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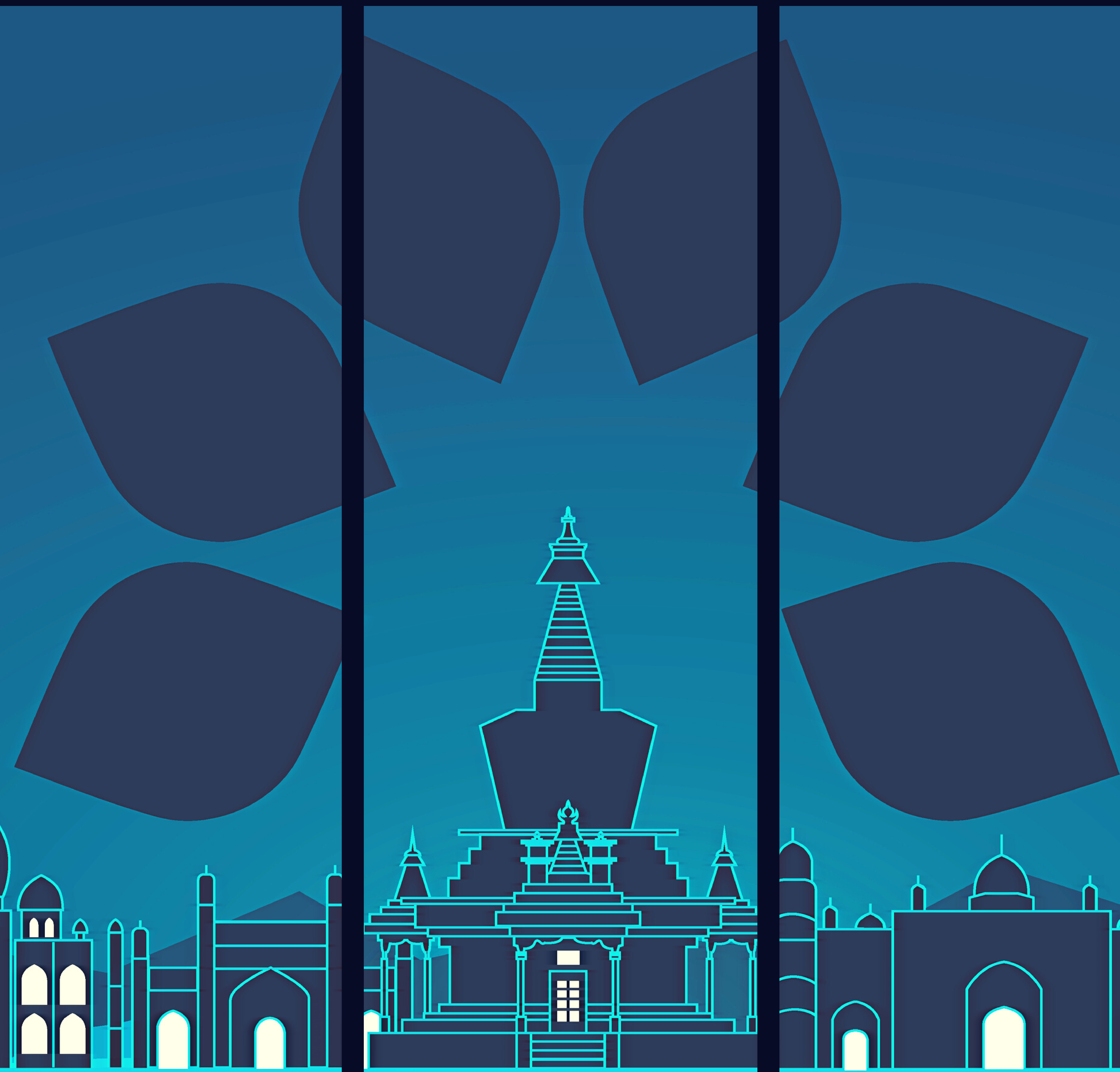

MAPPING CLIENT PROTECTION IN SOUTH ASIA:

Current Practices and Future Roadmap

CONTENTS

Acknowledgement

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Executive Summary

This report summarizes Client Protection (CP) policies and practices in six microfinance markets in South Asia: Afghanistan, Bhutan, India, Nepal, Pakistan and Sri Lanka. The findings in this report have been collated from questionnaire surveys distributed to microfinance networks and authorities of the respective countries followed by desk research on existing policies and regulations. The methodology uses the Smart Campaign's Client Protection Principles (CPP) as a reference point to gauge the level of compliance of the countries' microfinance industry. The report offers a multi-country perspective at the macro-level, the meso and micro levels and the current trends and developments in client protection in the respective countries; the macro-level touches upon the countries' legal frameworks, the meso and micro levels explicate the prevalence of microfinance networks and institutions and their role in client protection. Client Protection Principles[1] looked at in the report include Appropriate Product Design and Delivery, Prevention of Over-Indebtedness, Transparency, Responsible Pricing, Fair and Respectful Treatment of Clients, Privacy of Client Data and Mechanisms for Complaint Resolution. Annex 1 at the end of the report gives a snapshot of the countries' compliance with the Client Protection Principles.

Appropriate Product Design and Delivery

> **SMART Campaign CPP Standard:** Providers will take adequate care to design products and delivery channels in such a way that they do not cause clients harm. Products and delivery channels will be designed with client characteristics taken into account.

It is seen that this principle is not actively included at the level of regulation in any of the six countries participating in the survey. However, it can be asserted that individual institutions in most countries utilize client feedback to improve the client-centricity of the design and delivery of their products. Given that microfinance clients need a variety of products, understanding the needs and circumstances of the clients is regarded as essential for developing client-responsiveness and flexible financial services.

Prevention of Over-Indebtedness

> **SMART Campaign CPP Standard:** Providers will take adequate care in all phases of their credit process to determine that clients have the capacity to repay without becoming over-indebted. In addition, providers will implement and monitor internal systems that support prevention of over-indebtedness and will foster efforts to improve market level credit risk management (such as credit information sharing).

Five of the six countries participating in the survey have mechanisms to prevent over-indebtedness of clients. Regulators in three of these countries have issued directive and/or set maximum caps to limit over-borrowing and preventing over-indebtedness of clients, while two of the five also mandate providers to implement and monitor internal systems that support prevention of over-indebtedness.

Credit Bureaus exist in all five countries while the level and regularity with which microfinance institutions engage with them varies. Similarly, depending on the type of institutions present in each country, regulations mandating regular engagement with credit bureaus varies.

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

Transparency

With the exception of Afghanistan, providers in all five of the other countries surveyed are required by law to disclose product pricing to clients and are also mandated to meet certain requirements regarding the form of these price disclosures. These requirements range from notifications on various communication channels such as newspapers and websites to disclosures being made in a comprehensible vernacular and manner.

Responsible Pricing

> **SMART Campaign CPP Standard:** Pricing, terms and conditions will be set in a way that is affordable to clients while allowing for financial institutions to be sustainable. Providers will strive to provide positive real returns on deposits.

In four of the six countries surveyed the regulatory regime explicitly highlights the importance of keeping interest rates low in the interest of protecting clients. Interest rate caps are imposed by two countries, namely Nepal and Sri Lanka, while in India and Bhutan the regulation indicates increasing operational efficiency to bring down interest rates and/or specifies that interest rates not be excessive.

Fair and Respectful Treatment of Clients

> **SMART Campaign CPP Standard:** Financial service providers and their agents will treat their clients fairly and respectfully. They will not discriminate. Providers will ensure adequate safeguards to detect and correct corruption as well as aggressive or abusive treatment by their staff and agents, particularly during the loan sales and debt collection processes.

Regulations in only three countries touch upon the aspect of fair and respectful treatment of clients. Of these three, it is only India which has a comprehensive list of practices and procedures outlined in the legal framework which adequately covers most facets of this principle. Pakistan and Sri Lanka recognize the importance of instituting fair practices for clients, however concrete actions for doing so are not delineated. However, most microfinance network associations in the selected countries emphasize on fair treatment of clients in their practices and codes of conduct thereby

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[1] The SMART Campaign CPP Standards are taken from the SMART Campaign Website and can be accessed from https://www.smartcampaign.org/about/smart-microfinance-and-the-client-protection-principles.

encouraging a self-regulatory mechanism for individual institutions. Nevertheless, it is seen that enforcement of these principles can often be challenging in the absence of legal cover.

Privacy of Client Data

> SMART Campaign CPP Standard: The privacy of individual client data will be respected in accordance with the laws and regulations of individual jurisdictions. Such data will only be used for the purposes specified at the time the information is collected or as permitted by law, unless otherwise

Three of the six participating countries i.e. Bhutan, India and Pakistan address the necessity of ensuring privacy of client data in varying degrees which are covered either by specific stipulations in microfinance regulations or in other national laws for data protection.

Client data protection is addressed in microfinance network association codes of conduct but enforcement in these cases remains weak.

Mechanisms for Complaint Resolution

> SMART Campaign CPP Standard: Providers will have in place timely and responsive mechanisms for complaints and problem resolution for their clients and will use these mechanisms both to resolve individual problems and to improve their products and services.

Three of the six countries included in this study have laws and policies regulating complaint resolution mechanisms. Protocols for establishing internal guidelines, procedures, complaint handling and monitoring mechanisms are mandating in the regulations for Bhutan, India and Pakistan.

INTRODUCTION

The current microfinance landscape in South Asia has witnessed growing momentum. MIX Market reports that South Asia shows the largest percentage change in its outreach indicators; 14.9% in the number of active borrowers and 26.7% in the gross loan portfolio[2] when compared with its regional counterparts. The percentage change in number of depositors also stands at a high 44.3%.

Table 1: Global Outreach and Financial Metrics

Global Outreach and Financial Metrics									
Outreach with Year-on-Year Percentage Change									
Region	FSP Count	Number of Active Borrowers '000	Number of Active Borrowers Percentage Change (%)	Gross Loan Portfolio (GLP) (USD) m	Gross Loan Portfolio Percentage Change (%)	Number of Depositors '000	Number of Depositors Percentage Change (%)	Deposits (USD) m	Deposits Percentage Change (%)
Africa	113	5399.1	0.9	9453.2	-4.4	26770.5	7.9	13098.1	3.2
EAP	82	18401.4	6.7	19295.2	15.2	23380.8	19.7	10991	21.2
ECA	105	2037.2	1.5	4634.5	7.4	4368.4	9.8	3981.5	25.1
LAC	244	20706.7	0.6	45246.4	12.9	27510.2	15.1	38401.3	23.8
MENA	28	2315.8	10.9	1297.3	13.6	750.7	18.8	432.9	68.6
South Asia	190	71125.1	14.9	31641.7	26.7	57831.2	44.3	13506.2	35.2
Grand Total	762	119985.2	9.8	111568.3	14.3	140611.9	25.3	80411	21.3

Source: MIX Market Global Outreach & Financial Performance Benchmark Report - 2017-2018.

