



Client Protection in Asia's Microfinance Industry

*Perspectives from Microfinance
Associations in Nine Asian Countries*



Client Protection in Asia's Microfinance Industry

*Perspectives from Microfinance
Associations in Nine Asian
Countries*

The SEEP Network

1611 North Kent Street, Suite 610
Arlington, VA 22209

T: 202.534.1400 | F: 703.276.1433
www.seepnetwork.org

Copyright © 2015
The SEEP Network

Sections of this publication may be copied or adapted to meet local needs without the permission of The SEEP Network, provided that the parts copied are distributed for free or at cost—not for profit. Please credit The SEEP Network and "Client Protection in Asia's Microfinance Industry: Perspectives from Microfinance Associations in Nine Asian Countries."

Cover photo provided by Tinh Thuong One-member Limited Liability Microfinance Institution (TYM), Vietnam:

"Symbolizing the strong determination, diligence in business, and accumulation of capital from every small and seem-not-worthy coin of TYM's female members, and at the same time reflecting TYM's efforts in helping women change their minds that 'The poor cannot save.'"

LIST OF ACRONYMS

BSP	Bangko Sentral ng Pilipinas (Central Bank of the Philippines)
CAM	China Association of Microfinance
CDF	Credit & Development Forum (Bangladesh)
CMF	Centre for Microfinance (Nepal)
CMA	Cambodia Microfinance Association
CP	Client or Consumer Protection
LMFPA	Lanka Microfinance Practitioners' Association
MCPI	Microfinance Council of the Philippines
MFA	Microfinance Association
MFB	Microfinance Bank
MFI	Microfinance Institution
MFIN	Microfinance Institutions Network (India)
MFP	Microfinance Provider
NGO	Non-governmental Organization
PMN	Pakistan Microfinance Network
RBI	Reserve Bank of India
SAMN	South Asia Micro-entrepreneurs Network
SBP	State Bank of Pakistan
SRO	Self-Regulatory Organization



Explore the SEEP Client Protection
Market Diagnostic Tool with its
comprehensive user guide,
available in 4 languages

goo.gl/K2KlHl

EXECUTIVE SUMMARY

This report summarizes client protection (CP) policies and practices in nine microfinance markets in Asia: India, Pakistan, the Philippines, Myanmar, Cambodia, Bangladesh, Nepal, Sri Lanka, and China. The findings in this report have been gleaned from assessments conducted by the national microfinance associations in these countries¹ from August to November 2014, using the SEEP Client Protection Market Diagnostic Tool. This tool is based on the CGAP methodology used to conduct CP diagnostic exercises in various countries and uses the Smart Campaign's Client Protection Principles² as a reference.

The results offer a multi-country perspective on legal frameworks and industry practice in five areas related to CP in financial services: Price transparency, fair treatment of clients, protection mechanisms for borrowers and depositors, recourse mechanisms, and client data protection.

Diversity in market contexts, product availability, types of providers covered by the participating associations, and differences in regulations for different provider types notwithstanding, an analysis of associations' responses provides the following findings³:

1. Client Protection Overview

- In six out of the nine markets in which the tool was applied, associations indicate that there are laws or regulations pertaining to some areas of CP practices.
- In a few countries, authorities are keen on enforcement of CP regulations and have created entities and/or partnerships with microfinance associations to educate members and to assist in monitoring in order to improve levels of compliance by financial services providers.
- Most microfinance associations (MFAs) play an important role in self-regulation through the establishment of codes of conduct that take into account Smart Campaign CP principles.

2. Price Transparency

- Providers are required by law to disclose product pricing to clients in Pakistan, India, Cambodia, Bangladesh, and the Philippines, and also must meet some requirements with respect to the manner in which price disclosures must take place.
- In most of the other markets, self regulation systems implemented by the industry address price transparency and disclosure mechanisms.
- Four of the nine countries in the study have interest rate caps imposed on microfinance products.

3. Fair Treatment of Clients

- With the exception of India, legal frameworks regarding fair treatment seem to be inadequate in the countries covered by this report, despite the fact that six countries (China, Nepal, Sri Lanka, the Philippines, India, and Cambodia) have some type of law, regulation, or self-regulation in place or in development that outlines fair treatment practices.
- Most MFAs incorporate fair treatment practices in their codes of conduct; however, enforcement is challenging.

4. Protection of Borrowers and Depositors

- Associations indicate that participation in credit bureaus, as a mechanism to protect borrowers against over-indebtedness, is available in only four out of the nine countries participating in the study (India, Pakistan, Cambodia, and the Philippines). Providers utilize credit bureaus regularly in only three countries, of which Pakistan is the only one mandating that microfinance banks (MFBs) utilize the Central Bank's credit bureau.
- Four of the five countries that permit microfinance providers to accept deposits have regulations requiring deposit protection mechanisms.

