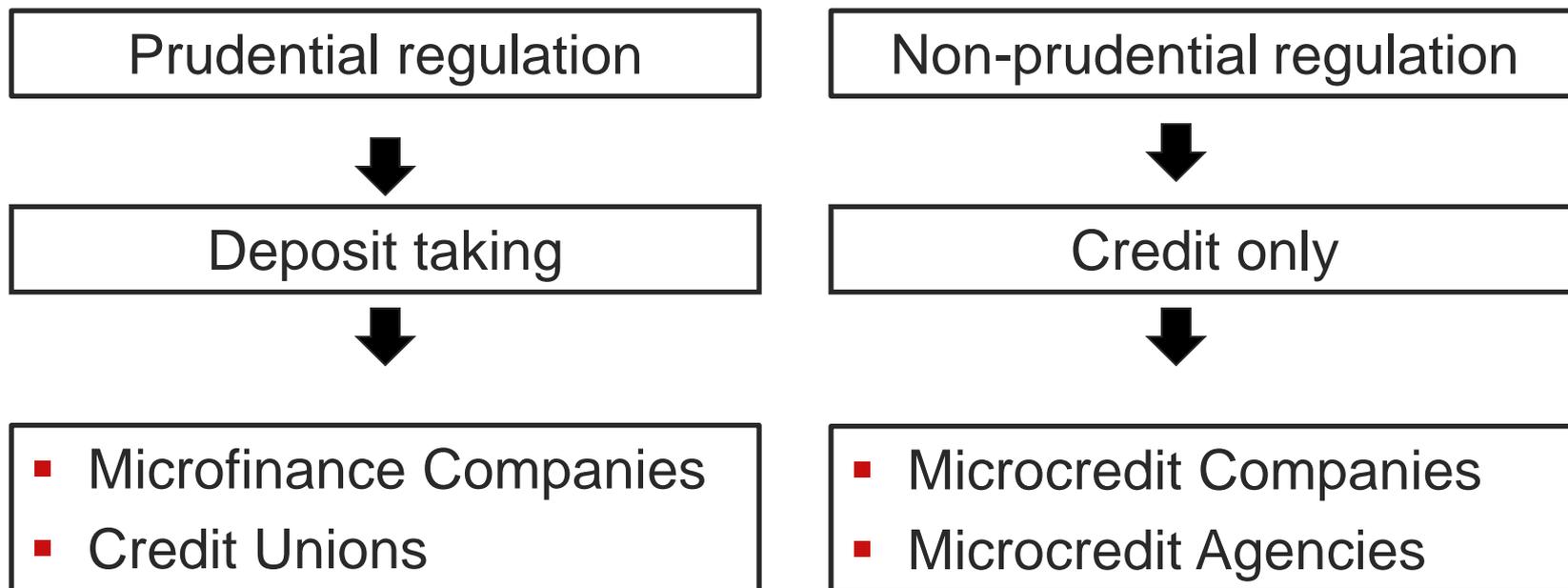
Ainur Turgunbaeva, CEO of OXUS MCC

Overview of Kyrgyzstan microfinance sector

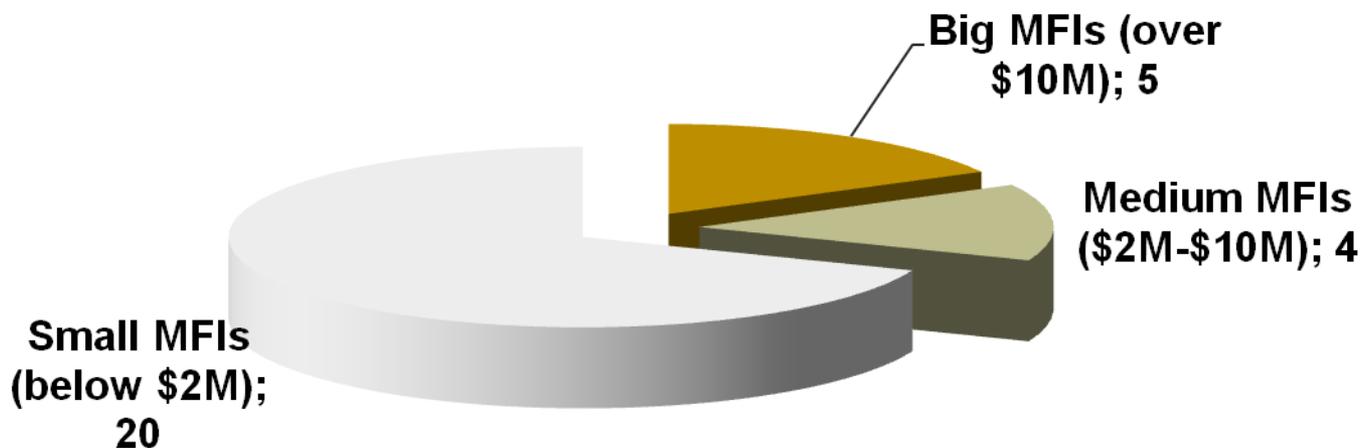
AMFI- 35 MEMBERS:

MICROFINANCE COMPANIES	- 3 (4)
MICROCREDIT COMPANIES	- 18 (317)
MICROCREDIT AGENCIES	- 4 (111)
CREDIT UNIONS	- 4 (198)
ASSOCIATED MEMBERS	- 2