SITUATING CLIENT PROTECTION IN MICROFINANCE

This rise has been accompanied by a growing understanding and an increased focus on initiatives involving responsible finance which put the client at the center of operations. The impetus for this has largely been a general understanding that in addition to being socially motivated, microfinance practitioners need to provide clients with a set of products and services that meet the minimum standards of quality and safeguard their rights. This realization dawned on the industry in the wake of delinquency crises in the years 2008 and 2009, in different parts of the world, where microfinance banks and institutions rapidly increased lending, sending many clients into debt crises[3], thus revealing poor practices to a certain extent.

This global issue of over-indebtedness surfaced in many countries, such as Nicaragua, Morocco, Ghana, Bosnia and Pakistan[4], but nowhere as prominently as in India, where in 2010, 200 people in the state of Andhra Pradesh reportedly took their own lives due to inability to repay the loans they had borrowed[5]. other poor or harmful practices include information asymmetry between the providers and the borrowers, lack of transparency in products and services, market competition leading to multiple borrowing by clients, over-indebtedness and harsh and abusive collection practices. Therefore, in the last decade, the microfinance sector has come under increased public scrutiny.

Against this backdrop, it thus became important to establish a set of principles that microfinance institutions adhered to in order to protect clients from harmful and/or predatory practices. A consensus was achieved by international networks, microfinance practitioners and stakeholders alike, in pursuing practices that “did no harm” to the microfinance clients and ensured clients are treated with transparency, respect and prudence.
The growth of the sector has led to a considerable increase in the complexity and diversity of the sector, resulting in a multiplicity of players, both commercial as well as NGOs and cooperatives. Many countries have developed laws and regulations in order to provide better protection to clients of microfinance. However, reflecting the multiplicity of the sector itself, the nature, scope and degree of enforcement of these laws and regulations vary significantly between the countries.

In order to gauge the level of regulation tied to microfinance specifically with regard to client protection, this study maps the existing laws and regulation of six countries in South Asia on to the SMART Campaign’s Client Protection Principles.

ABOUT CLIENT PROTECTION PRINCIPLES

The Smart Campaign, established in 2009, is housed within the Centre for Financial Inclusion at Accion International. It has worked on developing a universal set of minimum client protection standards known as the Client Protection Principles (CPPs)[6] for the global microfinance industry. The Client Protection Principles (CPP) offer universal guidelines which present the minimum standards for microfinance practitioners to adhere to with respect to their interaction with clients. It provides some basic touchstones for appropriate practices. At the individual level, these general guidelines can then be translated and customized, depending on the context, size and resources of the microfinance practitioner. Over the past several years, consensus has emerged that providers of financial services to low-income clients should adhere to the following core principles:

[2]Global Outreach & Financial Performance Benchmark Report - 2017-2018. MIX Market. Source:https://www.findevgateway.org/sites/default/files/publication_files/mix_market_global_outreach_financial_benchmark_report_2017-2018_1.pdf
[3] Growth and Vulnerabilities in Microfinance. Focus Note. 2010. CGAP. Source:https://www.cgap.org/sites/default/files/CGAP-Focus-Note-Growth-and-Vulnerabilities-in-Microfinance-Feb-2010.pdf
[4] Ibid.
[5] Hundreds of Suicides in India Linked to Microfinance Organizations. Business Insider. 2012. Source:https://www.businessinsider.com/hundreds-of-suicides-in-india-linked-to-microfinance-organizations-2012-2
[6] Client Protection Principles. The SMART Campaign. Source: https://www.smartcampaign.org/about/smart-microfinance-and-the-client-protection-principles

Table 2: Client Protection Principles

Appropriate product design and delivery	Providers will take adequate care to design products and delivery channels in such a way that they do not cause clients harm. Products and delivery channels will be designed with client characteristics taken into account.
Prevention of over-indebtedness	Providers will take adequate care in all phases of their credit process to determine that clients have the capacity to repay without becoming over-indebted. In addition, providers will implement and monitor internal systems that support prevention of over-indebtedness and will foster efforts to improve market level credit risk management (such as credit information sharing).
Transparency	Providers will communicate clear, sufficient and timely information in a manner and language clients can understand so that clients can make informed decisions. The need for transparent information on pricing, terms and conditions of products is highlighted.
Responsible pricing	Pricing, terms and conditions will be set in a way that is affordable to clients while allowing for financial institutions to be sustainable. Providers will strive to provide positive real returns on deposits.
Fair and respectful treatment of clients	Financial service providers and their agents will treat their clients fairly and respectfully. They will not discriminate. Providers will ensure adequate safeguards to detect and correct corruption as well as aggressive or abusive treatment by their staff and agents, particularly during the loan sales and debt collection processes.
Privacy of client data	The privacy of individual client data will be respected in accordance with the laws and regulations of individual jurisdictions. Such data will only be used for the purposes specified at the time the information is collected or as permitted by law, unless otherwise agreed with the client.
Mechanisms for complaint resolution	Providers will have in place timely and responsive mechanisms for complaints and problem resolution for their clients and will use these mechanisms both to resolve individual problems and to improve their products and services.

Source: The SMART Campaign

Research Methodology

In order to gauge the level of compliance of microfinance institutions with the Client Protection Principles in South Asia, this study was conducted by PMN in 6 countries during the third and fourth quarters of 2019. The research focused on the macro-level by highlighting the microfinance regulatory landscape, the regulation itself (focusing on product design and delivery, over-indebtedness, responsible pricing, transparency, fair and respectful treatment of clients, client data privacy and complaint resolution mechanisms) for each country. The meso and micro levels explain the role network associations and microfinance institutions have played in client protection. This is then followed by different trends and developments in the realm of client protection in each of these countries.

Table 3: Macro Level[7] of Microfinance Organization

Macro-Level: This is defined as the appropriate set of legislative and policy framework necessary to allow microfinance to grow. This includes initiatives taken by central banks, ministries of finance and other national government agencies which constitute macro-level participation.

National Regulatory Authorities

Country	National Regulatory Authority
Afghanistan	Da Afghanistan Bank (DAB)
Bhutan	Royal Monetary Authority (RMA)
India	Reserve Bank of India (RBI)
Nepal	Nepal Rastra Bank (NRB)
Pakistan	State Bank of Pakistan (SBP) and Securities and Exchange Commission of Pakistan (SECP)
Sri Lanka	Central Bank of Sri Lanka (CBSL)

Table 4: Meso Level of Microfinance Organization

Meso-Level: This level includes the locally available market infrastructure and services, including auditors, rating agencies, networks and associations, credit bureaus, transfer and payments systems, and information technology and technical service providers.

Microfinance Network Associations

Country	Microfinance Network Association
Afghanistan	Afghanistan Microfinance Association (AMA)
Bhutan	Rural Enterprise Development Corporation Limited (REDCL)
India	Microfinance Institutions Network (MFIN)
Nepal	Centre for Microfinance (CMF)
Pakistan	Pakistan Microfinance Network (PMN)
Sri Lanka	Lanka Microfinance Practitioners' Association (LMFPA)

Microfinance Network Associations are representative organizations for microfinance service providers in a country. Their membership covers a range of MFPs including but not limited to non-profit microfinance lenders, microfinance banks, non-bank microfinance entities, cooperatives and the like. These associations differ in the type of role they play in the microfinance sector in their respective countries, but the overarching mandate includes client protection; in particular for creating awareness among clients, highlighting the importance of client protection principles, improving institutions' self-regulation mechanisms, outlining common codes of conduct and working in tandem with regulators.

Table 5: Micro Level of Microfinance Organization

The research methodology entailed a preliminary literature review of existing state of client protection in microfinance to identify which questions needed to be addressed. This was followed by discussions between microfinance network organizations in South Asia to finalize the structure of the report. Following this, a set of questions was drafted. The survey questionnaires were then sent to representatives of microfinance network associations of the six selected countries, outlined in table 5. The questionnaire responses are based on sector knowledge and local expertise in the microfinance sector of the respective countries. The survey responses were incorporated in the study and further in-depth desk research was conducted on existing laws, regulation and policy changes within the microfinance sector to supplement the information provided in the survey forms.

Micro-Level: These include retail financial service providers that offer services directly to poor and low-income clients.

Microfinance Institutions

Microfinance institutions, as defined in this study include a wide range of providers that vary in their legal structure, overarching regulatory ambit and lending methodology. Depending on the country these institutions are termed varyingly;

Categorizations of Microfinance Institutions	
i.	Microfinance Institutions (MFIs)
ii.	Microfinance Banks (MFBs)
iii.	Deposit-Taking Microfinance Institutions (DTMFIs/DMFIs)
iv.	Non-Bank Microfinance Companies/Institutions (NBMFC/NBMFIs)
v.	Other Non-Profit Microfinance Organizations which are separately highlighted for each country

Their legal structures subject them to varying regulations, such that some fall under the Central Banks, some under other government regulators, some that are not regulated and some that are covered by specific microfinance laws. These are elaborated in detail for each country in the relevant sections.

[7] The definitions for Macro, Meso and Micro Levels have been taken from CGAP. Microfinance Consensus Guidelines: Good Practice Guidelines for Funders of Microfinance. 2006. CGAP.
Source: https://www.cgap.org/sites/default/files/CGAP-Consensus-Guidelines-Good-Practice-Guidelines-for-Funders-of-Microfinance-Oct-2006.pdf

The goal of the study is to determine whether client protection principles have been implemented in the selected countries. This is gauged at the level of regulators i.e. the macro-level and at the level of the network associations i.e. the meso-level. The report then gives a brief picture of the challenges facing the microfinance industry, highlights the innovations and new approaches being undertaken and charts out a road map for the future.

Research Limitations

Given the diverse set of prevailing conditions and levels of development of microfinance in the six countries, the market contexts, products and services, client protection perspectives, regulation guidelines, network association procedures and socio-economic conditions differ significantly. These are likely to contribute to certain limitations to our ability to compare CP frameworks across the region.