5. Recourse Mechanisms

- Only three countries (India, Nepal, and Pakistan) have legal requirements for providers to offer internal recourse mechanisms to clients. In Pakistan, only MFBs are required by law to have an internal recourse mechanism in place; the other microfinance providers (MFPs) are not.
- In Cambodia, Nepal, India, Bangladesh, and the Philippines, systems of self-regulation, such as the MFA's code of conduct, indicate that providers should provide recourse mechanisms to clients and provide examples for doing so.
- There are no self-regulation systems requiring internal recourse mechanisms in China, Myanmar, or Sri Lanka. However, only Myanmar indicated that no MFIs provided internal recourse channels to their clients.
- Even though, for the most part, associations report that providers are making an effort to provide their clients with channels to file and resolve grievances, many clients do not actually use these much.

6. Data Protection

- Associations in Pakistan, the Philippines, and India are the only ones reporting that they have national laws regarding clients' data privacy; in Pakistan, these laws were only applicable to MFBs.
- With the exception of China and Nepal, MFAs indicate that data protection aspects are also covered by the codes of conduct they have in place for their members.
- Four countries (Bangladesh, China, Nepal, and Sri Lanka) have reported cases of illegal usage of clients' data.

The results showed many achievements in the area of CP in the countries that were in the study. They also reveal however that some key areas need improvement of both legal frameworks and industry practice across countries, including fair treatment of clients, price transparency for deposits and other products such as insurance, promotion of usage of grievance mechanisms, and protection of clients' data and information. The following sections provide detailed information about the findings and differences among the countries in the study.

1. Two associations in India

2. Smart Campaign's Client Protection Principles, <http://smartcampaign.org/about/smart-microfinance-and-the-client-protection-principles>

3. Please refer to Annex 2 for summary tables reflecting the state of practice related to legal frameworks and industry practice by industry actors for all nine countries

INTRODUCTION

Microfinance associations (MFAs) are representative member-based organizations of financial service providers serving low income populations. Their membership may include a variety of institutional types, such as commercial banks, cooperatives, and specialized microfinance entities subject to distinct forms of supervision and regulation. Their membership may also include organizations that are not formally regulated. Most MFAs operate in markets in which regulation of CP practices is very weak across all institutional types. Consequently, MFAs play an important role in promoting CP approaches and policies among their member organizations. Indeed, as key actors within the microfinance sector, MFAs can help develop a CP culture by, for example, creating awareness and highlighting the importance of CP principles, supporting systems of self-regulation through common codes of conduct, and/or working with regulators to encourage the issuance of formal regulations that enhance CP.

In order to develop a relevant CP strategy, MFAs must carry out assessments of CP rules and practices in their respective countries, to identify strengths and challenges, and decide how best to address the gaps in rules and practices to make microfinance markets more efficient and ethical.

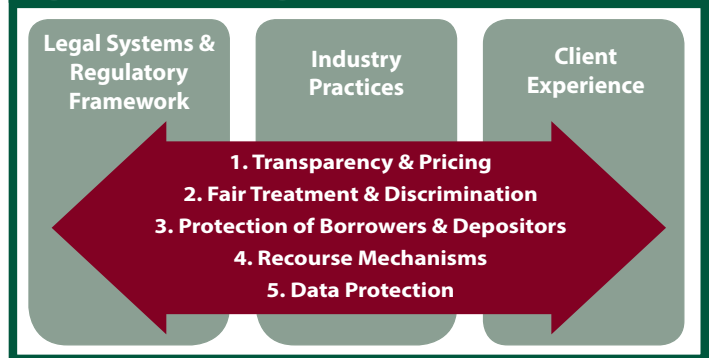
To facilitate this assessment for MFAs, The SEEP Network has developed the Client Protection Market Diagnostic Tool⁴ (also called the CP Diagnostic Tool), based on the CGAP methodology used to conduct CP diagnostic exercises in various countries, and using the Smart Campaign's Client Protection Principles as reference. The CP Diagnostic Tool is a user-friendly questionnaire that can be completed by MFA staff or local consultants, to provide a clear and comprehensive diagnosis of CP in their markets. **Figure 1** provides an overview of the CP Diagnostic Tool framework and illustrates the cross-cutting nature of the CP principles reviewed in the tool.

This report summarizes the findings on CP policies and practices in nine Asian countries—**India, Pakistan, the Philippines, Myanmar, Cambodia, Bangladesh, Nepal, Sri Lanka, and China**—from the perspective of 10 microfinance associations that used the CP Diagnostic Tool to assess the five areas related to CP in financial services during 2014.