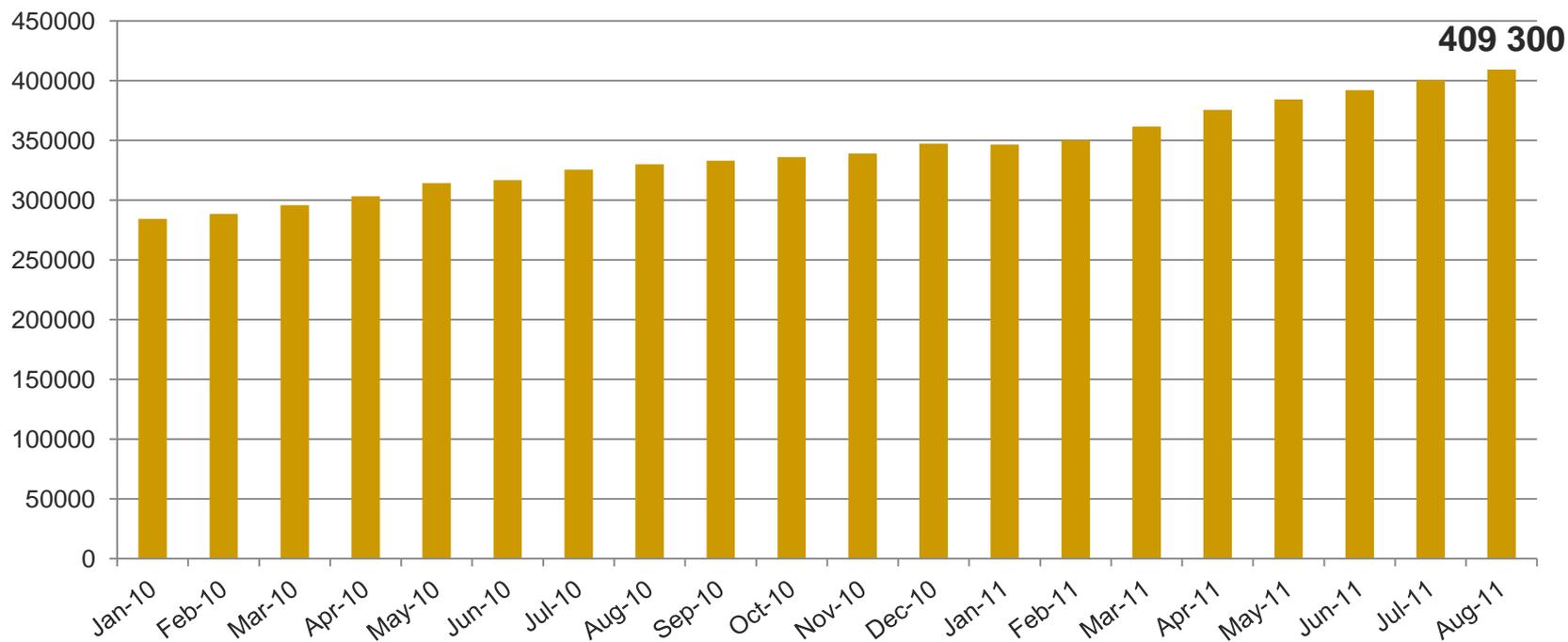
Kyrgyzstan Microfinance landscape



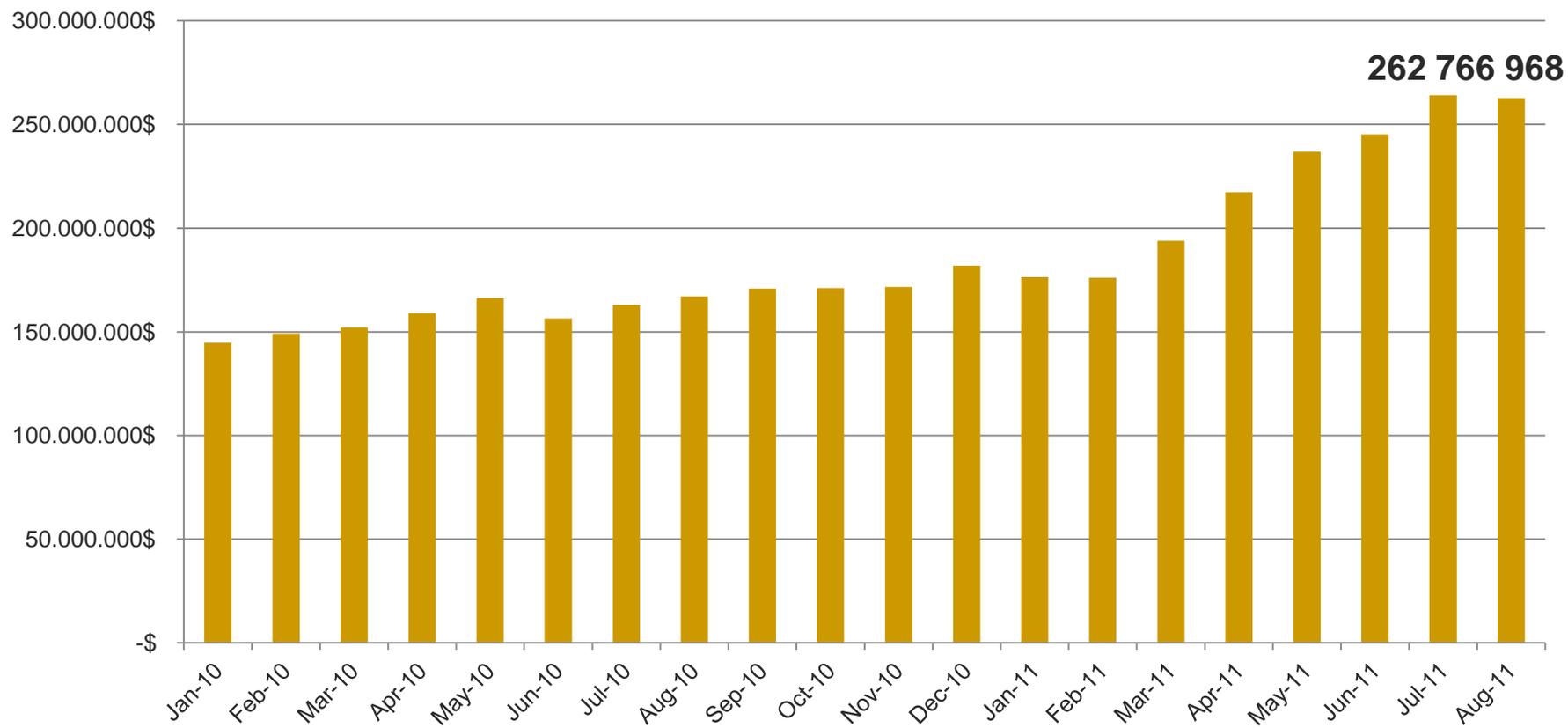
Number of MFIs by Outstanding Portfolio sizes



