

Standards for Responsible Digital Financial Services Working Group Meeting: Responsible Pricing and Transparency

31 May 2022

AGENDA

10:00 to 10:05 INTRODUCTION AND UPDATES

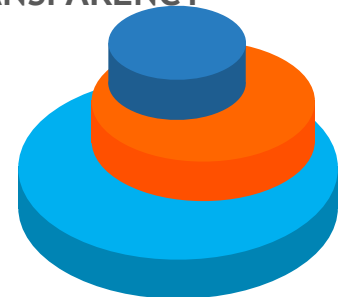
10:05 to 10:25 DRAFT STANDARDS ON RESPONSIBLE PRICING: review ideas so far

10:25 to 10:55 EXPERT REFLECTIONS AND GROUP DISCUSSION OF RESPONSIBLE PRICING

10:55 to 11:05 DRAFT STANDARDS ON TRANSPARENCY: review ideas so far

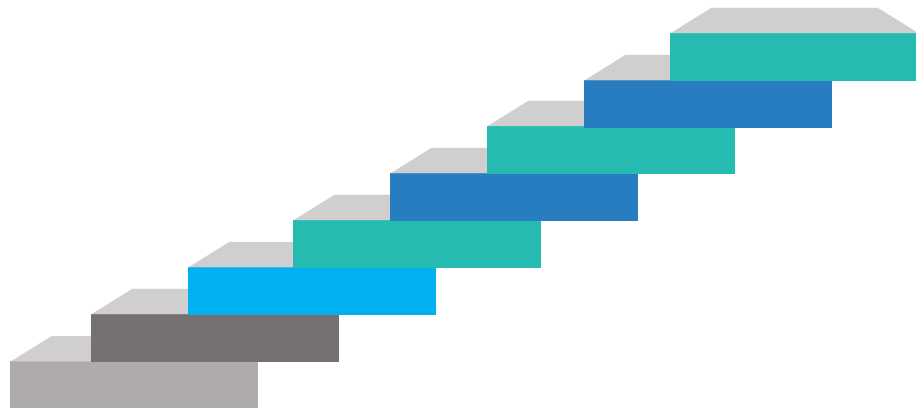
11:10 to 11:25 EXPERT REFLECTIONS AND GROUP DISCUSSION OF TRANSPARENCY

11:25 to 11:30 NEXT STEPS and conclusion



Updates

- Meeting minutes, recording, and notes are posted to the DFS Working Group page
- SPTF updated the Responsible DFS Standards document sections on complaints mechanism and fair and respectful treatment
- SPTF annual meeting in Paris, 28-29 September; full-day DFS working group meeting



Standards for Responsible Digital Financial Services:

Working Group Meeting



OUR WORK ON STANDARDS (1 of 2)

The Universal Standard for Social and Environmental Performance Management

A complete guide of best practices to help financial service providers (FSPs) put clients and the environment at the center of all decisions and align their policies and procedures with responsible business practices.



OUR WORK ON STANDARDS (2 of 2)

Standards for Responsible Digital Financial Services

Why?

- Clarifies what “good” practice means
- Enhances transparency
- Encourages good practices to grow
- Proposes concrete solutions to the risks we observe
- Enables stakeholders to distinguish between providers with a desire to create value for clients versus those focused solely on profits
- Facilitates partnerships with responsible providers

How?

- Review of existing resources: research, articles, blogs, codes of conduct
- Expert interviews: ~50 so far
- Harmonization with existing principles and standards: GSMA, BTCA, IFC, GOGILA, G20 High-Level Principles for Digital Financial Inclusion
- DFS Working Group: open to all, provides a forum to share information and debate

Reminder: the standards say the what, but not the how

What
(universal)

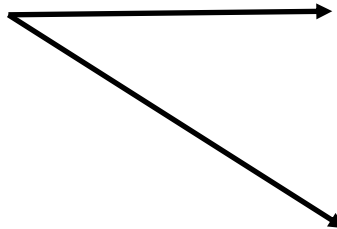
How
(varies by context)

Example 1: Write agreements that customers have to review/sign in simple terms and in the local language.



