

Cerise+SPTF Annual Meeting 2022

Session Notes

<u>Name of session</u>	Strengthening Market Systems for Customer Protection and Benefit
<u>Date</u>	29 September 2022
<u>Time</u>	11:30 am – 1:00 pm
<u>Moderator</u>	Nitin Madan , Director of the Responsible Inclusive Finance Facility for Southeast Asia, SPTF
<u>Speakers</u>	<p>Dr. Ahmed Abd El-Gawad, Head of MSMEs Financing Regulatory Unit, Financial Regulatory Authority (FRA) of Egypt</p> <p>Mr. Sherif Lokman, Sub-Governor for Financial Inclusion, Central Bank of Egypt (CBE)</p> <p>Vandy Phal, Secretary-General, Cambodian Microfinance Association (CMA)</p> <p>Allan Sicat, Executive Director of the Microfinance Council of the Philippines (MCPI)</p> <p>Sheyla Sobalvarro, Independent Consultant, former executive with Comisión Nacional de Microfinanzas (CONAMI) of Nicaragua</p> <p>Mona Zulficar, Chair of the Egyptian MSME Financing Federation (EMSMEF)</p>

NOTES FROM THE PRESENTATIONS AND DISCUSSION:

Nitin Madan (SPTF):

We have worked for years on tools for self-regulation by financial service providers (FSPs), and that has helped our sector to make enormous progress, but we need the efforts of the entire market system in each country if we are to achieve our vision of *all* FSPs implementing management practices for responsible and inclusive finance. The concept of “market systems” includes all types of stakeholders, but in this panel we will focus on regulators and associations. We will hear how regulators and associations are promoting client protection, which is a logical starting point, as we all generally agree that financial services should not harm clients. But in addition, we will hear from associations and regulators who also aim for financial services to create benefits for clients, and why these actors have come to see a client-centric perspective as core to the sustainability of the financial sector in their respective country.

Question 1: Why did the regulatory authority in your country decide to promote client protection, and what specifically are you doing to advance it?

Vandy Phal (CMA):

Client protection (CP) is important. The National Bank of Cambodia (NBC) has prioritized client protection in the financial sector development strategy and recently adopted a Financial Inclusion Strategy, with which our strategy is aligned. For example, we have regulation on complaints handling, with a focus on client protection, and the NBC is working closely with the Cambodian Microfinance Association (CMA) to conduct monitoring, help solve issues, and adjust policies. It is a priority of the government as well. Cambodia adopted a CP law and a risk-based supervision framework.

Dr. Ahmed Abd El-gawad (FRA of Egypt):

Client protection is a basic rule for the finance industry. All of our policies at the Financial Regulatory Authority (FRA) of Egypt are consistent with the [Client Protection Standards](#). Since its establishment in 2009 as the regulatory authority of non-banking financial services (NBFS), FRA has had a mandate to promote and protect client protection, in order to ensure the balance between the rights of non-bank financial institutions and their customers. Below are some key milestones:

- 2016: first issuance in Egypt of guidelines for client protection, based on the client protection principles, that are part of the Universal Standards
- 2019: a client protection regulation was further developed and extended to include all NBFS
- 2022: Developed the National Strategy for Non-Banking Financial Literacy

Mr. Sherif Lokman (CBE, Egypt):

The Egyptian microfinance industry has experienced a strong evolution in last 5 years. With the arrival of new products, especially digital, we must focus on the customer. How will they deal with such changes and how can we protect and prepare them for the new era? The Central Bank of Egypt (CBE) has a dedicated department for client protection and competition. The CBE mandates that banks report regularly to their boards on client protection, and that they send an annual report to CBE. We focus on transparency in pricing, customer awareness, and complaints handling. We also provide training and awareness sessions for practitioners.

Allan Sicat (MCPI):

The regulators in the Philippines have a similar approach to those in Egypt. There's a central bank that regulates banks, and the Security Exchange Commission (SEC) regulates NGOs. The SEC is in charge of accrediting MFIs. Client protection is at the forefront of regulatory priorities. Regulators ensure that there are responsible and inclusive business practices. As a result, client protection is an integral part of corporate culture of MFIs and part of their governance framework.