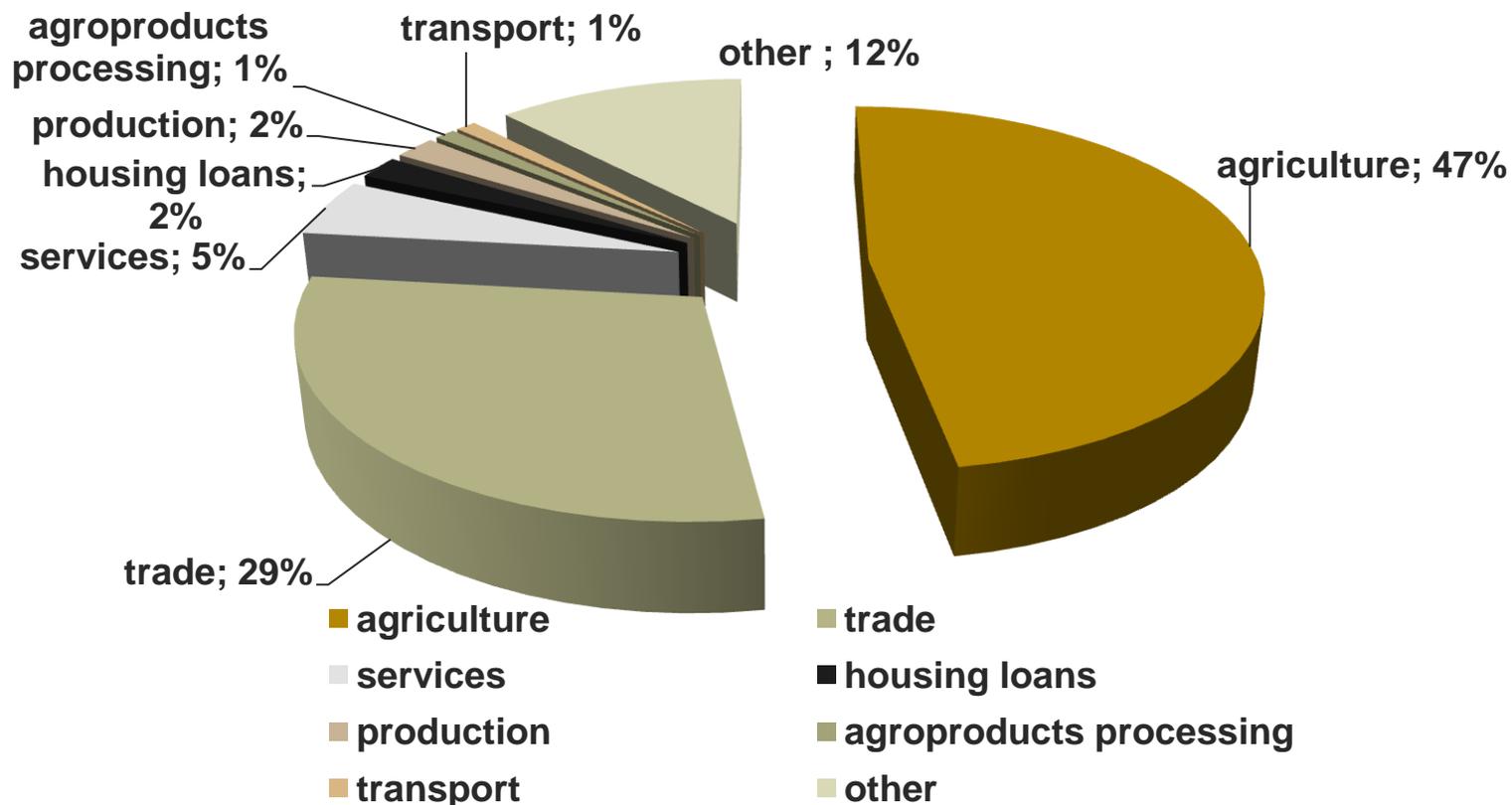
Number of active clients of AMFI members