- Idea: Have someone from customer services write the contract, not a lawyer.

Example 2: Put systems in place to protect customers from overdraft fees



- Use technology to identify when an account balance is not sufficient for a transaction and then deny the transaction rather than allowing overdraft.
- Have a system that allows for overdraft up to a small modest amount without penalty and to notifies the customer in real time when s/he has an overdraft.

- “DFS is exorbitantly costly...I have not seen prices go down.” - DFS expert A
- “You can’t expect providers to bring down inelastic price. They just aren’t going to do that. People will charge what they can.” - DFS expert B
- The best practice should be that pricing is not uniform across the board. It’s calibrated to that person’s risk level.” - DFS expert C

What is already in the Universal Standards for SEPM related to responsible pricing (1 of 2)

Standard	The provider sets prices responsibly.
EP	The provider charges fair prices.
Indicator	The interest rate takes into account the following costs required to deliver credit: funding costs, operating costs, loan losses, and returns to capital.
Indicator	Annual Percentage Rate (APR) for all of the provider's major credit products (> 20% portfolio) is within 15% of its peers. If it is outside the range, the provider can provide a valid justification.
Indicator	The provider discloses loan interest on a declining balance and according to the exact date of payment.
Indicator	Loan interest (including arrears interest) does not accrue past 180 days, at maximum.
EP	The provider charges reasonable fees.
Indicator	The provider does not charge clients for confirmation of transactions and balance inquiries.
Indicator	Prepayment penalties do not include the interest that would have accrued between time of prepayment and the end of the loan term.
Indicator	Arrears interest and penalties do not compound debt; they are calculated based on the principal amount only.
Indicator	If the provider offers savings, it charges reasonable fees on savings accounts.
Detail	Fees on deposit accounts are not disproportionately high relative to small deposit balances.
Detail	The fee structure for deposit accounts does not allow zeroing out accounts through repeated application of fees.

What is already in the Universal Standards for SEPM related to responsible pricing (2 of 2)

EP	The provider does not transfer unnecessary costs to clients.
Indicator	Loan Loss Expense Ratio (LLER Ratio) is within the accepted performance range. If it is outside the range, the provider can provide a valid justification.
Indicator	Operating expense Ratio (OER Ratio) is within the accepted performance range. If outside of the range, the provider can provide a valid justification.
Indicator	Return on Assets (ROA) is within the accepted performance range. If outside of the range, the provider can provide a valid justification.

Responsible pricing and DFS: ideas for management practices so far (1 of 2)

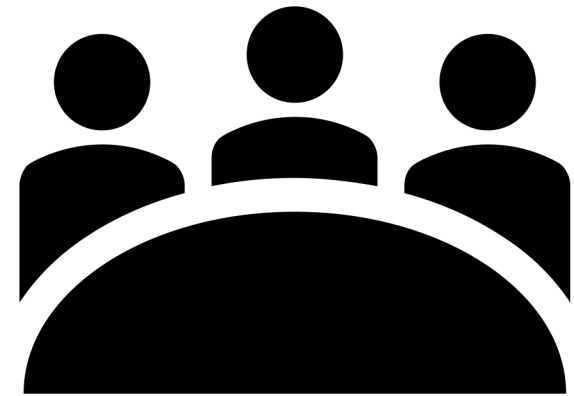
1. Board and management create a pricing strategy and review it with at minimum [X] frequency.
2. Communicate the annual percentage rate (APR) and all fees.
3. Disclose penalties up front, at the time the customer is taking out a loan. It is not ok to wait until the customer will be charged, and then disclose it.
4. Eliminate punitive fees. Have a single price for a product, and do not charge anything else.
5. Do not have a minimum balance requirement for a savings account.
6. Do not charge fees for overdraft. / **SIMILAR TO** / Put systems in place to protect customers from overdraft fees.
7. When a customer defaults, do not charge compounding interest or late fees. The penalty for default is losing the ability to access loans on the platform.
8. Structure interest rate and repayment schedules for loans so that the customer never ends up paying more in interest than s/he received in loan capital.
9. Do not pass on the early costs / innovation costs to customers. The FSP has to invest in capital expenditure as if it is starting a new business and amortize the investment accordingly. Poor customers cannot and should not subsidize this investment.