Research Questions

The research questions were designed to determine whether client protection regulations have been developed and implemented in the selected countries in any shape or form that also corresponds to the Client Protection Principles as outlined above. To address these issues, the questionnaire included questions on the content of client protection regulation, microfinance network initiatives for client protection and the general trends, developments and concerns in the microfinance sector.

Macro-Level: Regulations Regarding Client Protection

- Does your Country have specific Microfinance Regulations?
- Does the regulator in your country have specific department that deals with client protection with regards to microfinance?
- Is the regulator/government working on client awareness on microfinance?
- What new approaches in client protection are being undertaken in the country?

Meso and Micro Levels: Role of Microfinance Networks and Institutions in client protection

- Is there a code of conduct in your country for the microfinance sector?
- What is the microfinance network association doing in your country to promote client protection principles?
- What initiatives has the network undertaken for client awareness in the country?
- What initiatives are the MFPs working on for client awareness in the country?

Innovations and Developments in Client Protection

- What are some of the innovations in Client Protection in your country?

Risks & Challenges

- What are the major concerns and issues that potentially impact client protection principles in microfinance in your country?

Future Outlook

- What are the major trends/developments in the area of client protection in microfinance in your country?

Afghanistan

Institutional Framework for Microfinance

In 2002, The World Bank along with the Afghan government took the initiative for setting up a mechanism to establish a microfinance industry in the war-torn region. In order to do so, help was solicited from CGAP, to provide technical expertise, and the Microfinance Investment Support Facility for Afghanistan (MISFA) was established as an apex institution and an avenue through which the government and donors would channel funding to build a strong development finance sector and widen the availability of financial services. The institution was created in 2003 and was funded via the World Bank's Afghanistan Reconstruction Trust Fund (ARTF)[8]. It funds many local Microfinance Institutions (MFIs) and also serves as a source of training and technical assistance as well as a mechanism for networking, sharing information, lobbying and advocacy on behalf of the industry.

The sector has since its inception achieved significant growth, in spite of periodic external and internal challenges such as poor governance, weakened security, high security-related expenses, poor infrastructure, high operating costs and a lack of adequate control measures. While this has resulted in a scale-down for the industry with MFIs closing down or merging it can be seen that the sector has also achieved some sustainability in growth rates. This can be verified by the latest data available from December 2018 which shows that MISFA partner MFIs cover 14 provinces, 81 districts and have around 135,000 active borrowers[9].

The microfinance sector in Afghanistan is considered formal but it is not regulated and despite the growth stated above, still shows a modest customer base relative to regional counterparts. By and large informal channels of financial systems (such as family and friends, moneylenders and shopkeepers, traders, and landlords) still persist since there is a lack of strong governing and institutional structures.

Macro-Level: Regulations Regarding Client Protection

There are no specific regulations that pertain to the microfinance sector in Afghanistan; different laws and regulations are applicable on practitioners of microfinance. Currently microfinance services are provided by three sources;

1. formal institutions, such as MFIs and cooperatives;
2. semiformal institutions, such as non-governmental organizations (NGOs); and
3. Informal sources such as moneylenders and shopkeepers.

Laws and regulations exist for banks which are governed by the Central Banking and the Commercial Banking Laws, while MFIs are registered as limited liability Company under the Afghan Commercial Code. Informal sources of credit do not come under any form of regulation. All MFIs execute under valid regulatory licenses issued from the Ministry of Commerce (MoC).

However, in 2006 the Central Bank, Da Afghanistan Bank (DAB) allowed for MFIs to transform into specially regulated Deposit-taking Microfinance Institutions (DMFIs) through the DMFIs Regulations under the Banking Act[10]. This was a significant step towards bringing deposit-taking institutions under the regulation of central bank but to date no institution has been registered under the regulation. As of end Dec 2018, there were 2.5 branches of commercial banks per 100,000 adult people in Afghanistan[11]. This leaves a large segment of the microfinance sector outside of the scope of DAB regulations from both a prudential and financial consumer protection perspective.

The Banking Act touches upon consumer protection in a general manner by stating that the interests of depositors are to be protected[12]. However, the law does not include a comprehensive set of client protection principles on aspects of indebtedness, responsible pricing, transparency, fair respectful treatment of clients, privacy of client data and complaint resolution.

Meso & Micro Levels: Role of Microfinance Networks and Institutions in client protection

The Afghanistan Microfinance Association (AMA) functions as a network for Development Finance Institutions (DFIs) and is committed to strengthening the development finance sector in Afghanistan. The Association contributes by advocating on behalf of DFIs to influence favorable policy and regulation, serves as an information hub for the sector, facilitates coordination and convergence among service providers and facilitates trainings, workshops, and roundtables.

The AMA in close consultation with member organizations, donors and stakeholders also produced a Code of Conduct in 2014 defining fair practices and values for development finance implementers and practitioners, to protect clients, promote mutual trust between financial service providers and clients, and uphold high standard operating procedures amongst development finance institutions, (DFIs), regulators and donors.

Innovations and Developments in Client Protection

Establishment of a Financial Consumer Protection Section

The DAB following guidance from the World Bank and the IMF established a dedicated department within the Central Bank in June 2016 which includes a Financial Consumer Protection (FCP) Section. This section is responsible for conducting financial consumer protection diagnostic studies and supervision

[8]Building a Microfinance Industry from Scratch. The World Bank. 2007.Source:https://www.worldbank.org/en/news/feature/2007/12/18/building-a-microfinance-industry-from-scratch
[9]Impact Assessment: Microfinance Services in Afghanistan. Executive Summary Report. June 2019. Source:http://www.misfa.org.af/wp-data/uploads/2019/09/MFIA-Executive-Summary-June-2019.pdf
[10]Article Twelve: Licensing, Regulation, and Supervision of Depository Microfinance Institutions. Da Afghanistan Bank.Source:http://old.dab.gov.af/Content/Media/Documents/DMFIRegulationVersionSentToSCJune2006251220134247454553325325.pdf
[11]National Financial Inclusion Strategy 2020 – 2024. Da Afghanistan Bank. Source:https://dab.gov.af/sites/default/files/2019-09/NFIS%20Afghanistan%20-Draft_0.pdf
[12]Banking Law of Afghanistan. Da Afghanistan Bank. Source:http://old.dab.gov.af/Content/Media/Documents/BankingLawofAfghanistanEnglishTranslation22762018113414921553325325.pdf

from appropriate product design and delivery, prevention of over-indebtedness, transparency, responsible pricing, fair and respectful treatment of clients, privacy of client data, mechanisms for complaint resolution.

Following this several banks have put in place processes and procedures to implement some key FCP principles, which are applicable to their products and services. However, given the regulatory structure or lack thereof for MFIs, client protection principles are not applicable on these institutions. To address this issue, MISFA worked with DAB to develop a Client Protection guideline for MFIs. The guideline will be finalized and shared with MFIs in the near future.

Appropriate Product Design

MISFA and partner institutions offer diversified and tailor-made set of loan products which cater to the varying needs of their client base. These include agricultural, group, individual, housing, SME, and Sharia-compliant (Murabaha) loan products and there are efforts being made to introduce other types of Islamic loan products and financial services designed for youth and women[13]. This aspect can help increase the uptake of loans in the community by ensuring the consumer has their religious and cultural interests protected.

Risks & Challenges

Limited Outreach

As stated before, MFIs in Afghanistan have limited outreach and scant levels of lending throughout the country. This is due to challenges of high costs of security measures, poor infrastructure, and high costs of hiring qualified staff, all of which increase the operating costs of MFIs particularly to rural areas. In order to cover these expenses, MFIs remain heavily reliant on MISFA to cover their lending operations and capacity building requirements[14]. Considering this, the challenge of increasing outreach remains high. The need is for innovation both in terms of creation of new delivery channels and cost-efficient solutions for connecting with potential clients.

Lack of Regulation for Microfinance

The lack of an enabling legal, regulatory and supervisory environment for the MFIs to operate has always been a cause for concern. Development of an appropriate framework of regulations can not only aid in improving client protection in Afghanistan but is also expected to boost investments in MFIs, thereby enabling sector growth.

Fair Treatment of Clients

Given the state of microfinance sector in Afghanistan, it can be seen that there are no specific rules governing or regulating practices that pertain to fair treatment of clients. While there are certain practices outlined in providers' internal policies, in the absence of regulation, there is recourse to abusive practices. Some financial service providers apply certain "anti-competitive" fees and practices, which limit competition and force users to remain in the business relationship. Similarly, staff training with regard to consumer protection are non-existent and MFIs often do not have specific procedures for debt recovery and loan collection. Going forward this aspect of consumer protection could be a challenge for the microfinance sector in Afghanistan.

Future Outlook

Regulation for Microfinance

The current legal and regulatory framework for the finance sector in Afghanistan is still in its nascent stages and MFIs for the most part remain unregulated. The latter, with the exception of those operating under a banking license are not regulated by the DAB from a prudential and consumer protection perspective. This causes concern with regard to responsible banking conduct, adequate lending practices and fair treatment of clients. In order to address this, it is therefore imperative to have in place a regulatory framework under a regulatory authority to bring the microfinance activity within the ambit of legal construct. However, in the absence of exclusive microfinance regulation, MISFA has established performance standards for assessing performance of its partner MFIs. The assessments are carried out by MISFA's Monitoring and Supervision team. MFIs are contractually required to comply with MISFA performance standards.

Digital Finance

The future outlook for microfinance in Afghanistan must include Digital Finance. It is seen that economies lagging behind due to unfavorable economic, social and political circumstances provide fertile ground for embracing digital finance since these technologies make finance accessible to unbanked individuals and entrepreneurs without a secure credit past15. These technologies help provide affordable solutions to financial institutions in keeping track of clients, reducing operational costs and reaching clients in remote areas. Some MFIs in Afghanistan are in the process of embracing digital finance and absolute digitalization16. Supporting this process of innovation and designing favorable policies for promoting its adoption would likely benefit all actors involved in the microfinance sector.