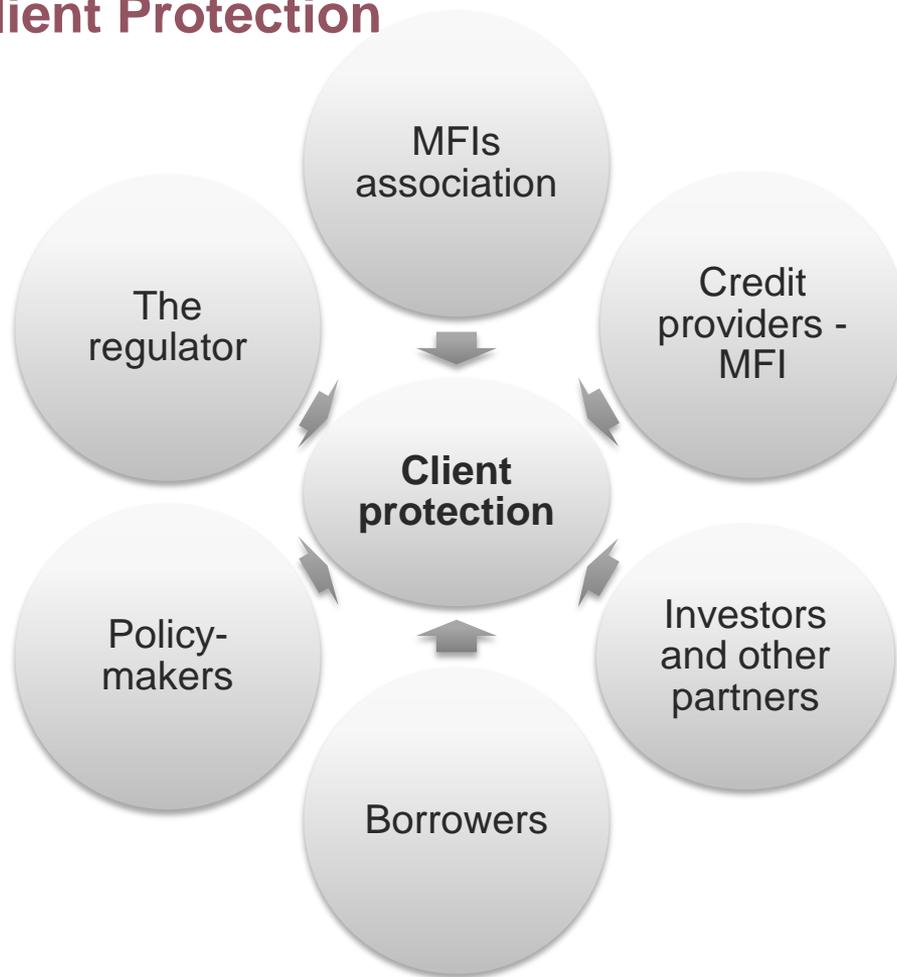
Loan portfolio of AMFI members



Loan portfolio breakdown by loan products



Parties to promote Client Protection



The Regulator

- Influenced by policymakers
 - Knowledge of the best-practice microfinance regulation to be enhanced
 - Tends to over-regulate
 - MFCs depositors savings are not protected
 - Does not always take into consideration the industry concerns
- 
- EIR to be disclosed
 - Indexed lending to be forbidden
 - Flat interest rate to be forbidden
 - The client has the right to prepay the loan
 - Loan prepayment to be cost beneficial for client

The Policymakers

- Little understanding of the industry specifics and needs
 - Pursue political agenda
 - Afraid of “doing nothing”
- 
- Initiate various post-crisis or post-conflicts national projects on supporting farmers, suffered entrepreneurs, etc.
 - Almost every year debate on the need to impose the interest rate cap
 - Political instability does not allow to hold the policymakers accountable

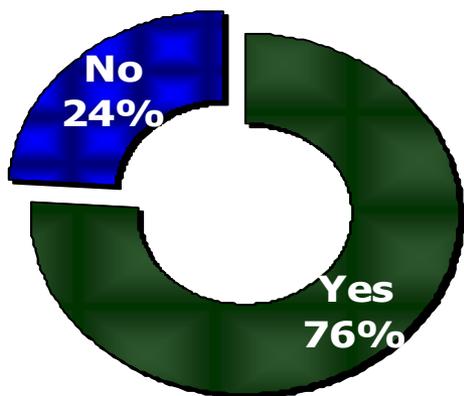
Investors and other partners

- Donor agencies implementing various projects including enhancement of consumer protection
 - Investors impose specific policies aimed at client protection
- 
- Limiting parallel loans, multiple loans, indexed and consumer lending, to regulate loan officer incentive system, impose DSC ratio and indebtedness ratio, etc.
 - Afraid of “doing nothing” to prevent the increasing indebtedness

AMFI

- Adopted a Code of Conduct based on Smart Campaign Client Protection Principles in 2010, signed by members in 2011
 - Self assessment on Code compliance
 - Raising the awareness on increasing indebtedness
 - Raising the issue of increasing clients' financial and legal literacy
- 
- Has no resources and tools to measure the Code compliance
 - Has no enforcement power
 - Plans to conduct awareness campaigns and trainings on prudent debt attitude