Responsible pricing and DFS: ideas for management practices so far (2 of 2)

10. Take advantage of open-source software for requisite updates to IT systems..
11. Clearly state the consequences of not paying (e.g., seize collateral, refuse a new loan, report to credit bureau).
12. Reduce prices for customers who have a demonstrated record of on-time payment.
13. Monitor credit scoring algorithms to make sure they get more effective over time, leading to better ability by the FSP to price appropriately given actual customer risk and repayment probability.
14. Cross-subsidize, using funds earned from higher-end customers to serve lower-end customers at affordable prices.
15. Do not set prices for good customers high enough that their payments subsidize the costs of customers who default.

What do you think? An expert commenter will start off the discussion.

- Fintech Entrepreneur, Author
➤ Arunjay Katakam



- “No one is going to download a contract and read the whole thing. No one does that.” - DFS expert A
- “A lot of customers, they just want to get it, they don’t want to take the time to read.” - DFS expert B
- “I don’t have to give you a good price, but I do have to be clear what the price is.” - DFS expert C

What is already in the Universal Standards for SEPM related to transparency? (1 of 3)

Standard	The provider gives clients clear and timely information to support client decision making.
EP	The provider is transparent about product terms, conditions, and pricing.
Indicator	<p>The provider gives a Key Facts Summary Document to borrowers before they sign a contract. The document contains the following information:</p> <ul style="list-style-type: none"> - Total loan amount - Pricing, including all fees - Total cost of credit: all principal, interest, and fees plus cash collateral - Disbursement date and loan term - Repayment schedule with principal and interest amounts, number, and due dates of all repayment installments - Deductions of first payment from principal and fees, if applicable - How cash collateral / mandatory savings can be used in case of default, if applicable - Moratorium interest rates, terms, and conditions, if applicable
Indicator	<p>Loan contracts include the following information, as applicable to the product:</p> <ul style="list-style-type: none"> - Grace period - Mandatory savings / mobile wallet amount - Automatic account debiting mechanisms - Linked products - Member or guarantor obligations - Collateral requirements and seizing procedures - Consequences of late payment and default - Prepayment conditions: whether it is possible and how it affects the cost - Whether terms and conditions can change over time and how that would affect clients
Indicator	Loan contracts are available in the major local languages.

What is already in the Universal Standards for SEPM related to transparency? (2 of 3)

Indicator	The provider communicates product information in a way that supports informed decision making by clients.
Detail	The provider publishes basic product information, including pricing, at branch or agent locations, or digitally as applicable.
Detail	The provider communicates APR/EIR (or MPR if the majority of loans are under 3 months) in the Key Facts Summary and/or the loan contract.
Detail	The provider's communications are in simple and local language; oral information is used for less literate clients.
Detail	The provider's marketing materials do not deceive or mislead clients.
Indicator	If the provider uses agents, it verifies that they provide to clients documentation of their fees, terms of service, and cancellation conditions.
Indicator	<p>If the provider offers savings, documentation includes the following:</p> <ul style="list-style-type: none"> - Fees, including closure fees - Interest rate and how amounts will be calculated - Minimum and maximum balance requirements - Whether deposits are governmentally insured
Indicator	<p>If the provider offers payments, it gives the following information to clients who are initiating or receiving money transfers, or using other payment services:</p> <ul style="list-style-type: none"> - Amount paid by sender, in sender's currency - Estimated exchange rate - Amount to be received in the destination currency - Fees - Instructions for collecting payment - Cancellation conditions - Instructions for resolving errors - Transaction confirmation - Taxes - Linked products (if any)

Standards for Responsible Digital Financial Services:

What is already in the Universal Standards for SEPM related to transparency? (3 of 3)