Cambodia	Cambodia Microfinance Association (CMA)
Nepal	Centre for Microfinance (CMF)
China	China Association of Microfinance (CAM)
Bangladesh	Credit & Development Forum (CDF)
Sri Lanka	Lanka Microfinance Practitioners' Association (LMFPA)
Myanmar	Microfinance Association
The Philippines	Microfinance Council of the Philippines (MCPI)
India	Microfinance Institutions Network (MFIN) & Sa-Dhan
Pakistan	South Asia Micro-entrepreneurs Network (SAMN) & Pakistan Microfinance Network (PMN)

Asian Microfinance: Countries and Associations

Figure 1: SEEP CP Diagnostic Tool Framework for MFAs



A more detailed overview of these areas and their corresponding standards of practice is included in Annex 1. In addition to these five areas, the tool also includes brief information on overall CP frameworks and self-regulation systems.

Limitations

Given the diversity of market contexts, product availability, and types of providers covered by the associations participating in the study, and the differences in regulations for different provider types, there are limitations to our ability to compare CP frameworks across the region. Another caveat is that this report does not include client perspectives, as the participating MFAs did not carry out client surveys specifically for this study, but only reported based on their knowledge of the market. Despite these limitations, it is clear that the tool provides a valuable overview of CP practices in a given microfinance sector.

FINDINGS BY AREA

1. Client Protection Overview

This section does not cover detailed rules on specific areas. Instead, it considers whether any overall CP framework exists.

1.1. Client Protection Overview—Legal Framework

Associations in three of the nine countries participating in the study indicate that general CP laws exist in their market (the Philippines, Nepal, and Pakistan). In addition, the Philippines, Nepal, and Cambodia also have CP regulations specific to the financial sector. For example, in the Philippines, the Central Bank's (BSP) Financial Consumer Protection Framework serves as the basis for regulating CP in financial services, and is aimed to support an enabling environment protecting the interest of consumers. In Bangladesh, Cambodia, and India, there is CP regulation specific to the microfinance sector.

China, Sri Lanka, and Myanmar indicate that there are no laws or regulations that serve as a basis for CP in their markets. They do report that the associations have self-regulation systems for CP in microfinance; however, they also reveal that a lack of resources and knowledge, as well as a lower level of legal power, hinders monitoring and enforcement.

4. SEEP Client Protection Market Diagnostic Tool, goo.gl/K2Klhl

1.2. Client Protection Overview—Industry Practice

In several of the countries in this study, development and support for microfinance services providers' compliance with regulations is done using a multi-stakeholder approach in which the MFA usually plays an important role.

- In the Philippines, effective involvement from government entities—the Bangko Sentral ng Pilipinas (BSP—the Philippines' Central Bank) and the MFA (MCPI)—all help promote an inclusive financial system and an enabling environment that protects the interest of financial consumers.
- In India, both MFAs now have SRO (Self-Regulatory Organization) status. As SROs, both associations are authorized by the regulator (the Reserve Bank of India, RBI) to exercise control and regulation of their members on its behalf. As related to CP policies, this means that the MFAs provide essential support to the RBI in ensuring that providers comply with national regulations and the industry code of conduct.
- In Cambodia, the Central Bank often consults with the MFA (CMA), when drafting and implementing new regulations regarding microfinance and CP.
- In Pakistan, several initiatives by sector stakeholders, such as the State Bank of Pakistan (SBP) and the Pakistan Poverty Alleviation Fund, in collaboration with the association (PMN), have helped to strengthen CP and responsible finance practices among microfinance banks (MFBs).
- In China, the government and other financial regulators have set up bureaus of CP to enforce CP practices, while microfinance practitioners are slowly moving toward the implementation of CP practices. The China Association of Microfinance (CAM), however, reports that one of its challenges is educating members on the importance and benefits of CP.
- In Nepal, CMF is beginning more coordinated work with the Central Bank, the main enforcement agency, to help make CP practices, such as disclosure and transparency efforts and compliance, a priority for the sector.

2. Price Transparency

Standard: MFIs clearly communicate key information about their products to clients, and supporting rules and regulations exist in this regard.

Expected Practice: Institutions in many countries not only charge interest rates on their loans, but also charge other fees that add to the total cost. These costs need to be fully disclosed to the client. Transparency in pricing is also a crucial aspect of CP for other products, such as deposits, savings accounts, transfers, and insurance products, if MFIs provide them. Concerns in this area include: (1) whether laws and regulations limit pricing in any way; (2) standardized ways to calculate product pricing, especially for credit; (3) the disclosure of price; (4) understanding of pricing by clients; and (5) competition on pricing among financial institutions.

2.1. Legal Framework—Price Transparency

Providers are required by law to disclose product pricing to clients in Pakistan, India, Cambodia, Bangladesh, and the Philippines, with some requirements with respect to the manner in which price disclosure needs to take place. In most of the other markets, self-regulation systems implemented by the industry address price transparency and disclosure mechanisms.