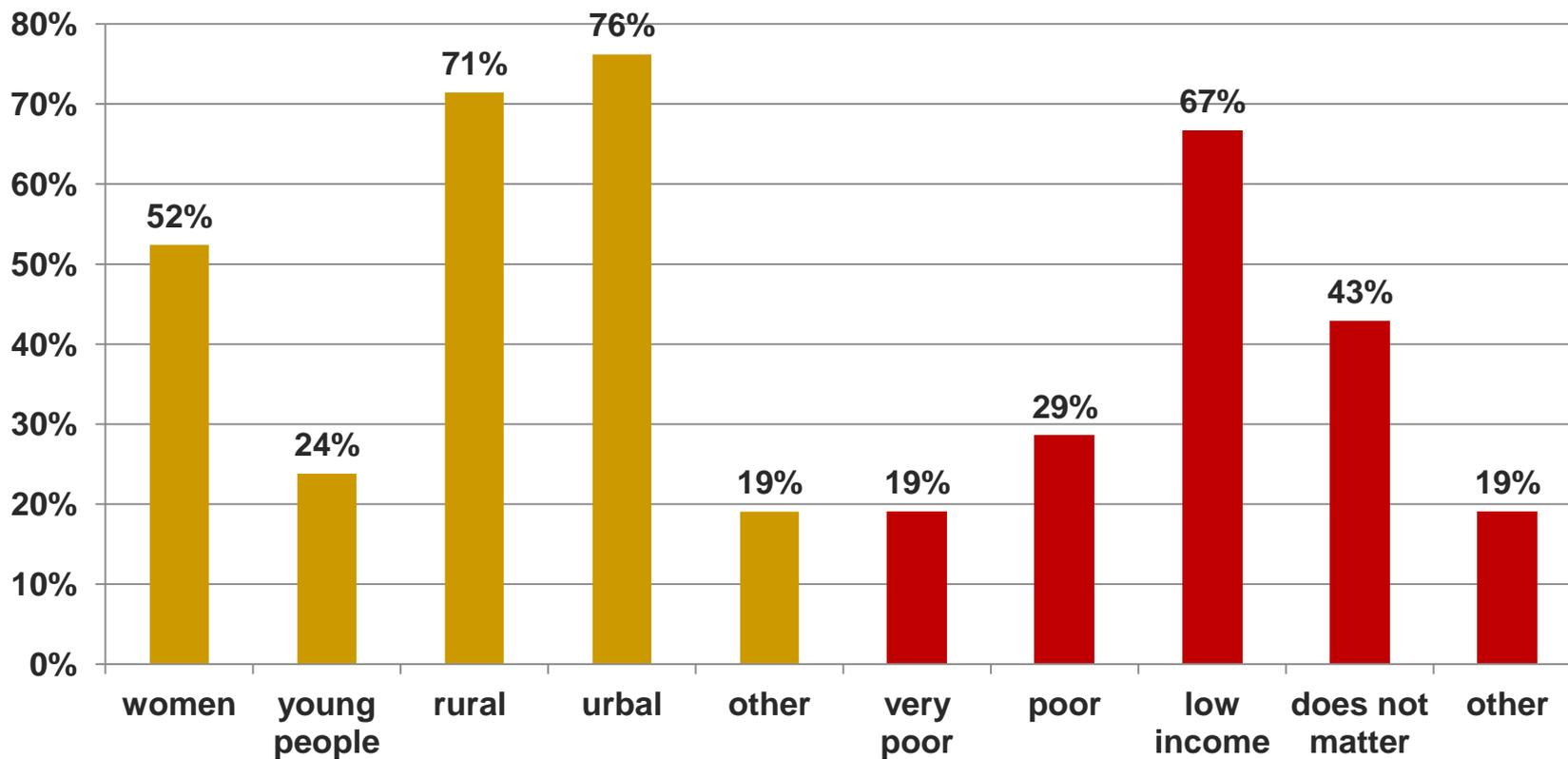
Code of Conduct signed by MFIs



Smart Campaign principles made part of MFIs Internal policies

1	Fair and respectful treatment of clients	100%
2	Transparency	90%
3	Prevention of over-indebtedness	86%
4	Privacy of client data	81%
5	Responsible pricing	76%
6	Mechanisms for complaint resolution	71%
7	Appropriate product design and delivery	57%

Target clientele per mission statements



MFIs

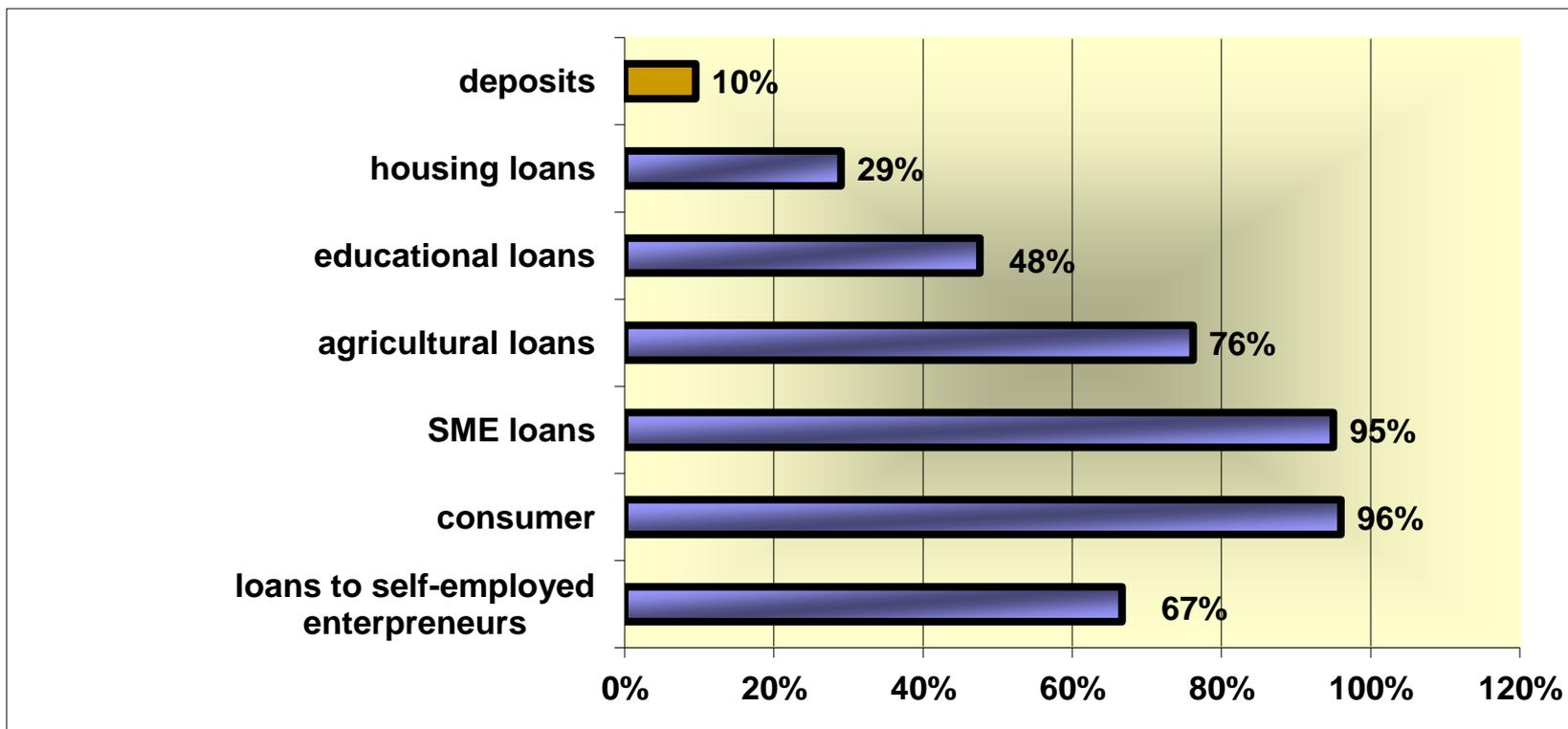
- Code of conduct is not yet fully made part of the internal credit policies
 - Microfinance best-practices are not yet universally applied
 - Limited loan sizes or inappropriate products
 - The same type of loans to the same type of borrowers
 - “Too big to grow”...
- 
- “Declared” Code of Conduct
 - Aggressive growth objectives toughening the competition
 - “Do not see the problem” in the increasing indebtedness
 - A big number of players are neither AMFI, nor credit bureau members

