

Standard 4B

Transparency

Providers will communicate clear, sufficient, and timely information in a manner and language that clients can understand, so that clients can make informed decisions. The need for transparent information on pricing, terms and conditions of products is highlighted.

- > **Essential Practice 4B.1** The provider has a policy and documented process in place that requires transparency on product terms, conditions, and pricing. (Client protection standard 3.1.0)
- > **Essential Practice 4B.2** The provider communicates with clients at an appropriate time and through appropriate channels. (Client protection standard 3.2.0)
- > **Essential Practice 4B.3** The provider takes adequate steps to ensure client understanding and supports client decision making. (Client protection standard 3.3.0)

4B.1 FULLY DISCLOSE PRODUCT INFORMATION

Transparency on product information is vital for client understanding. When clients understand the products they are buying and using, they are more likely to use them successfully. Client success is a major determinant for the health of your portfolio. Furthermore, client understanding helps build confidence and trust in your organization.⁹⁰ [Table 25](#) lays out transparency policies for four products.

When providing the information listed in [Table 25](#), observe the following practices:

- Write product contracts in simple language. If you are required by law to use technical language, then check that your Key Facts Document (see [Table 25](#)) is written in simple language. Do not use illegal clauses. Do not use fine print.
- For loans with a group guarantee or a guarantor, clearly define member or guarantor obligations, and communicate these to group members or guarantors.
- If the loan has a variable rate and/or is denominated in a currency different from the main currency of the client’s source of income (e.g., the client earns income in pesos and the loan is in USD), clearly explain pricing and cost scenarios to the client, including a pessimistic scenario in which exchange rates change and the loan is not worth as much money.
- For clients using payment services, make sure that the documentation that lists all fees, terms, taxes, and cancellation conditions is provided at your payments agents. Such services include money transfers, bill payments, airtime top-up, and deposit withdrawal.

⁹⁰ Results from the [Smart Campaign’s Client Voice research](#) (page 18) show a clear correlation between client understanding of loan terms and whether a client rated his or her experience with FSPs as favorable or not. Those clients with a strong understanding of loan terms and conditions were more likely to rate their provider experience as favorable or very favorable. Those that did not understand terms well were more likely to rate their provider experience as very unfavorable or unfavorable.

TABLE 25. TRANSPARENCY POLICIES AND PROCEDURES FOR FOUR PRODUCTS

	Credit	Savings	Payments	Insurance
Information to disclose	<ul style="list-style-type: none"> - Total loan amount - Pricing, including all fees⁹¹ - Total cost of credit (all principal, interest and fees) and APR/EIR⁹² - Disbursement date and loan term - Repayment schedule with principal and interest amounts, number, and due dates of all repayment installments - Moratorium interest rates⁹³ - Grace period (if any) - Penalties for arrears or prepayment - Compulsory savings (if any) - Linked products (if any) - Member or guarantor obligations (if any) - Collateral (if any) collateral seizing procedures - Any restrictions on loan use - Cooling off periods - Cancellation rights - Consequences of late payment and default - Whether terms and conditions can change over time.⁹⁴ 	<ul style="list-style-type: none"> - Fees⁹⁵ - Interest rate and how amounts will be calculated (on the basis of the original deposit or compounded for interest accruals) - Minimum and maximum balances and withdrawal limits - Other limits/conditions to accessing savings - Whether/how savings will be used in case of loan default - Whether deposits are governmentally insured 	<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 money - Cancellation conditions - Instructions for resolving errors - Taxes (if any) - Linked products (if any) - Transaction confirmation 	<ul style="list-style-type: none"> - Premium - Events covered - Individuals covered - Amount and term of coverage - When and how to file a claim - Required documentation to prove damage - Any major exclusions - Terms related to cancellation and prepayment - Cooling off periods - Cancellation rights
Information format	Provide above information in green in a Key Facts Document —a short document that highlights key product information, as opposed to the longer and legally binding loan contract. Include all of the above information in the loan contract.	Written document	Written document	Provide above information in blue in a certificate of coverage , after signing. Provide all information in writing or verbally, before signing.
Timing of disclosure	Prior to client signing the initial loan contract and prior to renewal.	Prior to depositing money	Provide the transaction confirmation immediately following a transaction, and all other information before initiating a transaction.	Prior to enrollment in the insurance plan and upon renewal. When a client initiates a claim, provide information on prospective benefits.
Other considerations	Upon signing, provide clients with a signed copy of contract with no blank spaces. This applies to group products as well as individual.	Make the same effort to educate clients about the savings products, whether they are sold as voluntary, mandatory, or bundled.		Make the same effort to educate clients about the insurance products, whether they are sold as voluntary, mandatory, or bundled. Also explain to clients the importance of informing beneficiaries of their coverage under the client's insurance products.