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[13]MISFA Annual Report. March 2018. Source: http://www.misfa.org.af/wp-data/uploads/2018/09/201889.pdf
[14]National Financial Inclusion Strategy 2020 – 2024. Da Afghanistan Bank. Source:https://dab.gov.af/sites/default/files/2019-09/NFIS%20Afghanistan%20-Draft_0.pdf
[15]Fintechs and Financial Inclusion: Looking Past the Hype and Exploring the Potential. CGAP. May 2019.
Source:https://www.cgap.org/sites/default/files/publications/2019_05_Focus_Note_Fintech_and_Financial_Inclusion_1_0.pdf
[16]Borella, Luca. Why Afghanistan needs Digitalization to Achieve more Financial Inclusion.Microfinanza. Source:https://www.microfinanza.com/why-digital-financial-inclusion-afghanistan/

Bhutan

INSTITUTIONAL FRAMEWORK FOR MICROFINANCE

Bhutan's microfinance sector is still in its nascent stages, in terms of widespread provision of formal financial services to the poorer sections of society, particularly in the rural areas. The financial landscape currently consists of banks, insurance companies, microfinance institutions (MFIs) and other financial services providers (FSPs) such as the Credit Information Bureau of Bhutan (CIB) and the Royal Securities Exchange of Bhutan Limited (RSEBL)[17]. Microfinance institutions in Bhutan can be categorized into two broad categories which are i) Deposit-Taking Microfinance Institutions (DTMFI) and ii) Non-Deposit Taking Microfinance Institutions, or simply an MFIs.

Microfinance has gained significant traction in the last decade, with the Royal Monetary Authority (RMA), the Central Bank of Bhutan, announcing specific regulations for governing the microfinance sector. These include;

1) The Regulation for Microloan[18] Institutions in Bhutan
2) The Rules and Regulations for Deposit Taking Microfinance Institutions
3) The Private Money Lending Rules and Regulations of Bhutan

The first regulation includes all microfinance institutions (banks, DTMFIs and MFIs as registered under this regulation). The second one specifically applies to DTMFIs. The process for bringing MFIs into the ambit of regulatory authority is well underway with the registration of MFIs; by March 2019, the RMA had issued registration certificates to 5 microfinance institutions[19], thereby propelling a significant part of the sector to come under the issued regulations. The country still has other non-government organizations (NGO) functioning as micro-finance institutions, but under the new regulations these are also required to be registered with RMA.

MACRO-LEVEL: REGULATIONS REGARDING CLIENT PROTECTION

Bhutan has recently undertaken several initiatives to improve the state of financial inclusion and client protection. These have primarily included two regulations to create a more enabling environment for financial inclusion; Rules and Regulations for Microloan Institutions in 2014[20] and Deposit Taking Microfinance Institutions in 2016[21]. These initiatives have helped increase outreach of financial services to the underserved areas and to provide rules for MFIs to ensure better standards of lending practices for customers.
In addition, the RMA has recently introduced rules and regulations for consumer protection entitled 'Consumer Protection for Financial Services (CPFS) Rules and Regulations 2019', which came into effect in September 2019. These regulations are slated to ensure fair financial conduct for all registered FSPs. A specific Department called "Consumer Protection Cell" is also to be instituted to manage and implement the CPFS Rules and Regulations 2019.

Given the state of existing laws, a strong legal framework thus exists in the country with a clear set of guidelines for MFIs and DTMFIs to follow.

1. Prevention of Over-Indebtedness

There are certain procedures in place to help prevent the incidence of over-indebtedness. The regulation for DTMFIs requires for these institutions to develop internal policies to monitor overall risk and exposure to manage credit risk and minimize the incidence of borrowers' indebtedness. DTMFIs are required to obtain credit information reports from the CIB; ensure the loan amounts disbursed are commensurate with business requirements and repayment capacities of the borrower; and limit exposure of risk to the borrower by limiting number of loans to two.

Similarly, MFIs are also required to obtain credit reports and report the credit granted to the CIB on a monthly basis. Since 2013, CIB has been used by all Bhutan's financial institutions and covers all loans except for informal microfinance, thereby covering 97% of individuals[22].

2. Transparency

The two regulations for DTMFIs and MFIs stipulate elaborate conditions for disclosure of terms & conditions of loans to clients. Given the relatively lower levels of literacy in the clients of microfinance, the guidelines dictate; all MFIs and DTMFIs to facilitate making informed decisions by educating clients on the terms and conditions; making complete disclosure on lending rates and any other associated charges; to read out the terms and conditions to clients; and to display important terms and conditions of products on the entrance/ or windows of their branches and other offices. It is also stated that any changes to interest rates and revisions are to be publicly announced in order to ensure complete transparency.

3. Responsible Pricing

DTMFIs are required to implement appropriate pricing policies, which ensure access of affordable financial services to the marginalized segments while providing operational and financial sustainability to the organization. Microfinance organizations are further required to have well-defined credit policies outlining maximum limits, basis for loan pricing, determination of borrowers' repayment capacity, repayment period and collaterals. Interest rates are to be determined on deposits, loans and advances and the institutions are encouraged to gradually bring the interest rates down by increasing

[17] National Financial Inclusion Strategy 2018-23. Royal Monetary Authority of Bhutan. Source: https://www.rma.org.bt/RMA%20Publication/papers/National%20Financial%20Inclusion%20Strategy%202018-2023.pdf
[18] Referred to as Microfinance Institutions throughout for the sake of consistency.
[19] National Financial Inclusion Strategy 2018-23. Royal Monetary Authority of Bhutan. Source: https://www.rma.org.bt/RMA%20Publication/papers/National%20Financial%20Inclusion%20Strategy%202018-2023.pdf
[20] Regulations for Microloan Institutions, 2014. Royal Monetary Authority of Bhutan.
[21] Rules and Regulations for Deposit-taking Microfinance Institutions (DMFI) 2016. Royal Monetary Authority of Bhutan.
[22] Cole, R and S. Carrington. An Assessment of Financial Sector Development in Bhutan. ADB South Asia Working Paper Series, 2016. Source: https://www.adb.org/sites/default/files/publication/190216/sawp-044.pdf

operational efficiency. The regulations also stipulate the method of interest calculation all DTMFIs are required to follow to ensure uniformity across the sector.

4. Client Data Privacy

The Regulation for DTMFIs places considerable importance on the need to maintain client data confidentiality. It requires the staff and directors to take precautions against breaches of confidentiality of customer information, correspondence and transactions ensuring that sensitive information is not shared to anyone except administrative and judicial authorities.

5. Mechanisms for Complaint Resolution

As per the Regulations, DTMFIs and MFIs are required to set up effective procedures that allow clients to submit complaints. The procedures entail providing customers with sufficient information regarding the complaint system; free and easy access to customer care contact; complaints to be resolved within a period of 60 days; advice on the outcome of the complaint investigation and resulting decision; and in case of unsatisfactory response options of pursuing an identified escalation process. These initiatives are likely to be bolstered by the commencement of the CPFS 2019.

Meso & Micro Levels: Role of Microfinance Networks and Institutions in Client Protection

While significant headway has been made with respect to development of legal frameworks, the Bhutan microfinance industry does not have a functioning microfinance network association. However, the government established, Rural Enterprise Development Corporation Ltd. (REDCL) facilitates the CIB in exchanging credit information and credit reports between parties to support and improve industry performance. Till date 7,303 Credit Information Reports have been facilitated by REDCL[23].

Nationwide financial literacy initiatives have also been spearheaded by the government to advocate on the importance of savings, credit, digital finance, agent banking and microfinance lending.

Innovations and Developments in Client Protection

Introduction of the Consumer Protection for Financial Services (CPFS) Rules and Regulations 2019

The RMA has commenced rules and regulations for consumer protection in financial services coming into effect from September 1st, 2019. A specific department called the "Consumer Protection Cell" is to be instituted to manage and implement CPFS Rules and Regulations 2019. The RMA has also put up a Public Notification for public comments on CPFS Rules and Regulations 2019 as of now.

The impetus for this regulation stems from the need to strengthen the environment of consumer protection, to prevent unfair practices and to assist consumers to better understand financial products and services, their rights and responsibilities to bolster financial inclusion in the country.

The Regulations are detailed and documented keeping in view the principles of;

A) Responsible Market Conduct and Competition

B) Fair and Equitable Treatment of Clients

C) Education, Disclosure and Transparency

D) Complaints Handling and Redress

E) Protection of Privacy of Consumers' Financial Information

Using Digital Solutions

The RMA launched a mobile banking app, Druk Microfin, which is an integrated software solution for all MFIs and Cottage and Small Industries (CSI). The system can enable increased access to and delivery of financial services, particularly to remote areas through the use of micro ATMs and Mobile Banking delivery channels[24]. It has the potential to help the marginalized and underserved communities including the rural population and the youth by enabling their access to financial services in a cost-effective manner, positively impacting financial inclusion.

The software has been adopted by one MFI while three others are in the process of migrating data and installing the banking system[25].

Reaching the Unreached

The RMA has laid out the "Agent Banking Rules and Regulations", to provide financial services at affordable prices to the unbanked and underserved population through banking agents[26]. As per the regulation, banks are allowed to conduct business through third-party agents. This enactment not only ensures enhanced outreach of financial services in an affordable manner, but the regulations also carry stipulations for ensuring the eligibility and authenticity of the agent for providing financial services to clients.

Risks & Challenges

Clients' Financial Literacy

A primary concern for Bhutan's microfinance sector remains the high levels of financial illiteracy endemic to the population, in particular to the marginalized and rural communities. This lack of awareness has led to increased default rates, instances of over-indebtedness, high credit exposure and loss of savings and assets on the part of clients. While client protection initiatives have been kicked off in the country, unless there is widespread

[23] Rural Enterprise Development Corporation Ltd.
[24] Launch of Druk MicroFin—an integrated MFI and CSI banking platform May 16, 2018. Royal Monetary Authority. Source: https://www.rma.org.bt/pressrelease/Druk%20microFin.pdf
[25] Druk MicroFin to Facilitate Financial Services for the Unbanked. Kuensel. Source:http://www.kuenselonline.com/druk-microfin-to-facilitate-financial-services-for-the-unbanked/
[26] National Financial Inclusion Strategy 2018-23. Royal Monetary Authority of Bhutan. Source:https://www.rma.org.bt/RMA%20Publication/papers/National%20Financial%20Inclusion%20Strategy%202018-2023.pdf

awareness raising for clients, at the national scale and at the individual level of the MFIS, these issues are likely to remain. Associated problems eliciting from financial illiteracy also include low levels of clients availing banking services (41%) and credit access (18%)[27].

The efficacy of the CPFS Rules and Regulations hinges on customers being made aware of these regulations in order to facilitate them in better understanding of their rights and responsibilities and the offered financial products and services.