Sheyla Sobalvarro (CONAMI):

In 2008-2009, Nicaragua experienced the “*no pago*” crisis. This pushed governments to think about microfinance regulation. The crisis occurred because customers were not at the center of business decisions. So, regulators asked boards of directors to be more involved in decisions. This led to the creation of CONAMI specifically for microfinance, because there had been a void. The *superintendencia* was regulating only banks.

Question 2: What is the role of the national associations to promote client protection? Please describe specific activities you have undertaken.

Mona Zulficar (EMSMEF):

The Egyptian Micro Small Medium Enterprise Financing Federation (EMSMEF) started in 2015 with the objective to enhance the security and sustainability of the microfinance industry and to provide support to FSPs so that they can provide services in all corners of Egypt.

We had two key roles:

1. Defensive: Some FSPs had excessive pricing and abusive collection methods, and this seriously damaged the reputation of the entire industry. The FRA attended parliamentary sessions in 2021, and EMSMEF assisted. It was due to very fast growth of industry since 2016. With aggressive trends of private sector, we started having many complaints. We participated actively in the consultation process of regulation and reviewed it before it was issued.
2. Proactive. We want to see our 10 largest MFIs be client protection certified. We worked with the World Bank and CERISE on a support and coaching project towards more responsible practices. We also want to act as catalyst to change the culture of the industry, and to empower MFIs to be responsible through programs and training that develop good practices within institutions. We also promote financial education of customers. Additionally, we conducted research on impact assessment and will publish the results in October.

Vandy Phal (CMA):

The Cambodian Microfinance Association (CMA) was founded in 2014. The sector had just started. We experienced massive growth in the last 10 years. Three years ago, the board of CMA began reforming the work of the secretariat. We defined a strategy and framework to put clients as the center of our sector. Client development is essential to the sustainability of our members because financial service providers can only be sustainable if clients are healthy. We hold members accountable for their clients. The financial system is a big part of the social system of Cambodia. Here are some examples of how we work:

- We empower the demand side. We organize national campaigns and workshops at the provincial and district levels with regulators, local authorities, and community leaders to empower clients. Specifically, we improve client capacity in the areas of financial literacy, personal finance, understanding their rights and obligations.

- We strengthen responsible practices among the supply sides. We educate the personnel of financial service providers at all levels, from leadership to frontline staff, on ethical and responsible practices and consumer protection in compliance with the Central Bank on Resolution of Consumer Complaints and Bank and Financial Institution Code of Conduct.
- We partner with regulators, peer association, and institutions including the Association of Banks in Cambodia (ABC), the National Bank of Cambodia (NBC), and other relevant partners such as ADA, Agence Française de Développement, and [Cerise+SPTF](#) to strengthen responsible practices and consumer complaints handlings.

Allan Sicat (MCPI):

We do a lot of capacity building and advocacy. MCPI conducts trainings and assessments and provides technical assistance to members. We were helping members to comply with the Universal Standards even before the regulation came into force. MCPI engages in advocacy as well. We collaborate with law makers and regulators. Beginning in 2015, for example, MCPI advocated for the Universal Standards to be part of regulation. Regulators did end up using them as a blueprint for the current regulatory framework. This was a case of self-regulation by FSPs influencing national policy. All of this works has created a mindset of collaboration among all market system actors for better consumer protection.

Question 3: The panelists today represent countries where regulators and national associations are working together. Please describe specifically in what ways you work together, and what the benefits have been.

Vandy Phal (CMA):

Role of the Cambodian Microfinance Association:

- Represent the private sector and promote responsible practices through initiating relevant self-regulation.
- The role of CMA is also to form strategic partnership with the NBC (this is key), to share priorities and commitments with the financial sector, and to strengthen market systems
- Advocate and lobby regulators and peer associations, such as ABC, to prioritize responsible practices as well and re-enforce their implementation.

Role of the National Bank of Cambodia:

- Empower CMA as national association to initiate self-regulation and new initiatives to strengthen the sector. Examples: Lending Guidelines, Code of Conduct and Client Protection.
- The role of NBC is to partner with national associations to strengthen responsible practices within the financial sector
- Another role is to promote the harmonization and integration of CMA initiatives into the supervision process and into the Key Performance Indicators that they monitor

In 2017, a big question for the whole sector was how to promote financial inclusion in remote areas. The Cambodia Microfinance Association conducted advocacy efforts with the National Bank of Cambodia to help open the dialogue with banks. These efforts resulted in the development of a code of conduct (“CoC”) that both Association of Banks of Cambodia (ABC) and the professional association of fintechs adopted. Now, we are in the process of harmonizing the CoC with the client protection standards. This CoC is also a priority of the Central Bank, however, they believe that the initiative has to come from practitioners like us, because we are the ones that go to the field, and we know the clients. As an association, in cooperation with the credit bureau, we created a financial health monitoring system.