FIGURE 2. KEY FACTS DOCUMENTS FOR LOAN CLIENTS (SAMPLE)

In addition to providing the full loan document, supply clients with a Key Facts summary like the one below.

	<p>The basics</p> <p>You are borrowing _____</p> <p>Total amount you will repay if you repay on time _____</p> <p>Your interest rate is _____</p> <p>You will pay in fees and commissions _____</p>
	<p>The repayment</p> <p>Your loan starts on _____</p> <p>You must repay every _____ by _____</p> <p>If you repay on time every time, your last payment will be on _____</p>
	<p>The guarantee</p> <p>Your loan guarantee is _____</p> <p>If you fail to repay the loan _____</p>
	<p>Late fees and penalties</p> <p>If you are late in your repayments, you will have to pay _____</p> <p>For every additional day that your payment is late.</p>
	<p>Your loan has insurance!</p> <p>If you die of natural causes, your family should call _____</p> <p>If your family follows the instructions correctly, they will keep the full amount of the loan but will stop making loan payments.</p>
	<p>Questions or concerns?</p> <p>If you have any questions about your loan call _____</p> <p>If you have a problem with our service, call _____</p>

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- The Smart Campaign tool, [Essential Documents for New Clients](#), provides a sample template for a transparent loan summary and repayment schedule. Also available in [Spanish and French](#).
- Mibanco Peru’s [loan contract summary handout](#) is an example of a key facts document that helps clients understand their loan contract. Also available in [Spanish](#).
- People’s Bank of Caraga’s (Philippines) [disclosure statement](#) helps clients understand key information including bank charges, interest rates, and other fees.
- JSC Microfinance Organization Crystal (Georgia) uses a [plain language loan contract](#) for clients seeking small businesses credit. This example contract is succinct, written in plain language, and uses very little jargon.

FOOTNOTES FROM TABLE 25 (page 143)

⁹¹ In addition to communicating on other fees, if you deduct fees from the first payment of principal (i.e., upfront fee, insurance, guarantee deposit), clearly communicate this to clients before disbursement.

⁹² APR (Annual Percentage Rate) and EIR (Effective Interest Rate) are both methods for communicating prices in annual terms. APR, the standard in some countries such as the United States, does not take into account the effect of compounding whereas EIR, the standard in countries such as those in the European Union, does take compounding interest into account. Both approaches agree on the figure for the price for a shorter period of time, such as a month. However, when annualizing that monthly figure, the compounding effect results in a larger annual figure than the nominal approach. The higher the monthly interest rate, the greater the difference between the annualized APR and the annualized EIR. The MFTransparency Calculating Transparency Pricing Tool can be used to calculate both APR and EIR. In markets in which interest rates are quoted in another form (e.g., flat rates, CAT in Mexico, TCEA in Peru, TEAC in Bolivia, etc.) by nearly all providers, the prevailing format may be used in addition to APR or EIR alongside total cost of credit.

⁹³ Moratorium interest rate (also called moratory interest rate) refers to the rate of penalty interests that are charged on top of regular interests in case of a late repayment of more than a fixed number of days, by way of damages in actions for breach of loan contract.

⁹⁴ Such as changes to interest rates in the case of variable rate loans or currency exchange rates in indexed loans.

