Consumer Protection: A Client Perspective

In microfinance, consumer protection has surfaced as an important issue as competition grows within the industry and protests related to overindebtedness, improper debt collection practices and high interest rates occur. The high visibility of microfinance, e.g. the Nobel prize awarded to Mohammed Yunus in 2006, raises public scrutiny and hence, the stakes for industry leaders. In today’s climate of global economic crisis, timely concerns about predatory lending and profiting from the poor lend some urgency to the need to endorse and embrace ethical behavior, particularly among those pursuing a double bottom line.

Although the principles of consumer protection are intended to benefit financial service providers and their clients, the asymmetries between what microfinance institutions (MFIs) endorse and what clients understand have the potential to undermine those efforts. Understanding both perspectives will reveal the potential pitfalls of charging ahead with campaigns to disseminate and operationalize those principles without engaging the consumer. This discussion highlights the priorities of both consumers and financial institutions and identifies the potential barriers to the effective practice of consumer protection principles.

Stakeholders and Their Priorities
A significant stake in consumer protection for MFIs and other financial institutions is multi-dimensional. Like any good business that thrives on trust, the microfinance industry’s reputation and financial health depend on a positive corporate image; when unethical practices surface, both can suffer. Furthermore, MFIs have reason to take action on consumer protection before government regulators do so for them. The Campaign for Client Protection in Microfinance, launched in 2009, seeks to build recognition of microfinance as a pro-consumer industry and encourages microfinance providers worldwide to embrace appropriate treatment of clients based on the following six principles.

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

Clients of microfinance programs, particularly savers and borrowers, are the other half of the consumer protection equation and the object of currently advocated ethical practices. Market research conducted with MFI clients in Bolivia indicated that clients identify respect as their greatest priority. They want to preserve their dignity in the process of conducting business with a financial institution, and they want to borrow without fear or humiliation. To accomplish these goals, they require guidance that will help them fully understand the products they use and the contracts they sign.

Barriers to Effective Consumer Protection
Significant distance separates clients and financial institutions from taking consumer protection from pledges and ethical codes to accepted behavior that is shaped by the rights and responsibilities of both sides. The six principles put forth by the Campaign do not specify the clients’ right to ask questions, to understand products without fear or to shield themselves and their financial vulnerability against aggressive marketing. Education in consumer protection could fill this void for clients of microfinance institutions. However, the education they need may be more than the financial institutions can be expected to provide.

1 Hosted temporarily by the Center for Financial Inclusion at ACCION International
Below, the potential barriers to effective consumer protection are examined for both groups of stakeholders.

### Potential Barriers to Effective Consumer Protection

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<th>Clients</th>
<th>Financial Institutions</th>
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<td><strong>Low literacy</strong>&lt;br&gt;A published list of ethical behavior principles or client rights has limited impact when the consumers cannot read the list. Literacy is also typically a requirement to submit complaints with regulatory agencies.</td>
<td><strong>Overestimation of consumer knowledge</strong>&lt;br&gt;MFIs have been increasing both the number and complexity of products and services they offer on the erroneous assumption that clients know how to choose and effectively use those products and services. Institutional investments in product development have not been matched by investments in client education about products.</td>
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<td><strong>High priority assigned to accessing loans</strong>&lt;br&gt;Fear of not getting a loan often drives client behavior. They dare not ask questions about the product for fear of influencing the loan officer’s decision. For the same reason, they hesitate to raise issues of unethical behavior.</td>
<td><strong>Potential conflict with profitability</strong>&lt;br&gt;Efficiency requirements and financial incentives can undermine staff motivation to spend enough time with clients to ensure their understanding of the products they may purchase. Institutions have greater interest in product specific marketing than in education that will enable product comparisons across lenders.</td>
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<td><strong>Lack of knowledge</strong>&lt;br&gt;Clients often do not know their rights, or what constitutes a violation. Violations, therefore, are not limited to cases of borrower versus lender. In Bolivia, group lending members report having violated the rights of fellow members with abusive debt collection practices that shame defaulters; i.e. the seizure and sale of their property. Clients often do not understand the products being marketed to them and sometimes do not know the questions to ask (or fear asking them). At a basic level, many do not grasp interest charged as a percentage of the loan. To achieve the sought after transparency in pricing will require that clients receive accurate and neutral information that they can consider and use.</td>
<td><strong>Implementing consumer protection principles</strong>&lt;br&gt;Putting a new code into practice involves revisions to human resource systems and marketing materials. It also involves introducing mechanisms for customer feedback and complaints and monitoring compliance across country programs.3</td>
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Viewing the barriers to effective consumer protection from the vantage point of different stakeholders raises a key question. Can financial institutions develop and implement consumer protection that truly serves both groups? Consumer protection calls for client education that will enable clients to develop relationships with financial service providers on the basis of knowledge and choice, as opposed to fear. Consumers need to know their rights in order to exercise them. These rights include the right to understand product choices and choose the one that is best for them. Can MFIs and other financial institutions be expected to look beyond their own financial interests to empower clients to make informed decisions? Financial service providers clearly have a role to play in advancing consumer protection, but the knowledge clients need to protect themselves may not always be appropriate for these institutions to provide. Client knowledge is fundamental to effective consumer protection, but the extent to which client education can be the voluntary responsibility of financial institutions remains an issue to be explored.

Those committed to consumer protection must acknowledge the asymmetries in knowledge and access to information and skills between the industry players and consumers. By paying attention to the perspectives of both groups, the industry can confront the challenges – educational, regulatory and financial - of empowering consumers to participate in their own protection.


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