In China, Bangladesh, India, and Myanmar, the regulatory authorities impose interest rate caps. In addition, in Myanmar, the regulation also stipulates that interest rate calculations must be publicly disclosed to clients. In China, any interest rate four times that of the Central Bank is considered usury. MFAs in China and Myanmar indicated that interest rate caps do not present a serious issue for providers' sustainability. However, CDF in Bangladesh indicated that the caps could limit innovations for new products, hinder expansion to rural areas, and threaten providers' sustainability, especially for products aimed at disadvantaged populations. Similarly, Sa-Dhan, in India, also reported that the 26 percent interest rate cap could hinder providers' operations, as only exceptionally efficient providers can serve the entire microfinance market under the regulated price regime.

In Nepal, disclosure requirements are currently being developed with input from providers, the Centre for Microfinance (Nepal's microfinance association), and clients.

2.2. Industry Practice—Price Transparency

MFAs in several countries believe that financial service providers are making efforts to disclose pricing information on products even when not required to do so by law or regulation. They also believe that this disclosure has helped to spark some competition.

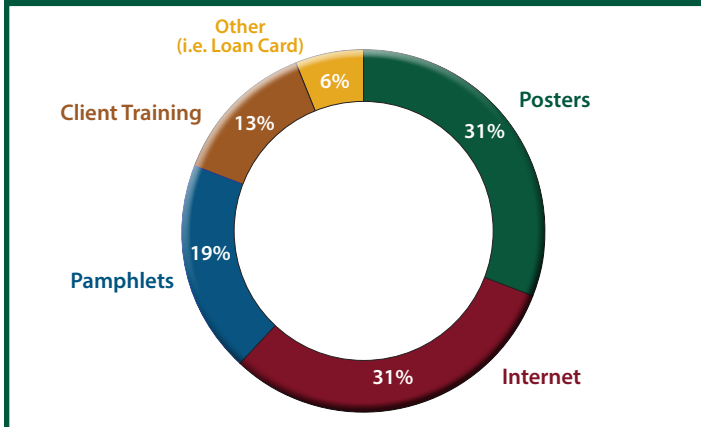
In the countries included in our study, the most commonly used ways to disclose pricing are: verbal disclosures by loan officers, posters in branches, and the Internet. The Internet is more effective for sharing pricing information with stakeholders other than clients, given the typical microfinance client profile. Responding associations also noted that:

- Providers in Pakistan, India, the Philippines, and Cambodia also present pricing information on the website of Microfinance Transparency. However, since Microfinance Transparency⁵ has ceased operations, this information will now only act as a reference point for the countries' microfinance sector.
- Another popular method for disclosing product information in India is through a client's loan amortization card.
- Loan officers in Sri Lanka and Myanmar disclose this information in client trainings before clients sign their loan documents.

Financial service providers are making efforts to disclose pricing information on products even when not required to do so by law.

5. Microfinance Transparency, <http://www.mftransparency.org>

Figure 2: Most Common Ways of Disclosing Pricing and Product Information (n = 10 MFAs)



3. Fair Treatment

Standard: MFIs ensure that all clients receive fair and ethical treatment and that there is no discrimination.

Expected Practice: All clients should be treated with respect. This includes avoiding any discrimination based on gender, ethnicity, age, religion, etc. Protecting clients and other consumers against fraud and corruption is also part of fair treatment.

3.1. Legal Framework—Fair Treatment

Few countries have regulations that cover fair treatment of clients. National regulations in India outline transparency measures and debt collection practices (part of fair treatment) for NGO-MFIs. In Pakistan, the Prudential Regulations for MFBs cover transparency, fair treatment and collection practices, and grievance mechanisms. Nepal is in the process of developing regulations on fair treatment.

As such, issues of fair treatment are mostly covered by self-regulatory systems, such as the codes of conduct developed by the national microfinance associations. However, associations report that these are not strictly enforced, except perhaps in India, where MFIN and Sa-Dhan seem to enforce fair treatment behaviors strictly.

3.2. Industry Practice—Fair Treatment

Most MFAs indicated that cases of unfair treatment and fraud exist in their countries.

MFA responses illustrate that there are significant gaps between creating fair treatment guidelines and then successfully implementing and enforcing them so that clients experience fair treatment, and that this is compounded by the fact that “fair treatment” is seen as a subjective term and can mean different things in different locations.

Most MFAs indicated that cases of unfair treatment and fraud exist in their countries.

For example, in Nepal, there have been many reports of discriminatory behavior by staff, despite most providers having a staff rule book that covers expected behaviors.

4. Protection of Borrowers and Depositors

Standard: MFIs ensure that borrowers do not become over-indebted and respect the dignity of their clients while collecting late payments.

Expected Practice: Credit bureaus and other information-sharing mechanisms that allow providers to check on clients’ credit records exist to prevent over-indebtedness. Rules and regulations, adequate supervision, and a deposit protection mechanism are in place to ensure that depositors are protected against any risk of losing their savings.