Appropriate Product Design and Delivery

Given that the microfinance sector in Bhutan is still in its early stages, one of the challenges that the sector faces is in designing appropriate products for microfinance clients. Currently the products designed and delivered only include a generic kind which may fail to accommodate the unique needs of rural or marginalized customers[28]. This runs the risk of turning away potential microfinance clients.

Future Outlook

Enhanced Consumer Protection Framework

As mentioned previously, the RMA has recently commenced the CPFS Rules and Regulation, which is in its developing stages. In the Regulation, the RMA has enforced financial services providers to institute improved mechanism for consumer protection, such as having separate consumer protection cells (for large scale operating banks) or appointing focal persons (for MFIs) to handle customer grievances in an equitable manner. The recent move for enhanced client protection shows Bhutan's commitment to developing improved financial services for its clients. This, in tandem with an increased focus on financial literacy campaigns can help improve the state of client protection in Bhutan.

[27] Ibid.
[28] Ibid.

India

Institutional Framework for Microfinance

In India, the regulatory framework for microfinance institutions differs depending on the registration status and legal structure of the institution/entity. Microfinance institutions in India are registered as one of the following entities;

- Non-Government Organizations engaged in microfinance (NGO-MFIs), comprised of Societies and Trusts; Cooperatives;
- Section 25 Companies (not-for-profit);
- NBFC-MFIs - for-profit institutions that qualify for priority sector lending.
- Microfinance is also provided by NBFCs, Banks and SFBs (Small Finance Banks).

Microfinance regulations exist in the context of microcredit. The Reserve Bank of India (RBI) issues these regulations for a specific type of Non-Banking Finance Companies (NBFCs) which are categorized as NBFC-MFIs[29]. As per RBI guidelines, these NBFC-MFIs are subject to defined regulations including prudential norms and regulation, minimum capital requirements, capital adequacy requirement, foreign investment restrictions, loan products and pricing and over-lending norms[30]. The Reserve Bank of India (RBI) has also issued guidelines on Fair Practices Code (FPCs) for all NBFCs and has issued guidelines specifically applicable to NBFC-MFIs in addition to the general principles laid out under the FPC which are applicable to all NBFCs. The guidelines on FPC specifically applicable to NBFC-MFIs include general fair practices, adequate disclosure requirements, non-coercive recovery practices, internal control practices, grievance redressal and client protection[31].

NGO-MFIs, Societies, Trusts are governed by the respective State Laws while the Section 25 Companies are governed by the Company Law, with little to no regulation by a regulating body.

Macro-Level: Regulations Regarding Client Protection

The primary reason for the RBI to bring NBFC-MFIs under its purview was to ensure client protection. In 2011 the RBI constituted a committee[32] to determine a detailed set of regulations for NBFC-MFIs which formed the basis of development of necessary frameworks for Fair Practices Code for NBFCs, Credit Bureau, loan sizes, interest rates and pricing transparency, collection practices and target clientele, standardized reporting and institutionalized self-regulation mechanisms through the industry networks.

The structure of the Reserve Bank of India is such that the microfinance activity (by NBFC-MFIs) along with other non-banking activities are regulated and supervised by two departments within the RBI. The Department of Non-Banking Regulation (DNBR) works towards promoting and fostering a robust and sound non-banking financial sector by ensuring appropriate prudential and business conduct regulations for Non-Banking Financial Companies (NBFCs). While the Department of Non-Banking Supervision (DNBS) plays a supervisory role for depositor protection, consumer protection and financial stability. The customer protection regulations are thus laid down by DNBR while DNBS supervises the functioning of NBFC-MFIs as per the regulations laid by DNBR.

A strong legal framework thus exists in the country with a clear set of specific policies for NBFCs, along with industry networks which provide a supervisory role to ensure commitment of microfinance institutions to client protection.

1. Prevention of Over-Indebtedness

The Reserve Bank of India (RBI) has issued directives for capping loan sizes and multiple borrowings in order to limit over-borrowing and prevent clients from becoming over-indebted. As per the regulations, the total loan amount to single borrower should not exceed Rs 75,000 in the first cycle and Rs 125,000 in subsequent cycles, by not more than two **NBFC-MFI** lenders at a time[33]. Similarly, total indebtedness of the borrower cannot exceed Rs. 125,000 and the tenure of the loan is not to be less than 24 months for loan amounts in excess of Rs. 30,000. There are four credit bureaus in place, three of which actively maintain financial data for the microfinance and share it with regulated financial institutions. Every NBFC-MFI is required to submit timely and accurate data to the bureaus to ensure compliance with the conditions regarding level of indebtedness and sources of borrowing[34].

2. Transparency

The RBI Guidelines require NBFC-MFIs to have procedures for providing clear, sufficient and timely information to the clients. Borrowers are to be provided with loan cards (in vernacular language) reflecting the effective rate of interest charged; terms and conditions attached to the loan; information which adequately identifies the borrower; and acknowledgements by the NBFC-MFI of all repayments including instalments received.

It is further required that the effective rate of interest charged by the NBFC-MFI be prominently displayed in all its offices and on its website. Other transparency norms to be followed include loan applications to be in the vernacular languages; loan appraisal terms and conditions; and loan disbursement terms and conditions.

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[29] This sub-category for NBFC was created in 2011[29] classifying NBFCs operating as microfinance institutions which meet certain requirements.
[30] Master Circular- 'Non-Banking Financial Company-Micro Finance Institutions' (NBFC-MFIs);
https://rbidocs.rbi.org.in/rdocs/notification/PDFs/20BF010715FSCFC4543A097A94AA3B1B9133EBE9C602B.PDF
[31] Master Circular - Fair Practices Code; https://rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9823
[32] In 2011 the Malegam Committee was set up by the RBI to make recommendations for regulations regarding the microfinance sector.
[33] Rapid growth of microfinance industry leading to risks of over-borrowing. Business Standard. July 3rd, 2019. Retrieved from: https://www.business-standard.com/article/finance/mfi-sector-at-increased-risk-due-to-multiple-borrowings-by-loan-seekers-119070200865_1.html
[34] Master Circular- 'Non-Banking Financial Company-Micro Finance Institutions' (NBFC-MFIs) – Directions. Reserve Bank of India. Source:
https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9827#2

3. Responsible Pricing

As per the RBI regulations, the pricing norms mandate that the pricing of the loan can involve only three components viz; the interest charge, the processing charge and the insurance premium (which includes the administrative charges in respect thereof); no penalty to be charged on delayed payment; and no Security Deposit / Margin to be collected from the borrower.
The Fair Practices Code also stipulates that interest rates are not to be excessive or beyond a certain threshold. Regulatory regime on the pricing for the NBFC-MFIs, recognizing the underneath cost structure, allows margin of 10% to large NBFC-MFIs and 12% to small NBFC-MFIs within an overall benchmark (which was 25.35% for 30th Sep 19)[35].

4. Fair and Respectful Treatment of Clients

The Fair Practices Code gives due consideration to treatment of clients, by laying out procedures for collection, staff training and supervision in dealing with customers and provision of penalizing staff in case of non-conformity (with specific terms and conditions). Recoveries can only be made at a central designated place, and in case of failure to appear on two successive occasions, the borrower can be contacted at their place of residence or work. NBFC-MFIs are to ensure policies are in place with regard to Code of Conduct by field staff and systems for their recruitment, training and supervision when dealing with clients. Loan recovery practices are to be appropriate without any recourse to coercive behavior and abusive practices.

5. Privacy of Client Data

India's legal system has a robust and well-developed framework for dealing with data protection and client's data privacy. There are several laws enacted which cite data and personal information privacy rights, which bind companies to provide privacy policies, restrict the processing and transfer of sensitive personal data and require security measures against data breaches.

6. Mechanisms for Complaint Resolution

There are legal requirements in place for NBFC-MFIs to have appropriate grievance redressal mechanisms within the organization to resolve disputes. It is advised that dispute resolution mechanisms exist at different levels of management and periodic reviews be undertaken to ensure compliance with the Fair Practices Code. Regular reporting and monitoring of grievances are reviewed by the Board at regular intervals.

At the operational level, all NBFCs are required to display the name and contact details of the Grievance Redressal Officer prominently in the branches for the customers to lodge any complaints against the organization. In case the complaint / dispute is not redressed within a period of one month, the customer may appeal to the Officer-in-Charge of the Regional Office of the Department of Non-Banking Supervision (DNBS) of RBI, under whose jurisdiction the registered office of the NBFC falls[36]. Recently, the RBI has also rolled out the Ombudsmen Scheme for NBFCs under which NBFC-MFIs (along with other NBFCs) having an asset size of INR 100 Cr or above are covered.

Meso & Micro Levels: Role of Microfinance Networks and Institutions in client protection

In India, there are two primary industry associations, the Microfinance Institutions Network (MFIN) and Sa-Dhan, both of which now have SRO (Self-Regulatory Organization) status recognized by the Reserve Bank of India (RBI). Thus, SROs are authorized by the RBI to exercise control and monitor compliance of their members on its behalf. Both the associations collectively have a Code of Conduct which member organizations adhere to abide by. Industry self-regulation allows for better compliance with RBI regulations and the industry code of conduct in terms of providing a blueprint for best lending practices and policies, effective grievance redressal mechanism and client protection measures.

In addition to RBI's Guidelines on Fair Practices issued for NBFC-MFIs, Microfinance Institutions in India are required to follow the Code of Conduct[37] for Microfinance Institutions, jointly developed by the two microfinance networks. This lays down additional requirements to enhance and improve sector practices and is to be followed by all MFIs regardless of their form. Following the Guidelines issued by RBI, the networks which previously had a quasi-regulatory role have been able to expand their mandate by playing a more prominent role in monitoring, reporting and enforcement. The industry networks have also been aligned with The Smart Campaign to ensure that the Client Protection Principles, which are integral to the Industry Code of Conduct, are adopted uniformly across the industry.

In addition to this, networks in India capitalize on their local presence and regulatory role to support MFIs improve their services, particularly in the realm of Client Protection.