Mission statements and Financial products

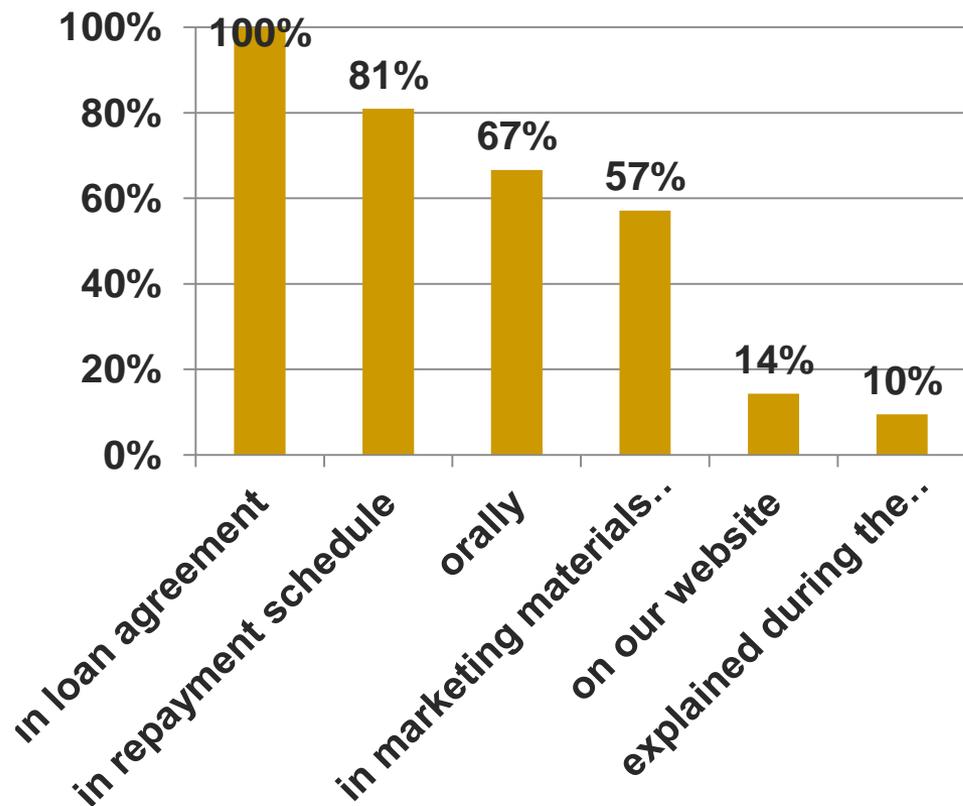
90%: Access to financial products and services to population