4.1. Legal Framework—Protection of Borrowers and Depositors

Association responses show that credit bureaus are available for microfinance providers in only four out of the nine countries participating in the study (India, Pakistan, Cambodia, and the Philippines). Providers utilize credit bureaus regularly only in India, Pakistan, and Cambodia, with Pakistan being the only one to mandate that MFBs utilize the Central Bank’s credit bureau. In fact, there are two credit bureaus in Pakistan: one housed by the Central Bank containing borrower information from commercial banks and MFBs; and a second bureau, microfinance-specific, set up as a private credit bureau specifically for microfinance bank and non-bank institution borrower information. Regulation does not exist mandating the use of this microfinance credit bureau, so usage remains voluntary.

As far as deposits are concerned, four (Pakistan, Bangladesh, Nepal, and Myanmar) of the five countries that permit the microfinance sector to accept deposits have regulations stipulating that a deposit protection mechanism be in place for the microfinance sector. Cambodia is in the process of developing legal regulations regarding a deposit mechanism. It is common practice that a regulator manages the deposit protection mechanism. For example, in Pakistan, this regulator is the State (Central) Bank, whereas in Bangladesh, it is the Microcredit Regulatory Authority.

4.2. Industry Practice—Protection of Borrowers and Depositors

Borrowers

India, Pakistan, and Cambodia provide good examples of credit reporting by microfinance providers. For example, since MFIN is an SRO, the association ensures that NBFC-MFIs report data weekly to the credit bureau system. This has helped to reduce multiple borrowing among clients. In Cambodia, usage of credit information sharing mechanisms remains voluntary, but CMA indicated that all MFIs regularly report to the credit bureau. The credit bureau provides services such as: a credit information center, a consumer credit report, and identity theft protection.

In Nepal, each provider has its own policy and process outlined in its manual regarding preventing over-indebtedness. In Sri Lanka, the association (LMFPA) is in the process of creating a credit sharing mechanism—a key step to improving overall CP in the sector.

Microfinance providers in China, Nepal, and Myanmar are not using credit bureaus, nor do associations in these countries report having any self-regulatory systems or processes in this area.

Depositors

Depositors' protection is relatively strong, from the point of view of MFAs. According to the MFAs in all four countries that have deposit protection mechanisms, i.e., Pakistan, Bangladesh, Nepal, and Myanmar, it has not been necessary to use the mechanisms (regulatory agencies having to compensate clients in the event of a loss), and clients feel safe depositing their money with microfinance providers.

In Pakistan, providers contribute to the deposit protection fund by crediting five percent of their annual after tax profits and profits earned on the fund's investments to their depositors' protection fund, and such fund must either be invested in government securities or deposited with the State Bank in a remunerative account. However, in Nepal, the CMF indicated that the fee providers need to pay in order to utilize the deposit protection mechanism may limit the number of providers, especially small ones that can provide deposit insurance.

Efforts to protect consumers' savings can also be seen in the fact that, in several countries, only regulated financial service providers are allowed to collect deposits, preventing the possibility of unregulated institutions' accessing and possibly misusing low income populations' savings.

5. Recourse Mechanisms

Standard: Clients are informed of and have access to readily available recourse mechanisms to find solutions to their grievances.

Expected Practice: The formalization of recourse mechanisms within each provider is necessary. If solutions are not found internally, external, non-judicial recourse mechanisms must be put in place. Rules should specify the minimum measures that providers should take to ensure that clients have access to efficient recourse mechanisms. These rules should also encourage the systematic use of recourse-related statistics to improve CP.

5.1. Legal Framework—Recourse Mechanisms

Internal Recourse Mechanisms

According to the participating MFAs, internal recourse mechanisms for microfinance clients exist in various levels of formality in their markets despite a lack of legal regulations in most countries. In India and Nepal, the law requires that microfinance providers have internal recourse mechanisms. In Pakistan, microfinance banks (MFBs) are required by law to have an internal recourse mechanism in place; however, this is not the case for MFAs. None of the other countries have regulations regarding recourse mechanisms.

In Cambodia, Nepal, India, Bangladesh, and the Philippines, systems of self-regulation, such as the MFAs' codes of conduct, indicate that providers should provide recourse mechanisms to clients and make available tools for doing so, such as passbooks, complaint boxes, forms, or dedicated telephone lines. There are no self-regulation systems requiring internal recourse mechanisms in China, Myanmar, or Sri Lanka. However, only Myanmar indicated that no MFAs provided internal recourse channels to their clients. On the other hand, reporting on these mechanisms is not required in these

countries, with the exception of India and Nepal, which require providers to report on cases and resolutions to the MFA and the Central Bank, respectively. In Nepal, credit unions and cooperatives must also report on their internal complaint mechanisms to their respective division offices.

External Recourse Mechanisms

An external recourse mechanism for microfinance clients refers to any outside channel that clients can utilize, whether that channel is an ombudsman, mediator, industry association, or any other third party. The most common ways reported in which clients file their complaints include: calling a dedicated phone line, writing a letter, filling out a written form, submitting a web-based form, and filing a complaint in person.