⁹⁵ For example, fees associated with account opening and closing, account maintenance, balance inquiries, withdrawals, payments, transfers, use of ATMs and use of mobile phones for payment transactions. If fees vary depending on account balances and/or usage (e.g., if certain services are free when balance is maintained above a minimum), these conditions should also be made clear.

This sample loan contract is a part of a larger resource—the [Consumer Pricing Education Adaptation Guide](#) developed by MFTransparency.⁹⁶

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4B.2 COMMUNICATE IN A WAY THAT CLIENTS CAN EASILY UNDERSTAND, AT THE RIGHT TIMES

Often, FSPs may provide full and complete product information but communicate it in a way that is difficult for clients to understand. The way your sales and product management staff explain things to clients will make all the difference in whether clients can absorb the information and use it to make important decisions about their finances.

Clients should have time to review product information, to compare options, and to ask questions before making a decision. In order to do so, they need relevant product information at least 24 hours *prior to signing*. In practice, this means providing product documentation that clients can take home and review before the sale—many times, a client will want to share product information with a trusted person (e.g., spouse) prior to signing. Make sure the client also has an opportunity to decline the product without being made to feel that they are already expected to sign the contract.

Inform clients *before* making changes to the terms and conditions specified in their contracts—for example, if the interest rate paid on savings changes. Also inform clients before their insurance policy expires, so that they are aware and have the opportunity to renew the policy.

Finally, put in place a system for providing clients with accurate account information, on demand. For some providers, an on-demand mechanism is provided through online and/or mobile banking, which gives clients anytime access to their account information. Low-tech options including answering customer inquiries over the phone and in-person. Field and branch staff should have immediate access to up-to-date account information whenever they are interacting with the client. Provide clients receipts—paper or digital, based on client capability and context—for all transactions. For loans with a group guarantee or a guarantor and group savings accounts, provide each member in the group or guarantor with total balance of the account at least quarterly.



MicroFinanza Rating's [Transparency in Practice](#) suggests good practices for improving transparency at bank branches and in the field (e.g., at clients' homes and businesses).

FIELD EXAMPLE 38. GATSBY MICRO FINANCE LTD. PROVIDES TRANSPARENT LOAN INFORMATION

In the microfinance market in Uganda, non-transparent disclosures are the norm. There is no single point of reference that clients can consult to understand their loan pricing. Loan repayment schedules often fail to include interest rates, fees, commissions, and other pricing components.

In this market, Gatsby has developed a repayment schedule that stands out. On a single sheet of paper, Gatsby provides clear and complete loan information. The schedule shows all loan fees and commissions, the interest rate and its calculation method, the repayment grace period, a full repayment schedule that breaks out interest and principal installments, including those due and still to be paid, and the total amount of interest to be paid over the life of the loan. The schedule also includes important reference information, such as the loan officer's name, branch contact information, and the date the loan schedule was generated.

One major benefit to Gatsby is that in a market where loan officers regularly steal client repayments, clients now have a clear document that lays out exactly what they have paid and what they owe, thereby reducing the risk that their money will be stolen. Similarly, transparency allows clients to understand their loans better and allows Gatsby to build greater trust with its clients—an important advantage over its competitors.

4B.3 SUPPORT CLIENT DECISION MAKING

While your personalized interaction with clients (i.e., in-person meetings, phone conversations) is the most important channel for communicating information to clients, check that the information you make available to the public is also useful for client decision making. It should be accurate, and advertisements should not be misleading. Your prices should be published in the public domain (e.g., branch poster, your website), as APR or EIR. In addition to quoting the interest rate in APR or EIR, it is useful for clients to see the interest rate in the form most often used in your market (e.g., flat rates, CAT in Mexico, TCEA in Peru, TEAC in Bolivia, etc.).