The NBC is empowering CMA to bring positive change to the client. We partner at all times. We also work with the Ministry of Economy and Finance to strengthen entrepreneurship.

Mr. Sherif Lokman (CBE):

At the Central Bank of Egypt (CBE), we have common goals and objectives with the Federation and the Financial Regulatory Authority (FRA). The financial regulatory authority (FRA) and the CBE have cross representation on our boards of directors. The Egyptian Financial Literacy Strategy is one strategy led by the two organisations together, for both banks and MFIs.

Some of our work focuses specifically on MFIs. In 2018, we provided a training for MFIs with 1100 practitioners. We also developed a graduation program targeting governance, management style, operational abilities, and IT systems to take NGO MFIs and help them upgrade to a different tier. Furthermore, we worked with the EMSMEF to digitalize payments of MFIs. Additionally, we facilitate access to finance for MFIs. We listen to MFIs through regular meetings to understand any problems they encounter in their relations with banks.

Today, regulation requires that 25% of the portfolio of banks is dedicated to microfinance. The microfinance portfolio grew from 6 million Egyptian pounds (EGP) to 60 million EGP in 2022 in 5 years.

Dr. Ahmed Abd El-gawad (FRA of Egypt):

The FRA considers a self-regulation approach to be very important for financial institutions. The FRA prefers self-adaptation to new rules and supports financial institutions in their efforts to adapt to the environment. This is more effective for the market. This way, the institutions can deal in satisfactory ways with challenges. In microfinance, the importance of self-regulation is particularly evident at times of notable growth or when the market faces a crisis such as the pandemic. Self-regulation effectively supports and protects MFIs during hard times. The most important areas that should be self-regulated are these: risk management, internal control, internal audit,

operational and financial sustainability, and human resources. The following are steps that the FRA has taken to encourage self-regulation:

- The FRA developed self-assessment models for risk management encouraged MFIs to adopt self-regulation by the end of 2018. This resulted in delivery of on-the-job training for Credit Risk staff, CEOs, internal auditors, and members of the risk and audit committees, in addition to on-site inspection missions.
- The FRA developed a supervisory compliance index in consultation with professional associations to enhance the self-compliance approach.
- The FRA NBFS Strategy for 2023 – 2026 aims to shift NBFIs' compliance with supervisory regulations from the Enforcing Mechanism to the Self-Regulation Mechanism.

Mona Zulficar (EMSMEF):

Our role is to build partnerships and bridges. The Egyptian Micro Medium Small Enterprise Federation was established by the Microfinance Law. Since our first board was elected in the second half of 2015, we worked diligently with the support of FRA and the CBE to develop the microfinance industry from a total portfolio of around EGP 6 billion and about 2 million customers at the end of 2016, to a portfolio of more than EGP 60 billion and 4.5 million customers at the end of 2021 while maintaining the stability and sustainability of the industry despite the Covid crisis. Both regulatory authorities have consulted with us on all new regulations or amendments applicable to microfinance before issuance and have taken our views into consideration. Moreover, FRA and the CBE have supported all our initiatives, including 1) Incentives and directives to the banks to encourage financing MFIs; 2) Digital transformation, particularly in payments and collections; 3) Responsible Finance Initiative; 4) Institutional Development Program for smaller MFIs (meaning, the NGOs); 5) Negative List Initiative. We want to change the culture, empower the customer, bring institutions to work for the client's best interest

Question 4: One common challenge is how to ensure fair collections practices. What is CMA doing to mitigate the risk of abusive collections practices?

Vandy Phal (CMA):

We worked with NBC to collect complaints, and then went to the field and conducted workshops with communities. Every quarter, we have a CEO group meeting, where we require responsible practices with consumers. With the Code of Conduct and Lending Guidelines, we established a training center for our members. We implemented a responsible lending practices program, that is required by National Bank of Cambodia for all field staff. Additionally, we are currently doing a pilot test of a consumer empowerment program. Client protection certification is a good tool, but it is not enough. We need for client protection to enter the culture. We also envision a national framework with a monitoring mechanism.