In the Philippines, India, Cambodia, and Pakistan, there are national laws and regulations outlining the creation and usage of an external recourse mechanism. In the Philippines, a National Consumer Affairs Council was created under the BSP, which is charged with protecting consumers, including clients of financial service providers. Pakistan legally created a Federal Banking Ombudsman position in 2013 as an alternative channel to the financial services regulatory authority.

In India, Bangladesh, Nepal, and Cambodia, the MFAs also act as the external recourse mechanism for microfinance clients. In Nepal, the association (CMF) is the only external recourse, as there is no regulatory requirement of external mechanisms.

In contrast, Myanmar, China, and Sri Lanka have no regulations on external recourse mechanisms and none are made available to microfinance clients.

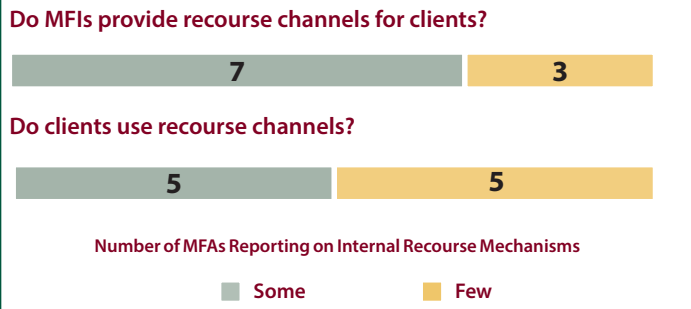
5.2. Industry Practice—Recourse Mechanisms

Internal Recourse Mechanisms

Even though, for the most part, associations report that providers are making an effort to provide their clients with channels that can be used to file and resolve grievances, many clients do not actually use these channels much. This could be an indication that the recourse mechanisms are too complicated for clients to use, that clients do not know such systems exist, or that clients are not encouraged to register complaints. Moreover, MFAs reported that this seems to be especially true for less educated clients who are also the most vulnerable and may have a greater need to register a grievance.

Collecting and sharing statistics on complaints collected through internal recourse can be an effective way to monitor financial consumer issues. However, overall, providers systematically lack monitoring and reporting of the use of recourse mechanisms or the type of complaints they receive, because regulations do not require reporting such cases to an outside party (with the exception of India and Nepal, where it is legally required).

Providers systematically lack monitoring and reporting of the use of recourse mechanisms or the type of complaints they receive.

Figure 3: Internal Recourse Mechanisms

Provision and usage of internal recourse mechanisms as reported by participating MFAs

External Recourse Mechanisms

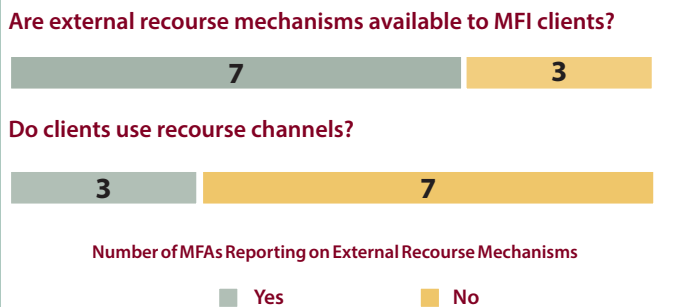
As is the case for internal mechanisms, associations report that many clients do not actually use external recourse channels.

Furthermore, systematic reporting on these client grievance mechanisms is also rare, occurring in only two countries: India and Cambodia. In India, cases and resolutions are reported to the RBI and the MFAs, while in Cambodia, the MFA reports back to respective providers on their resolutions.

The figure below highlights the significant gap that persists between providing a recourse mechanism for clients and ensuring that clients receive enough information and are encouraged to actually utilize the available mechanism.

Although seven MFAs reported that external recourse mechanisms are available, only three reported that clients actively use or are beginning to more actively use them.

In India, cases and resolutions are reported to the RBI and the MFAs.

Figure 4: External Recourse Mechanisms

Provision and usage of external recourse mechanisms as reported by participating MFAs

6. Data Protection

Standard: Clients are protected against any misuse or misappropriation of information collected by providers related to their person, family, finance, or business.

Expected Practice: Some form of legislation or regulation should be in place covering the gathering, processing, use, storage, and distribution of clients' information. In practice, it is important to know whether providers are sharing information with other entities and whether clients are aware of it.