Use various communication channels for important information. For example, pricing information (interest rates, fees, and commissions) should be displayed and visible in branches (via posters, brochures, pamphlets, etc.), and it should be explained to the client verbally. Other forms of communication include radio, websites, SMS messages, and television. Employees should be trained to discuss terms and conditions with clients on several occasions during the product application process. Staff should know how to evaluate client understanding, for example, using a set of conversational questions that indicate whether clients will be able to apply the product information shared by the employee. Field staff may want provide a phone number to clients, so they are available to answer questions. Provide your staff with refresher trainings annually. As with your other client protection policies, use an internal control process to verify that staff are applying your transparency policies.

Finally, it is important to participate in any transparency initiatives that are available in your country or region. Such initiatives might include organized efforts to publish provider interest rates, standardize interest rate calculations, create standards for transparency in advertising, or standardize contract language. If such efforts are successful, your transparency task will be easier, as it is difficult to be the “first mover” in a market. For example, it is hard to be the only institution quoting

interest rates on a declining balance while competitors are quoting flat rates. Similarly, once a few providers start using deceptive advertising, others tend to follow suit. Your participation in market-wide transparency initiatives will increase the likelihood that you will be practicing client protection on a level playing field.



- MFTransparency’s [Calculating Transparency Pricing Tool](#) is an Excel based tool that allows providers to calculate the prices of their loans in APR and EIR and to understand the factors that influence price. The complementary [Consumer Education](#) package is a suite of tools—manuals, images, videos, etc.—providers can use to improve how you talk about pricing with clients.
- The Smart Campaign’s [Essential Documents for New Clients](#) can help you communicate with clients on key issues, including loan terms and conditions, client rights and responsibilities, data privacy, delinquency procedures, and more. Also available in [Spanish and French](#).
- [Transparency in Promotions and Sales: A Checklist for Financial Service Providers](#) is a series of checklists for FSPs to check the transparency of their sales processes for different kinds of credit products and clients. Also available in [Spanish and French](#).
- [Transparent and Responsible Pricing at Mi-Bospo](#) is a case study that discusses how the Bosnian institution communicates pricing to clients. Also available in [French](#).

FIELD EXAMPLE 39. MUKTINATH BIKAS BANK SUPPORTS CLIENT DECISION MAKING THROUGH PRE-LOAN TRAINING

Muktinath Bikas Bank Limited provides microfinance services to low income women throughout Nepal. The bank offers a 14-hour pre-loan training to equip potential borrowers with the knowledge they need to be a successful group member. Over the course of seven days (two hours per day), a loan officer meets with potential clients and discusses the following information:

- **Day 1:** The causes of poverty and its effects on the poor, the bank and its values, a basic introduction to the microfinance program.
- **Day 2:** How group borrowing works, including group and center formation, how to select and dismiss group members, the roles and responsibilities of group leaders, and the benefits of participating in a group.
- **Day 3:** The principles of microfinance, the characteristics of a good center, center monitoring, and more on the rights and responsibilities of member/leaders.
- **Day 4:** Overview of the products and services the bank offers, their objectives, prices, terms, and conditions. These are compared with the informal financial tools typically used in Nepal, with a discussion of how formal tools are superior.
- **Day 5:** Loan security, money transfer, interest calculation, how group guarantee works, and the purpose of the loan utilization check.
- **Day 6:** The loan officer(s) conduct verbal tests with participants to gauge their learning during the training, and participants' family members are invited to ask questions about the program. These questions are answered by the trainees to demonstrate their understanding (with assistance by the loan officers, as needed). This interaction is also used to affirm the family member's support for the borrower to join a group.
- **Day 7:** The branch manager and loan officer(s) administer a verbal group recognition test—which covers the most important messages from the previous six days—and determine whether the potential clients are ready to form groups or if they need additional discussion with the bank staff.

This comprehensive training schedule is appropriate for Muktinath Bikas' target clients—people who have little or no exposure to formal financial services. It is designed to prepare potential clients for successful group participation by informing them fully on all aspects of the program and their rights. It also benefits the FSP by serving as a training for new loan officers (who study the training manual and attend the trainings as assistants), and by reducing risks such as poorly informed clients and group formation problems.

Read the full case study [here](#).