62%: fighting the poverty

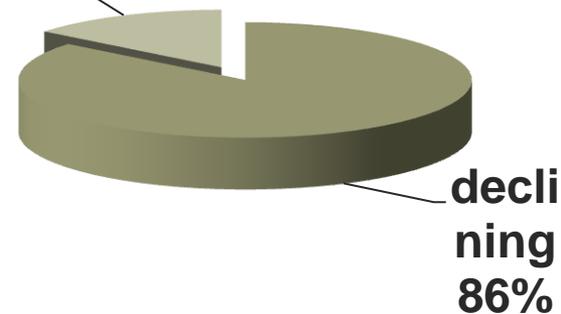
52%: Increasing level of employment



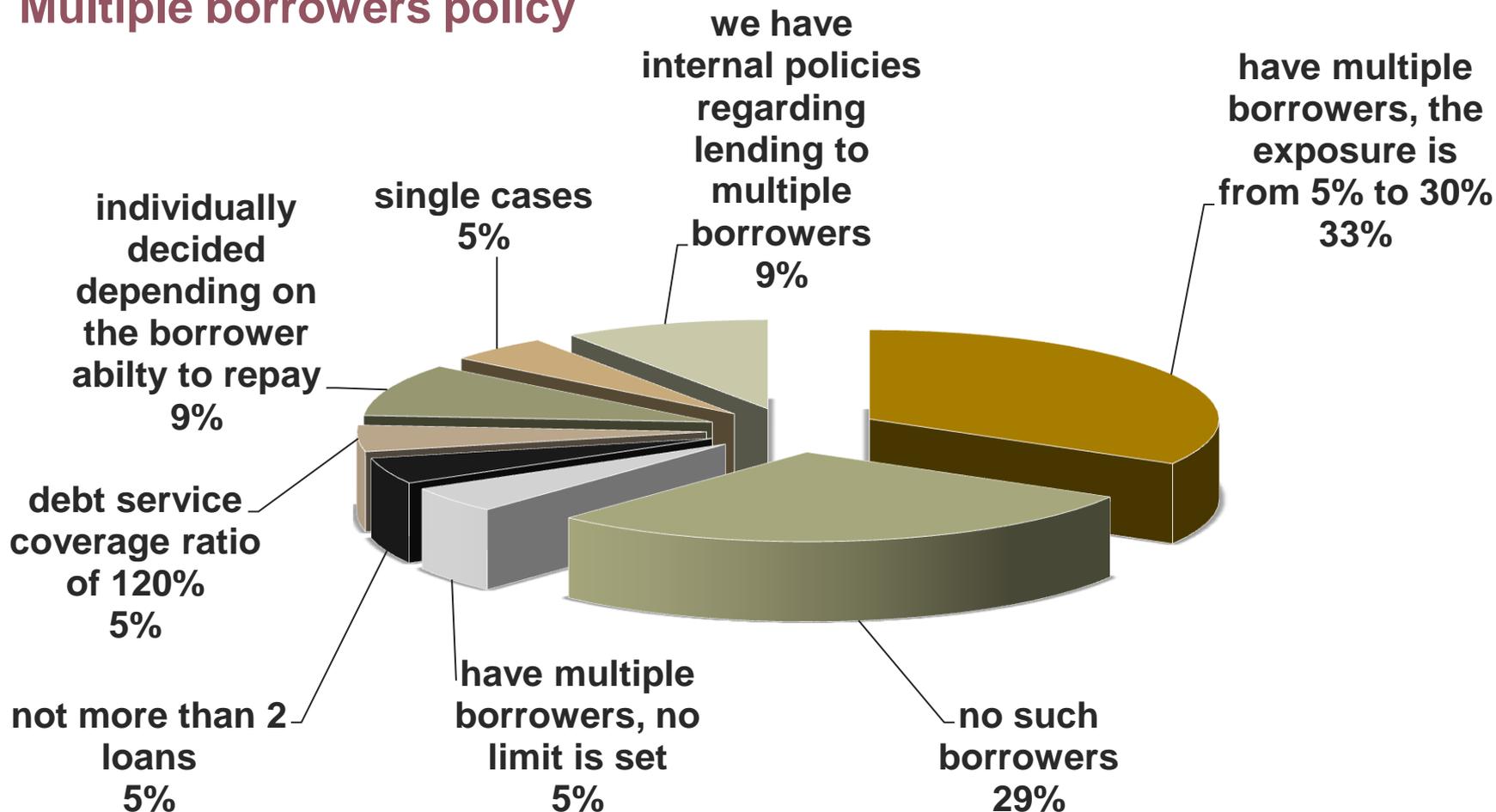
Interest rate disclosure



decli
ning
and
flat
14%



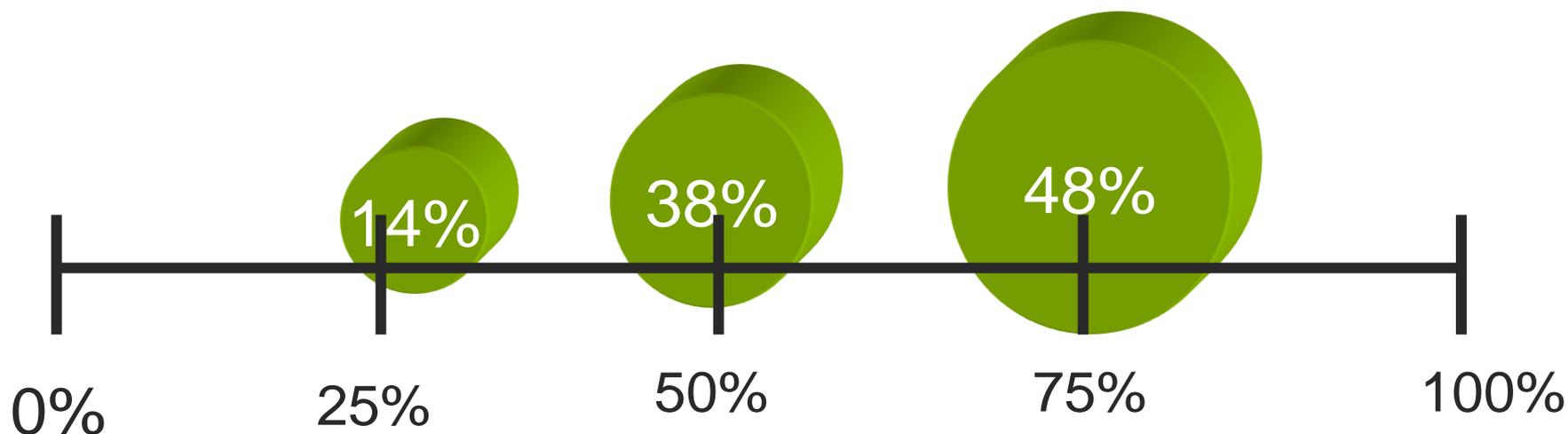
Multiple borrowers policy



Borrowers

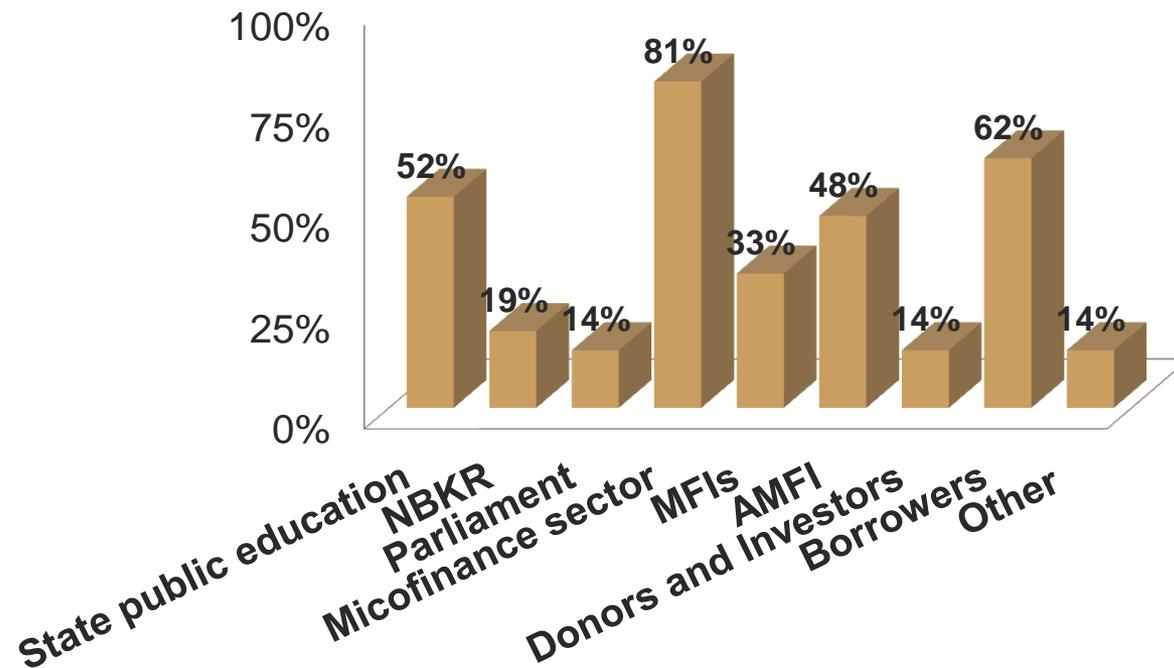
- “Life on credit” is relatively new
- Financial and legal literacy of clients is low
- Not well calculated or risky credit decisions
- The importance to maintain a positive credit standing is not well understood
- Deliberately borrow multiple loans
- Overestimate their abilities to pay multiple loans
- Underestimate the probability of negative events
- Tend to over consume – expenses per household grow while the revenues from activity remain the same