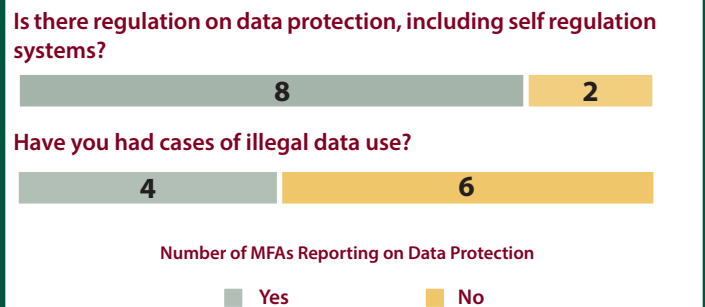
6.1. Legal Framework—Data Protection

Associations in Pakistan, the Philippines, and India are the only ones reporting to have national laws regarding clients' data privacy; in Pakistan, these laws are only applicable to MFBs. With the exception of China and Nepal, MFAs indicate that data protection aspects are also covered by the codes of conduct they have in place for their members. These regulations and self-regulation systems are meant to ensure that the privacy of clients' data will be respected.

6.2. Industry Practice—Data Protection

Most participating associations indicate that most providers do share client data with regulatory authorities and credit bureaus as applicable, with some reporting that providers also share client data for marketing purposes. Most associations also responded that some providers in their markets make clients aware of data protection policies and have a process whereby clients can request corrections to their information. However, in only a few cases do providers offer clients the option to refuse to allow their information to be shared with external parties.

Bangladesh, China, Nepal, and Sri Lanka associations report that illegal usages of client data have occurred within the microfinance sector in their market, although they also declared they were "not significant" issues. For instance, in Nepal there were a few cases of clients' information being used for outreach by other businesses, while in Sri Lanka, providers' staff may use client information during transitions to new positions at new companies.

Figure 5: Level of Clients' Data Protection

Data Protection Regulations and Cases of Misuse of Client Data

CONCLUSION

The results from SEEP's CP Diagnostic Tool reveal that a number of CP policies covering financial services to low income clients do exist in the nine countries covered by the study but there is still room for improvement both with respect to legal frameworks and practice application by industry actors. Findings indicate that key areas for improvement of both legal frameworks and industry practice across countries are: fair treatment of clients, price transparency for deposits and other products such as insurance, encouraging usage of grievance mechanisms, and protecting clients' data and information.

In addition, even in countries where there is stronger CP regulation for the financial sector, there must be a greater commitment to monitoring and enforcement to ensure compliance by providers. Moreover, regulation is often applicable to only part of the microfinance sector, most often to regulated financial service providers, leading to non-regulated providers not always implementing stringent CP policies.

Fortunately, there is a growing recognition and support for CP in the markets reviewed by this report. MFAs and providers have also become more committed to strengthening their CP frameworks and practices within the microfinance sector. The SEEP Network's CP Diagnostic Tool can help MFAs to highlight the importance and benefits of addressing challenges within the CP areas and to focus on improvements, efforts, and resource allocation. Indeed, as key actors within the microfinance sector, MFAs can help promote a CP culture, by, for example, creating awareness and highlighting the importance of CP principles, supporting systems of self-regulation through common codes of conduct, and working with regulators to encourage the issuance of formal regulations that enhance CP.

ANNEX I: OVERVIEW OF SEEP'S CLIENT PROTECTION MARKET DIAGNOSTIC TOOL

SEEP developed the Client Protection Market Diagnostic Tool (the CP Diagnostic Tool) in 2014, to help associations perform a complete review of CP regulations, rules, and practices in their markets in order to define their strategies for promoting CP. The CP Diagnostic tool employs an analysis framework based on client protection principles and integrates classifications of client protection of the Smart Campaign and CGAP:

CP Diagnostic Tool	
Diagnostic Area	Standards of CP Practice
1. Client Protection Overview	<p><i>Rules, regulations, and self-regulation covering consumer protection exist and apply to the institutions in charge of enforcing them.</i></p> <p>This section does not cover detailed rules on specific areas. Instead, it considers whether any overall client protection framework exists.</p>
2. Transparency and Pricing	<p><i>MFIs clearly communicate key information about their products to clients, and supporting rules and regulations exist in this regard.</i></p> <p>Institutions in many countries not only charge interest rates on their loans, but also charge fees that add to the total cost. These costs need to be fully disclosed to the client. Transparency in pricing is also a crucial aspect of client protection for other products, such as deposits, savings accounts, transfers, and insurance products, if MFIs provide them. Concerns in this area include: (1) whether laws and regulations limit pricing in any way; (2) standardized ways to calculate product pricing, especially for credit; (3) the disclosure of price; (4) understanding of pricing by clients; and (5) competition on pricing among financial institutions.</p>
3. Fair Treatment and Discrimination	<p><i>MFIs ensure that all clients receive fair and ethical treatment and that there is no discrimination.</i></p> <p>All clients should be treated with respect. This includes avoiding any discrimination based on gender, ethnicity, age, religion, etc.</p>
4. Protection of Borrowers and Depositors	<p><i>MFIs ensure that borrowers do not become over-indebted and respect the dignity of their clients while collecting late payments.</i></p> <p>Credit bureaus and other information-sharing mechanisms that allow MFIs to check on clients' credit records are important tools for preventing over-indebtedness.</p> <p>Rules and regulations are in place to ensure that depositors are protected against any risk of losing their savings: Adequate, prudent supervision is key. Beyond that, a deposit protection mechanism can increase depositors' safety.</p>
5. Recourse Mechanisms	<p><i>Clients are informed of and have access to readily available recourse mechanisms to find solutions to their grievances.</i></p> <p>The formalization of recourse mechanisms within each MFI is necessary. If solutions are not found internally, external, non-judicial recourse mechanisms must be put in place. Rules should specify the minimum measures that MFIs should take to ensure that clients have access to efficient recourse mechanisms. These rules should also encourage the systematic use of recourse-related statistics to improve client protection.</p>
6. Data Protection	<p><i>Clients are protected against any misuse or misappropriation of information collected by MFIs related to their person, family, finance, or business.</i></p> <p>Some form of legislation or regulation should be in place covering the gathering, processing, use, storage, and distribution of clients' information. In practice, it is important to know whether MFIs are sharing information with other entities and whether clients are aware of it.</p>