- MFIN engages with MFIs through district and state level chapters to understand key customer protection issues at the ground level.
- MFIN conducts research and analysis to generate detailed guidance notes/ workshops on the identified critical issues. During last year, MFIN published four guidance notes on customer disclosures, customer grievance redressal mechanism, credit linked life insurance and third-party products sold by MFIs.
- MFIN also looks at the credit bureau ecosystem and its effectiveness. It recently organized a workshop on strengthening the credit bureau ecosystem and producing a roadmap to better reporting of quality data.
- MFIN also gets member MFIs evaluated on the Customer Service Index, an instrument which checks compliance with Code of Conduct and RBI regulations for NBFC-MFIs regarding customer centric issues. During the year 2018, MFIN conducted 20 such evaluations.
- MFIN, in association with BFSI Sector Skill Council of India, is also conducting an online training and certification of loan officers of MFIs on customer interaction and related customer protection issues.
- Recently, both MFIN and Sa-Dhan have been entrusted by the Department of Banking Regulation (DBR) at The Reserve Bank of India, to conduct 4500 workshops covering around 2,50,000 customers and train them on various aspects of financial inclusion.

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[35] MFIN.
[36] Guidelines on Fair Practices Code for NBFCs – Grievance Redressal Mechanism - Nodal Officer. Reserve Bank of India. Source: http://mfinindia.org/wp-content/uploads/2014/06/Guidelines-Grievance_Redressal-Nodal.pdf
[37] Code of Conduct for the Microfinance Industry, 2015. MFIN & Sa-Dhan Source: http://mfinindia.org/wp-content/uploads/2015/12/2nd-Edition-of-the-MFIN-CoC.pdf

- On the self-regulatory side also, MFIN and Sa-Dhan, along with Finance Industry Development Council (FIDC) are working to unify the code of customer-conduct in micro-credit through the Code for Responsible Lending (CRL) which aims at safeguarding the interests of low-income-customers, who are generally quite vulnerable.

Innovations and Developments in Client Protection

Improving Client Awareness

At the macro-level there is a comprehensive drive to promote financial inclusion and literacy. The regulator has in place a Financial Inclusion and Development Department (FIDD) which formulates policies to make credit available to productive sectors of the economy including rural and Micro, Small and Medium Enterprises (MSME) sectors. Promoting financial education and financial literacy also form important functions of the RBI's initiatives. Additionally, the Department of Banking Regulation (DBR) operates a fund called Depositors Education and Awareness Fund which is used to create awareness among depositors.

At the micro-level, MFIs in their individual capacity have taken initiatives to reduce information asymmetry for clients to improve transparency of processes. This can help ensure that clients are protected from problems like incurring over-indebtedness, by having sufficient information regarding payment schedules, payment due dates and last payments made. Institutions are experimenting with tools like;

a) Missed call triggered messages to customers with loan account updates
b) Enabling customers to check loan account details for payment updates through QR code features printed on their loan cards
c) Appointing external persons as ombudsmen to review internal grievance redressal mechanism and its performance.

Online Disbursements of Loans

The government has shifted its focus towards a cashless society and has provided the platform for digital payment options in the form of apps and services like Bharat QR Code, Unified Payments Interface (UPI), BHIM app, and National Unified USSD Platform. These have allowed for ease of online payments. In the MFI space, there has been an increase in the number of MFIs which have shifted to online disbursement of loans while repayments are still largely done in cash. For MFIN member organizations almost 81 per cent of client disbursements are done in cashless mode, while some NBFC-MFIs have even reported 100 per cent cashless disbursements[38].

Harnessing Digital Solutions for Monitoring

In 2018, the Smart Campaign and Accion helped create a digital monitoring tool for Sa-Dhan[39], which has the potential for improving self-regulation by helping member MFIs with data analytics and compliance measures for better consumer protection. The tool can help identify problem areas of over-indebtedness or lack of compliance to the code of conduct in a timely manner and help provide networks and regulators prevent a crisis from emerging or spreading.

Responsible Agent Network Management (ANM)

Agent networks can play an important role in increasing financial access by helping financial service providers broaden their outreach. The Smart Campaign undertook an explorative study in India to map the Client Protection Principles and standards against agent models to develop a deeper understanding of risks to clients and potential mitigating steps for agent managers. Following this, a Code of Conduct was developed for ANMs in India to influence regulation and risk mitigation at the agent level. Aligning agent networks with Client Protection Principles allows clients with sufficient transparency in processes and provides them access to adequate grievance redressal mechanism.

Risks & Challenges

Non-Uniformity in Regulations

One of the challenges the microfinance industry in India faces is that of non-uniform regulation across the sector. Currently the RBI Guidelines govern only NBFC-MFIs, while the other microfinance entities do not come under the purview of RBI regulations. With the multiplicity of sources of credit to the microfinance customers and without a uniform regulation, safeguarding the interests of low-income-customers, who are generally quite vulnerable, is becoming increasingly challenging. The lack of strict regulations and oversight has exacerbated the problems of over-indebtedness due to unchecked aggressive lending by microfinance providers.

Lack of Awareness

Lack of awareness regarding financial services remains a major challenge for clients and MFIs alike. Clients are uneducated about the financial services provided by the microfinance industry and this factor increases the risk of financial exclusion and exposes them to risks of over-indebtedness, incomplete information regarding product design and delivery and higher transaction costs in terms of interest rates. While existing regulations emphasize on transparency and product and price disclosure to customers, the effectiveness of full disclosure to customer is constrained by the education and awareness levels of the borrowers.

Appropriate Product Design and Delivery

The micro credit sector in India has not witnessed much evolution in terms of product developments. The products are designed in a generic manner with few variants in terms of ticket sizes and tenure, which are largely supply-driven. A survey[40] analyzing client satisfaction and consumer protection for four MFIs in India also highlights product inappropriateness as a challenge. One-third of the clients mentioned that their loan size was insufficient to cover income or non-income generating needs while one-tenth of the clients faced problems of loan repayment and admitted to using alternate sources

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[38] Led by NBFC-MFIs, microfinance loans grow 43% to Rs 1.7 trn in FY19: MFIN. Business Standard. February 25th, 2019. https://www.business-standard.com/article/finance/led-by-nbfc-mfis-microfinance-loans-grow-43-to-rs-1-7-trn-in-fy19-mfin-119022500639_1.html

[39] Increasing consumer protection for 30 million clients in India, 2018. ACCION. Source: https://www.accion.org/increasing-consumer-protection-for-30-million-clients-in-india

[40] Voice of the Client: An analysis of client satisfaction and consumer protection across four microfinance institutions in India, 2015. MIX. Source: https://sptf.info/images/mix_voice_of_the_client_an_analysis_of_client_satisfaction_and_consumer_protection_across_four_microfinance_institutions_in_india.pdf

of loans. The survey results thus highlight that products are not designed keeping in view the needs and repayment capacity of clients causing them to borrow from multiple sources and default on existing loan amounts.

FUTURE OUTLOOK

Regulations on Client Protection:

Regulation of NBFC-MFIs under the RBI has been done primarily in order to ensure client protection. RBI has been closely supervising the NBFC-MFIs for the compliance with the regulatory provisions, with greater emphasis on client protection issues. Recently RBI has also extended the Ombudsmen Scheme for Non-Banking Financial Companies, 2018[41] for the customers of NBFC-MFIs with a gross loan portfolio of more than Rs 100 Crore. This move allows for a wider number of microfinance entities to be under the ambit of the Scheme and thus provides a cost-free and expeditious complaint redressal mechanism for a higher number of microfinance clients.

Unified Code of Conduct:

Having a unified Code of Conduct covering issues of client protection is important to ensure that microfinance reaches its intended objectives in a responsible manner. To address this challenge, a committee was constituted to adopt a uniform "Code for Responsible Lending (CRL) in Microcredit. The CRL is specific to the microfinance sector and is applicable on all microfinance entities. Building on key regulatory customer-protection measures as described in RBI Master Directions for NBFC-MFIs, RBI Fair Practice Code for Banks and NBFCs, Industry Code of Conduct and RBI Charter of Customer's Rights in the context of micro-credit sector, CRL includes most critical elements which are required to be adopted by providers while delivering micro-credit loans. Presently, MFIN and Sa-dhan are leading the initiation of different providers and effecting the implementation of CRL. A steering committee comprising of representatives from different categories of providers is being formed to lead this code.

[41] The Ombudsman Scheme for Non-Banking Financial Companies, 2018 (the Scheme), is an expeditious and cost free apex level mechanism for resolution of complaints of customers of NBFCs, relating to certain services rendered by NBFCs.

Nepal

Institutional Framework for Microfinance

Nepal's microfinance sector has a robust regulatory framework in place with the Central Bank of Nepal -Nepal Rastra Bank (NRB) acting as the apex level regulator. Nepal was the first country in South Asia to introduce specific regulations for the microfinance sector: The Development Banks Act, 1996 and the Financial Intermediary Societies Act (FISA), 1998 were both aimed at stimulating the growth of financial services in the rural, mostly unbanked areas of the country. Moreover, the Microfinance Policy of 2005[42] and monetary policies with special provision for microfinance have helped enact relevant policy guidelines, directives and circulars to support the development of the microfinance sector.

Currently the financial sector is governed by the Banks and Financial Institutions Act (BAFIA), which was formulated in order to amend and consolidate existing laws relating to banks and financial institutions by the Central Bank of Nepal (NRB). The objectives of the Act include increasing confidence of the general public towards the overall banking and financial system of the country; protecting the rights of depositors; and ensuring financial stability and legal provisions. Under this Act, financial institutions are categorized as A. Commercial Bank, B. Development Bank, C. Finance Company, and D. Microfinance Financial Institutions.

The microfinance sector in Nepal has a vast variety of formal and semi-formal institutions. These include

- Small Farmer Agriculture Cooperatives Ltd. (SFACL), regulated by the Department of Cooperatives
- Finance Cooperatives -Savings and Credit Cooperatives (SACCOs), regulated by the Department of Cooperatives
- Multipurpose Cooperative regulated by the Department of Cooperatives
- Microfinance Financial Institutions registered with the NRB

The financial sector, including microfinance, in Nepal is fully regulated and licensed by the NRB, the cooperatives are regulated by the Department of Cooperatives and informal saving/credit groups are not regulated rather are self-regulated.

Macro-Level: Regulations Regarding Client Protection

Microfinance is given significant priority in Nepal, with a separate department being allocated for its regulation and policy development. The Microfinance Promotion and Supervision Department at the NRB oversees all kinds of microfinance institutions ('D' class FIs). This department is specified for all management and regulation of MFIs including on Client Protection, Financial Literacy, Monitoring and Supervision, Social Performance Management, Regulation and Promotional Activities of Microfinance. The Department has regulated all MFIs to create a Client Protection Fund from their annual profits and from 25 percent of the dividend, if this is higher than 30 percent annually[43]. The fund is meant to be utilized for client welfare, education and the like.
There are a number of laws and regulations in place pertaining to client protection; these include regulations for prevention of over-indebtedness, pricing transparently and responsibly.