4.B.1.8	Indicator	If the provider offers insurance, it gives clients the following information at the time of enrollment: - A certificate of coverage which states, at minimum, the premium, amount and term of coverage, who are the beneficiaries, which events are covered, any major exclusions, and when and how to file a claim - An explanation of the documentation required to prove damage, if applicable - Terms related to cancellation and prepayment, if applicable
4.B.1.9	Indicator	If the provider offers insurance, it provides beneficiaries with timely information during the claims process.
4.B.1.9.1	Detail	The provider notifies the beneficiary within 30 days of making a decision about the claim.
4.B.1.9.2	Detail	When the claim decision results in a settlement, the provider notifies the beneficiary within 30 days of the settlement. If the claim is denied, the provider notifies the beneficiary of the reason and gives an opportunity for appeal.
4.B.2	EP	The provider communicates with clients at appropriate times and through appropriate channels.
4.B.2.1	Indicator	The provider gives clients the opportunity to review the terms and conditions of products.
4.B.2.1.1	Detail	The provider offers a channel for clients to ask questions and receive additional information prior to signing contracts.
4.B.2.1.2	Detail	The provider gives clients notice and the opportunity to opt out before automatically renewing a voluntary product.
4.B.2.2	Indicator	The provider gives clients a completed, signed copy of the contract and makes the contract accessible anytime in an online account or in physical form.
4.B.2.3	Indicator	The provider gives clients clear and accurate account balance information in the following ways:
4.B.2.3.1	Detail	Providing access to their up-to-date loan or savings balance upon request.
4.B.2.3.2	Detail	Sending automatic messages to clients whenever there is an automatic deduction from the client account.
4.B.2.3.3	Detail	Providing receipts, on paper or electronically, for every transaction.
4.B.2.4	Indicator	If loan repayments are automatically debited from a client account, the provider sends clients a loan repayment reminder at least one day before loan repayments are due.

Transparency and DFS:

ideas for management practices so far (1 of 2)

1. Write agreements that customers have to review/sign in simple terms and in the local language.
2. Decide what key facts need to be disclosed up front for loans, including at minimum these: loan amount, loan term, repayment frequency, total cost of credit, APR, penalty fees.
3. In addition to the agreement, develop clear messaging, in local languages, to use to disclose key facts again in a quick and accessible manner.
4. Have a different system for how many messages with key information you send to first time users, vs to those who have used the same product multiple times.
5. Every time a customer buys a credit product, communicate at least once, clearly, about the importance of repaying on time and the consequences of default.
6. For all messages, follow this guidance: make it small (bite sized) and engaging.
7. Design digital interfaces to be simple and visual, promoting use even by those who are not digitally literate.
8. Give customers an option to speak to a live person.
9. Use an IVR chatbot to respond to customer questions. It must use local languages. The call must be free.
10. Do a spot check on a sample of customers to test whether customers understand key elements of the terms and conditions. If not, improve disclosure processes.

Transparency and DFS:

ideas for management practices so far (2 of 2)

11. Provide customers with a receipt of digital payment from both the partner MNO and the FSP.
12. Every time the customer conducts a digital transaction, the customer should receive a digital receipt/confirmation message and the credit officer (or equivalent) should receive the same transaction confirmation message on his/her device.
13. In general, FSPs should offer customers the possibility of talking to a human at minimum in three contexts: explaining new product, answering questions, helping with complaints
 - NB: This is a repeat standard from fair and respectful treatment of clients
14. Collect information about the digital channels to which your customers have access, so you know through which channels you can share information. / SIMILAR TO / Ask customers how they get information. Then deliver information through those channels. Segment the answers by customer type.

DISCUSS AND DEBATE

What do you think?



MARK YOUR CALENDARS

Data Rights & Privacy and Partnerships

June 8, 10 a.m. - 11:30 a.m. EDT

Outcomes ; product design and delivery ; reaching the hardest to reach

One more this summer? Fill out poll about availability.

DFS Standards Working Group Meeting

September 28, 9 a.m. - 5:00 p.m. CET **in person!**

For further information, contact ameliagreenberg@sptfnetwork.org

Concluding Announcements

Stay connected!

Would you like to receive the notifications of upcoming events, tools and resources? Sign up for our newsletter at



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New Universal Standards released in February 2022!

Download the newest standards:

<https://sptf.info/universal-standards-for-spm/universal-standards>



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Thank you!