



Keeping clients first
in microfinance

Emerging Consumer Risks

Mobile Credit

Ana Ruth Medina

November 30th, 2017

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.*



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



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



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



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

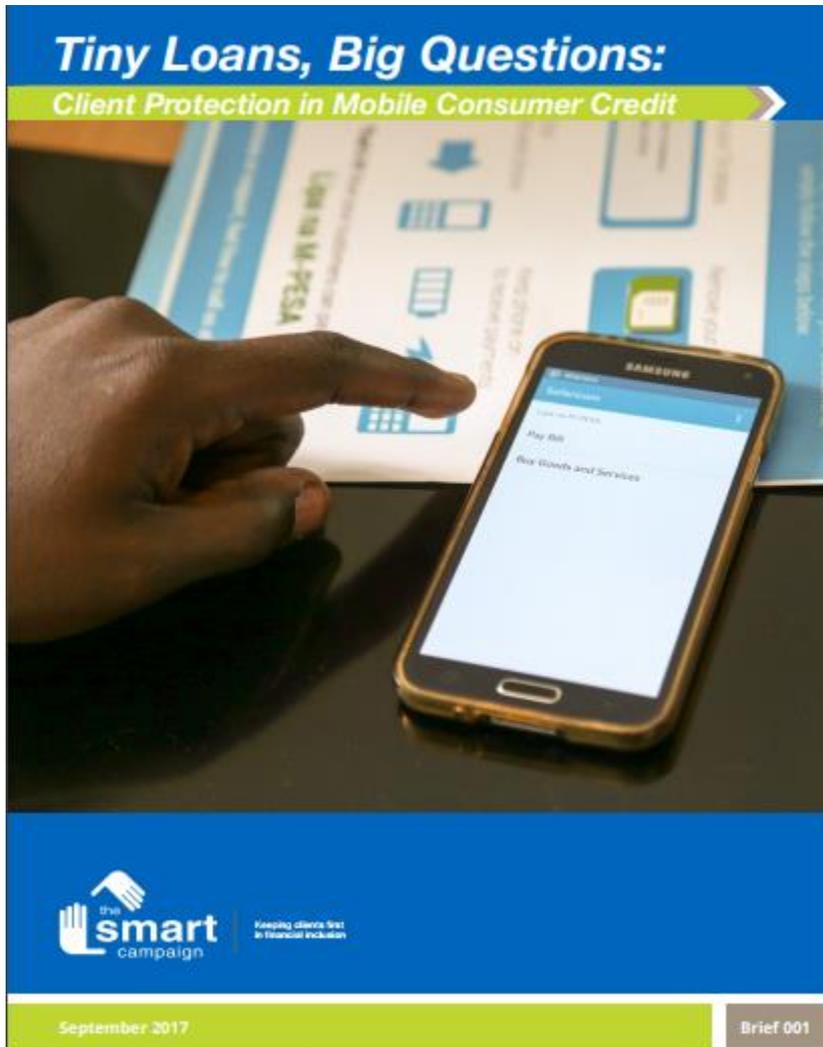


- Capacity to repay
- Algorithm growing pains
- Client blacklisting
- Multiple borrowing (can be invisible)



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.