Clients need to enhance their financial literacy

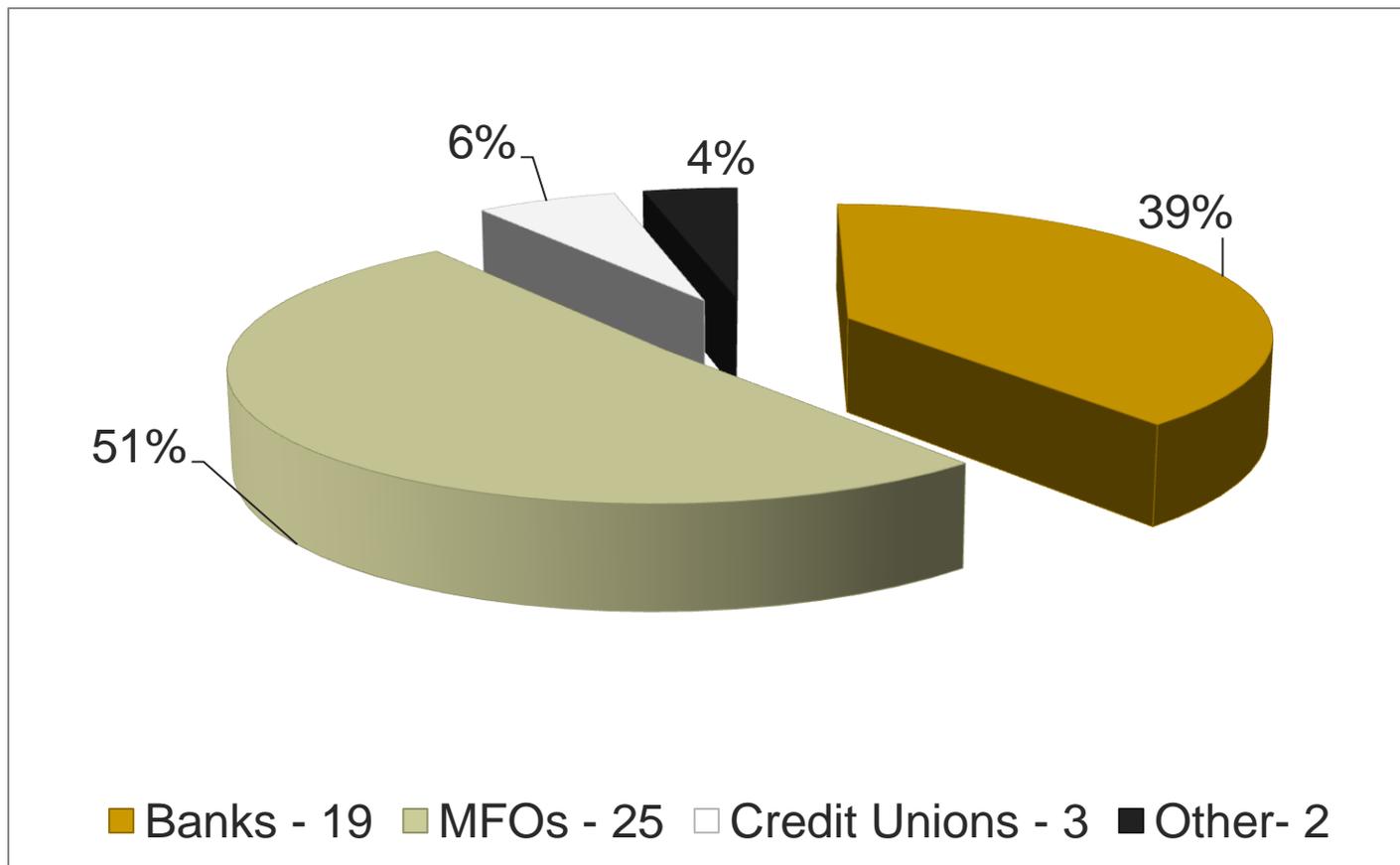


48% of surveyed MFIs indicated that 75% of their clients have very basic knowledge of their households revenues and expenses

Parties to enhance clients' financial literacy



Credit Bureau members - 49



Credit Bureau data on MFIs

Years	Active clients of MFIs		Quantity		Multiple loans		
					MFIs sector		Banking sector
	quantity	Loan portfolio	Issued loans	Delinquent loans	quantity	in %	quantity
2008	30 392	\$76 214 963	41293	3010	2 413	7,9	5 167
2009	213 525	\$194 188 616	116 631	4 269	3 389	1,5	5 885
2010	263 677	\$285 227 446	154 291	7 396	41 967	15,9	9 235
01.10.2011	329 704	\$415 143 610	139 003	18 240	101 986	30,9	34 517

Credit Bureau data on multiple lending

	years			
	2008	2009	2010	01.10.2011
Number of disbursed loans	41 293	116 631	154 291	139 003
Active loans	30 392	213 525	263 677	329 704
Borrowers with multiple loans	2 413 (7,9%)	3 389 (1,5%)	41 967 (15,9%)	101 986 (30,9%)
Delinquent loans	3 010	4 269	7 396	18 240

Next steps

Regulator

- Enforce the client data exchange
- Set the limits on multiple lending

AMFI

- More actively attract new members
- Conduct training seminars on social responsibility

Credit bureau

- Actively involving more MFIs and CUs to exchange data
- Development of special reports for the sector and instruments of monitoring and analysis of collected information (transparency)
- Revise pricing policy

Next steps

MFIs

- Improve staff qualifications for better credit decision
- Complete and timely information to be provided to credit bureau on ALL borrowers
- Improve financial analysis of clients
- Focus staff incentives on the quality of the portfolio
- To agree on and set minimum debt service coverage ratio
- To set the limit of maximum 32% of multiple borrowers per institution
- To inform the borrowers' guarantors on total borrower's debt