1. Prevention of Over-Indebtedness

There are certain steps taken towards reducing the instances of over-indebtedness which remains an endemic problem for the microfinance sector in Nepal. The Central Bank regulates that clients cannot access more than NPRs 700,000 without collateral and NPRs 1,500,000 with collateral from a maximum of three MFIs[44]. This is stipulated in policy, but its implementation is not fully visible throughout the country. One reason for this is that MFIs are not fully integrated with the Credit Information Bureau (CIB). As per regulations, it is compulsory for MFIs to register with the CIB and this is gradually taking place with MFIs registering and sharing their data with the CIB. While the provision is established in law, making the system effective still requires much progress in terms of capacity building and technological development. However, it is required for each financial provider to have their own policy and process outlined in its manual regarding prevention of over-indebtedness.

2. Transparency

Pricing and terms and conditions of financial products (including interest charges, insurance premiums etc.) must be transparent and disclosed in a form understandable to clients. In Nepal, it is regulated (by the NRB) that the loan prices be made public through various communication channels such as websites, newspapers and citizen charters of the MFIs. MFIs are also required to report their lending rates to the central bank which is a process that exerts downward pressure on rates[45]. In addition, all MFIs are to disclose their price structures and other financial results weekly, monthly, quarterly, semiannually and annually.

3. Responsible Pricing

Interest caps exist for loan products of MFIs in Nepal which helps to regulate and monitor prices to prevent clients from experiencing exploitative prices. At present, the NRB regulates an interest cap of 18 percent to MFIs, and 16 percent for cooperative with the maximum spread rate of 6 percent which has started to bring down their loan product prices as a result of increasing competition[46]. It is seen that effective interest rates in microfinance in Nepal (less than 25 percent) are amongst the lowest in the world[47].

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[42] National Micro-Finance Policy 2005. Government of Nepal. Source:https://www.findevgateway.org/sites/default/files/mfg-en-paper-nepal-national-microfinance-policy-2005-2005.pdf
[43] Center for Microfinance, Nepal - CMF/Nepal.
[44] CMF/Nepal.
[45] Impact of Restrictions on Interest Rates in Microfinance, 2016. ADB Sustainable Development Working Paper Series. Source:https://www.adb.org/sites/default/files/publication/200141/sdwp-045.pdf
[46] CMF/Nepal.
[47] Getting the Framework Right, 2010. Banking with the Poor Network. Source:https://www.microfinancegateway.org/sites/default/files/mfg-en-paper-getting-the-framework-right-2010-policy-and-regulation-for-microfinance-in-asia-2010.pdf

Meso & Micro Levels: Role of Microfinance Networks and Institutions in client protection

There are currently three microfinance associations in Nepal; Nepal Microfinance Banker's Association (NMBA), National Savings and Credit Cooperative Union Nepal (NEFSCUN), Nepal Agriculture Cooperative Federation (NACFL) and one national level network Center for Microfinance (CMF-Nepal), which works on issues of growth and development, policy reform, capacity building, advocacy and innovations in the microfinance industry. There is Code of Conduct[48] in place for member banks of NMBA which sets standards for fair banking practices when dealing with customers. It outlines fair treatment with respect to clients, disclosing pertinent information regarding products and services, interest rate calculations and changes, notification of terms and conditions and additional charges, responsible advertisement and ensuring privacy and data protection. However, the development of a still robust, formal Code of Conduct for MFIs is emphasized by stakeholders to enable stronger self-regulatory frameworks for ethical and professional operation of MFIs[49]. MFIs, pending this industry-wide Code of Conduct, do have in place individual Codes of Conduct which are regularly revised and updated following recommendations of the industry networks.

The networks in Nepal conduct the following activities as part of their mission to improve the state of client protection in the country:

- CMF Nepal promotes client protection by providing technical assistance for Social Audits, Smart Certifications, training, research, improving dispute resolution mechanisms and facilitating the CIB.
- CMF Nepal has facilitated 2 Social Audits in the past using Cerise SPI Tools. The network has also worked with 6 MFIs, including 2 microfinancing cooperatives to start their Smart Certification process with an objective of achieving a rating in 2020.
- CMF Nepal organizes national level summits, conducts research, develops financial literacy tools and facilitates workshops and trainings to help raise awareness at the local level of MFIs.
- At the individual level many MFIs organize financial literacy campaigns with modalities including street theater, in-class trainings, radio messages and Interactive Voice Response systems.
- NMBA has been preparing policy declaration (code of conduct) for the credit information system with that support of Sakchyam[50]. It has also been supporting MFIs in affiliating them with the CIB, reviewing their performance in CIB reporting and working to develop their capacity to report to CIB effectively[51].

Innovations and Developments in Client Protection

Appropriate Product Design and Delivery

CMF Nepal organize training, research and technical assistance for product development. The Sakchyam Project is providing technical assistance to partner MFIs on developing systematic product design and re-engineering of existing products in order to suit the needs of clients. In addition to this, use of tablets has also expanded in MFIs which has helped offer accurate and instant information on clients' accounts and also made financial literacy sessions effective meeting the needs of the population. Products such as warehouse financing and weather indexed insurance are also being promoted.

Procedural Improvements

MFIs have upgraded their MIS software, started using customer satisfaction surveys, client exit surveys, and toll-free numbers to enable effective consumer protection certification processes. The NMBA has developed a Code of Conduct on maintaining individual credit limits and sharing credit information through Credit Information Bureau (CIB).

Branchless Banking

Inroads to branchless banking have been made in Nepal by expanding outreach of microfinance products and services in rural outposts in western Nepal through women banking agents. The proposed project has two distinct features of a) training women and supporting them with the necessary equipment and internet connectivity to function in underserved areas and b) linking the transactions to the bank's management information system through digital devices to ensure real-time transactions. This initiative has increased financial access to areas that were previously underserved by physical branches of MFIs[52].

Risks & Challenges

Multiple Lending and Over-Indebtedness

One of the biggest challenges that pose a threat to the microfinance industry is that of over- indebtedness of clients. The rapid increase in the number of MFIs in recent years has led to a highly competitive lending market resulting in the problem of multiple borrowings by the clients causing their over-indebtedness and exposing the lenders to the risk of loan defaults. It is seen that in some villages in Nepal, clients are able to choose between as many as seven microfinance service providers to access microfinance services[53]. This competitive market has driven many clients into over-indebtedness due to the absence of institutional mechanisms for sharing credit information among MFIs. it is therefore imperative that a robust institutional mechanism from a customer perspective be developed which includes strict evaluations of borrowers' repayment capacities at the MFI level and regular reporting of MFI client data to the CIB.

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[48] Code of Conduct. Nepal Bankers Association.
[49] Fourth National Microfinance Summit Nepal 2017. Summit Declarations Progress Report. CMF, Nepal March 2019.Source:https://www.cmfnepal.org/_downloads/Book_Summit%20Declarations%20Progress%20Report_Final_inner_gray.pdf
[50] Sakchyam Access to Finance is a project being implemented by a team of UK-Aid.
[51]Fourth National Microfinance Summit Nepal 2017. Summit Declarations Progress Report. CMF, Nepal March 2019.Source:https://www.cmfnepal.org/_downloads/Book_Summit%20Declarations%20Progress%20Report_Final_inner_gray.pdf
[52] Women Agents Spread Branchless Banking. The Kathmandu Post, July 2016. Source:https://kathmandupost.com/money/2016/07/28/women-agents-spread-branchless-banking
[53] Risal, N. Microfinance Position and Indebtedness: Empirical Evidence from Microfinance Institutions in Nepal. A Journal of Management. Pravaha Journal-2018.

Grievance Handling Mechanisms

The current landscape of microfinance in Nepal does not have regulation instituting formal mechanisms for grievance handling and redressal mechanisms although the industry level Code of Conduct emphasizes its importance. While at the individual level of the MFIs, client's complaints are taken seriously, given high priority and recorded via complaint books/boxes, there is no concrete database to manage them, complaint registration is in an informal manner, and complaints are infrequent[54]. There is thus a need to institute a formal mechanism of client complaints management at the institutional level to direct MFIs to effectively record, track and resolve customer grievances.

Research Based Policy and Product Development

As it currently stands, the microfinance industry in Nepal is in need of framing effective policies, developing products and incorporating relevant knowledge from regional microfinance players. It is thus urged that relevant microfinance networks collaborate periodically with regulators, microfinance practitioners and service recipients to conduct research to make microfinance policies and services more systematic, customer oriented, and responsible to people.

Future Outlook

Policy Development on Client Protection

In the Financial Literacy Monetary Policy, 2016 the NRB has regulated financial institutions to adopt client protection principles. Regulation on consumer protection has also been drafted by the Central Bank. These steps show the commitment of the NRB to improving microfinance services for clients particularly regarding complaint regulation, transparency and reducing multiple financing. It is hoped that with these changes gradually client protection principles can be integrated into the products, practices and policies of the MFIs.

Financial Literacy and Awareness

The Central Bank is focused on improving the level of financial literacy in the country. The Microfinance Promotion and Supervision Department of the Nepal Rastra Bank promotes financial capabilities through financial and business literacy courses and videos and regulates to promote similar activities at the MFI level. This is being tackled in tandem with international development practitioners to improve on financial education and promote financial inclusion.

[54] Nepal Social Performance Country 2016. CMF/Nepal Source: http://mfc.org.pl/wp-content/uploads/2016/12/6-Final-Nepal-Social-performance-Country-Report-2016-.pdf

Pakistan

Institutional Framework for Microfinance

Pakistan's microfinance industry comprises three peer groups of retail players: microfinance banks (MFBs), microfinance institutions (MFIs) and rural support programs (RSPs). The microfinance sector is formally regulated by the State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP). Microfinance Banks (MFBs) are regulated by the SBP, which has in place a separate regulatory and supervisory framework for MFBs. Under this purview, MFBs are authorized to hold deposits and mobilize savings and have a set of regulations for governance and consumer protection. Non-Bank Microfinance Institutions (NB-MFIs) (which includes MFIs and RSPs) are regulated by the SECP and cannot engage in holding deposits and mobilizing savings. The SECP has recently introduced a regulatory framework for non-banking microfinance companies (NBMFCs) in order to ensure better regulation of the microfinance sector and its sustainable growth.