ANNEX II: CONSOLIDATED SUMMARY TABLES

The **Summary Tables** are produced automatically from the answers provided in the five areas of the diagnostic tool. They offer snapshots of the market diagnostic results. Within each area, the tables focus on (1) the status of systems and legal framework, (2) Industry practices, (3) clients experiences.

For each level of focus (e.g., industry practices) in each area or sub-area (e.g., transparency on credit products), the table gives a broad assessment by combining the answers to the most significant questions, by considering good practice and what would constitute red flags in that specific area of consumer protection.

The resulting assessment can fall into one of the following categories:

- **Meets basic conditions:** the results are satisfactory in a developing economy, taking into account that most countries have limited resources to allocate to client protection in the microfinance sector.
- **Work in progress but needs improvement:** some of the essential components of a sub-area are not yet in place.
- **Inadequate:** the sub-area is deficient as none of essential conditions of a good regulatory framework, industry practices or client experience are in place.

Summary of the Status of the Systems and Legal Frameworks for the Nine Countries

This table provides some qualifications about the existence of laws, regulations, or self-regulation systems covering the five areas of CP in each of the nine countries of the study.

Systems & Legal Framework	China*	Nepal	Pakistan	India**	SriLanka*	Myanmar	Cambodia	Bangladesh	The Philippines*
Transparency									
Credit Products	◐	◑	●	●	◐	●	◐	◐	●
Deposits & Other Products	N/A	◐	◐	◐	N/A	◐	◐	◐	◐
Fair Treatment	◐	◑	◑	◐	◐	◑	◐	◑	◐
Protection of Clients									
Borrowers	◑	◑	◐	●	◑	◑	●	◑	◐
Depositors	N/A	●	●	N/A	N/A	●	◑	●	N/A
Recourse Mechanisms	◑	●	◐	●	◑	◑	●	●	●
Data Protection	◑	◑	●	●	●	●	●	●	●

* credit market only;

** MFIs in India and the Philippines must disclose microinsurance costs and conditions

Legend

- Meets basic conditions
- ◐ Work in progress, but needs improvement
- ◑ Inadequate

ANNEX II: CONSOLIDATED SUMMARY TABLES (Continued)

Summary of the State of Practice of CP by Industry Actors

This table, on the other hand, shows how much the industry actors are putting the laws, regulations, or industry rules into practice, according to the different associations.

Industry Practices	China*	Nepal	Pakistan	India**	SriLanka*	Myanmar	Cambodia	Bangladesh	The Philippines*
Transparency									
Credit Products									
Deposits & Other Products	N/A				N/A				
Fair Treatment									
Protection of Clients									
Borrowers									
Depositors	N/A			N/A	N/A				N/A
Recourse Mechanisms									
Data Protection									

* credit market only;

** MFIs in India and the Philippines must disclose microinsurance costs and conditions

Legend

- Meets basic conditions
- Work in progress, but needs improvement
- Inadequate

ABOUT SEEP

SEEP is a global learning network. We explore strategies that create new and better opportunities for vulnerable populations, especially women and the rural poor, to participate in markets and improve the quality of their lives.

Founded in 1985, SEEP was a pioneer in the microcredit movement and helped build the foundation of the financial inclusion efforts of today. In the last three decades our members have continued to serve as a testing ground for innovative strategies that promote inclusion, develop competitive markets, and enhance the livelihood potential of the world's poor.

SEEP members work together and with other stakeholders to mobilize knowledge and foster innovation, creating opportunities for meaningful collaboration and, above all, for scaling impact.

ACKNOWLEDGEMENTS

This report was produced by Sarah Gagnon, Jacqueline Urquizo, and Diana Deszo for The SEEP Network. Special appreciation is owed to Bintou Ka-Niang, Dominique Brouwers, Bonnie Brusky, and Sharon D'Onofrio at SEEP for their technical review of this document and to Molly Tolzmann and Mashal Amjad for its publication.