Question 5: Another common challenge area is pricing transparency. How are you promoting responsible pricing?

Allan Sicat (MCPI):

In the Philippines, the regulators are creating an enabling environment for transparency pricing. The association has a role to play in guiding FSPs to comply with regulation. Additionally, part of our work on consumer empowerment involves offering a digital platform for consumers where they can compare prices.

Dr. Ahmed Abd El-gawad (FRA of Egypt):

The main concept is that pricing must reflect a realistic balance between benefits for the MFI and for clients. Egypt issued responsible pricing regulation in 2022, with three key pillars:

- The interest rate policy is based on CGAP guidelines, and administrative fees are at maximum 5% of loan size, and the MFI charges no additional fees.
- Each MFI needs to create a pricing committee
- There is a unified disclosure template to reflect the actual cost. This enables customers to compare prices among MFIs.

The FRA assigned coaches to all MFIs to support implementation (1 coach covers 5 MFIs).

Mona Zulficar (EMSMF):

The FRA consulted with the Egyptian Medium Small and Microfinance Federation and its members on the draft responsible pricing regulation and accepted the vast majority of our proposed amendments. In drafting these amendments, we consulted with our board members, experts and with IFC. Once the regulation was finalized, the FRA gave MFIs six months to adjust and comply with the regulation. The FRA also conducted several workshops training MFIs on implementation of the regulations with practical examples and coaching.

MFIs have complained that the period in which to implement the required changes is too short. This is a trial implementation. MFIs need to make mistakes and learn lessons.

Question 6: An increasing number of voices are making the case that doing good, meaning creating benefits for clients, improves the sustainability and stability of the financial sector. In this spirit, the regulatory authority in Nicaragua decided to promote the full Universal Standards. Please tell us about this.

Sheyla Sobalvarro (CONAMI):

In Nicaragua, a law established in 2012 required that we create social indicators. Our institutions need to show to the world that they are social. CONAMI reached out to SPTF. First, we introduced client protection, then good governance. We slowly built this into regulatory reporting. The project started in 2013, but the social performance norms were published in 2016. We went slowly so that MFIs would voluntarily adopt these practices. When law came into force, they were ready because they had practiced.

Supervision can play the role of monitoring the market and it can also promote improvement. Nicaragua regulation seeks to promote development rather than being only punitive. We gave time to MFIs to make changes and make progress.

Question 7: In the Philippines, the regulatory authority and the national association have launched a customer empowerment initiative. Please describe what specifically you are doing and why.

Allan Sicat (MCPI):

Customer empowerment enables clients, particularly the poor and vulnerable, to experience benefits from using financial services. In 2021, with SPTF, we researched and reported on consumer empowerment. We found that the majority of customers were suffering from disempowerment; a lack of information provided had led to customers lacking awareness of critical information. Another challenge was lack of trust by FSPs. FSPs tend to focus on risk mitigation, fear of bad profits. With the customer empowerment initiative, MCPI is helping the sector to go beyond risk mitigation and put the focus back on clients. We offer five short empowerment sessions in the local language. We are giving clients voice and choice, meaning they feel empowered to use their voice to say what they need, and they have the knowledge to choose which FSP, and which products, are right for them.

Questions from the audience:

- **How do tools help you set regulation?**
 - FRA: We used the seven client protection principles to build the Consumer Protection Guidelines for non-banking sector. These are now applicable to the whole sector financial sector.
 - CONAMI: The Universal Standards have been very useful for us to create regulation.
- **Do MFIs have to pay for certification? If MFIs conduct self-assessments, how do you ensure quality?**
 - CONAMI: The MFI pays the social auditor. There are three in Nicaragua, qualified by CERISE. They have to be registered with CONAMI. Regulators conduct inspections of both financial performance and social performance. CONAMI evaluates reporting on social indicators every year.

Conclusion from Nitin Madan (SPTF):

Client protection is required. It is unacceptable to harm clients. But do not lose sight that the full range of social and environmental performance management is fundamental too. The law changes culture. The law influences the governing structures of FSPs and gets them to move in the right direction.