Macro-Level: Regulations Regarding Client Protection

Consumer protection has been at the forefront of Pakistan's financial inclusion agenda with regulatory authorities giving increased attention to issues of consumer protection and social performance. SBP has a robust regulatory framework for providing and ensuring consumer protection**55**, including provisions for MFBs to provide financial literacy, ensure transparency and disclosure, complaint redressal mechanisms and adequate collection practices. SBP also has a Consumer Protection Department (CPD) which provides the public with a policy and regulatory mechanism for complaint handling and also oversees operations of Credit Information Bureau (CIB). Similarly, for NBMFCs, SECP has issued guidelines which lay out conditions for reducing borrowers' indebtedness, development of appropriate pricing policies and transparency and disclosure. The SECP has also issued Guidelines for Grievance Redressal Mechanisms for NBMFCs, to ensure internal mechanisms for clients' complaints resolution.

1. Prevention of Over-Indebtedness

The State Bank of Pakistan regulates maximum exposure to borrowers for MFBs; borrowers' aggregate exposure thus cannot exceed Rs. 150,000/- for general loans, Rs. 500,000/- for housing loans, Rs. 500,000/- for microenterprise loans and aggregate exposure of the borrowers for both general and microenterprise loans cannot exceed Rs. 500,000/-[56]. Moreover, MFBs are required to develop internal monitoring mechanisms to ensure overall exposure of their borrowers does not exceed their total repayment capacity, thereby reducing their indebtedness risk. SBP has an established microfinance exclusive Credit Information Bureau (MF-CIB) and MFBs are mandated to obtain a credit report prior to allowing any credit facility.

Similarly, SECP sets a cap on exposure limits for NBMFCs at PKR 500,000 (for housing loan) and PKR 200,000 (for other general loans) for individuals and PKR 500,000 for microenterprises. As per the guidelines, NBMFCs are to obtain a credit report from Credit Information Bureau (CIB) of State Bank of Pakistan before granting any facility exceeding PKR 10,000. They are also required to obtain a written undertaking from the borrower disclosing details of various facilities already obtained from other financial institutions. In addition, NBMFCs are also required to have internal mechanisms in place for monitoring overall exposure of its borrowers to minimize borrowers' over-indebtedness.

2. Transparency

MFBs are required by law to disclose product pricing to clients in Pakistan. They are regulated to lay out detailed terms and conditions including repayment schedule, time-period and amounts to be paid as principle, mark-up, APR and other fees. These disclosures are to be made in a comprehensible language to ensure effective communication to the consumer regarding their loan repayment. The APR is to be prominently displayed in the bank branches and MFBs are required to regularly disclose the expected APR on deposits to customers. NBMFCs are required to provide the borrower with information in clear terms along with date of disbursement, monthly installment amounts, rate of mark-up and the type of security.

3. Fair and Respectful Treatment of Clients

In Pakistan, the Prudential Regulations for MFBs cover transparency, fair treatment and collection practices. SBP has established regulations that touch upon consumer protection in microfinance. Prudential Regulations for the MFBs (2003) has the doctrine of Truth in Lending that makes it "incumbent" upon the MFB to "facilitate the borrower in making an informed decision".

Each MFB is also required to develop a mandatory financial literacy program for consumers. The program is required to educate the consumers at a basic level about the charges/fees, interest rate calculation, repayment schedules, customers' obligations and other terms and conditions of all financial services (loan, deposit, insurance, payments etc.) that MFB offers. In addition, each MFB is required to develop a code for debt collection practices which has to include at the minimum, that customers be pre-informed in writing about the consequences of non-repayment including legal remedies available to the MFB; a lawful and acceptable business language and professional attitude be adopted; and MFBs to not harass customers' family members.

Regulations mandating fair and respectful treatment of clients of NBMFCs are yet to be developed.

4. Privacy of Client Data

The SBP requires MFBs to protect and monitor consumer deposits and savings and other similar financial assets through the development of control systems with a high level of efficiency and effectiveness to reduce fraud, embezzlement or misuse of both the asset and the related information[57]. However, there is no consumer protection law or regulation addressing the microfinance sector exclusively.

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[55] Prudential Regulations for Microfinance Banks, 2014. State Bank of Pakistan. Source:http://www.sbp.org.pk/acd/2014/C3-Annex.pdf
[56] Ibid.
[57] Financial Consumer Protection Circular, 2014. State Bank of Pakistan. Source:http://www.sbp.org.pk/cpd/2014/C4-Annex.pdf

5. Mechanisms for Complaint Resolution

The SBP introduced revised protocols for Client Grievance Handling Mechanisms (CGHM), which are a comprehensive set of guidelines, highlighting the overarching principles to establish robust CGHM in banks for efficient resolution of consumers' complaints and grievances. The protocols put forth specific rules for establishment and operation of the systems at all banks including microfinance banks.

MFBs are also required to establish customer complaint cells with effective internal processes for logging, acknowledging, assessing, monitoring and taking timely action in response to complaints received from customers.

A dedicated Banking Conduct & Consumer Protection Department (BC&CPD) has been set up by the State Bank of Pakistan (SBP) to create/promote culture of social responsibility in banks/Development Finance Institutions (DFIs)/Microfinance Banks (MFBs) for amicably resolving disputes, thereby protecting the rights of the financial consumers. BC&CPD effectively deals with public grievances against banks/DFIs/MFBs in a prompt, fair and transparent manner.

In 2018, SECP also issued "Guidelines on Grievance Redressal System (GRS) for NBMFCs"[58] to allow a formal system within the organizations for complaint redressal and problem resolution of their clients. The basic features of this initiative allow for NBMFCs to have accessible complaint handling mechanisms, timely resolution of complaints and adequate monitoring of complaints, thereby facilitating client protection.

Meso & Micro Levels: Role of Microfinance Networks and Institutions in client protection

Pakistan Microfinance Network (PMN), is the national association for retail players in the microfinance industry. It facilitates the industry to enhance its scale, quality, diversity and sustainability in order to achieve inclusive financial services. The organization has made efforts towards entrenching responsible consumer protection practices through common platforms – such as self-regulation and adoption of a voluntary industry code around client protection. Other initiatives have involved facilitating grievance handling mechanisms, pricing transparency initiatives, social audits and SMART certifications.

- PMN has focused its efforts to support and encourage relevant stakeholders, in particular Non-Bank Microfinance Companies (NBMFCs), in the development and implementation of Grievance Redressal Mechanism (GRM) guidelines. Once developed, PMN also helped the NBMFCs adopt the standardized guidelines issued by SECP for establishment of Complaint Redressal Mechanisms. Following this initiative, third party grievance redressal platforms i.e. Complaints Cell for Microfinance Banks at Consumer Protection Department at SBP and for Non-Bank Microfinance Institutions (NBMFIs) at Securities and Exchange Commission of Pakistan in 2017, have been established.

- PMN has actively engaged with international organizations and Microfinance Providers (MFPs) on the idea of client-friendly, responsible finance through the initiative of achieving pricing transparency. This component has involved the use and promotion of a standardized tool for calculation of Annual Percentage Rate (APR) for MFPs which allows the organization to reassess and reevaluate their pricing strategy in accordance with their social mission and client protection principles. During the year 2018, 19 MFPs in Pakistan have undergone the pricing transparency initiative.

- PMN supports the industry by providing avenues for boosting social performance through the components of Social Audits and SMART Certifications. Conducting these assessments and certifications, helps ensure that participating MFPs are complying with international best practices for client protection and maintaining a balance between attainment of financial and social goals. Till date PMN has conducted 11 Social Audits and facilitated 8 SMART certifications of MFBs and NBMFCs in Pakistan.

- PMN has drafted a Code of Conduct for the microfinance industry. The Code is composed to influence greater transparency, provision of dignified treatment of customers, prevalence of fair practices, accountable and robust governance, ensuring client satisfaction and a need to maintain privacy and fair disclosure.

- In order to build upon its previous work on consumer protection, PMN has taken an initiative to launch a comprehensive Client Awareness Campaign focusing on inclusive finance for marginalized groups (including women, people with disabilities and transgendered persons). The campaign includes a focus on rights and responsibilities of consumers, complaint mechanisms, role of Credit Information Bureau, credit application processes, and responsible use of microfinance services for a positive impact on financial wellbeing.

Innovations and Developments in Client Protection

Fair Treatment of Consumer (FTC) Regime by the State Bank of Pakistan

The State Bank of Pakistan has always given Financial Consumer Protection (FCP[59]) a high priority and the bank is currently in the process of further evolving its Fair Treatment of Customer (FTC) Regime. The main components of the FTC include;

a) Enhancement of a Conduct Regulatory Corridor: This involves developing a culture of enhancing supervisory and enforcement frameworks while upgrading existing regulatory complaint handling framework. Within this, promoting responsible banking, the SBP has developed a Conduct Assessment Framework (CAF), a mechanism for self-assessment by the banks. The purpose for this is to develop a periodic, reliable, diagnostic and comparable mechanism for banks to help them comply with their FTC commitments. The tool consists of three modules; i) Culture ii) Product/Service Design and Disclosures and iii) Consumer Grievance Handling Mechanism/ Complaint Handling[60].

b) Consumer Empowerment: SBP is looking beyond financial inclusion in order to focus on a "remedial and proactive approach"[61] to empower and engage with consumers in a meaningful manner.

c) Capacity Building and Stakeholder Engagement: SBP aims to improve the outcomes of conduct regulation by engaging with stakeholders and building the capacity of conduct supervisors.

[58] Guidelines on Grievance Redressal System for NBMFCs, 2018. Circular No. 24. Securities and Exchange Commission of Pakistan. Source:https://www.secp.gov.pk/document/circular-24-of-2018-guidelines-on-grievance-redressal-system-grs-in-non-bank-microfinance-companiesnbmfcs/?wpdmdl=33380
[59] Financial Consumer Protection – Beyond Compliance. The State Bank of Pakistan. Source: http://www.sbp.org.pk/cpd/2014/C4-Annex.pdf
[60] Conduct Assessment Framework. The State Bank of Pakistan. Source: http://www.sbp.org.pk/cpd/2016/C3-Annex.pdf
[61] Fair Treatment of Consumer (FTC) Regime by The State Bank of Pakistan. BC&CPD, SBP.

Digital Services Platform

The Digital Services Platform (DSP) is part of the microfinance industry's concerted efforts to introduce and implement innovative interventions in the sector. The platform once established could offer digital services in a shared hosting environment which will enable MFPs to bring efficiencies in their business operations while providing ease of accessibility of financial services to end customers through linkages with multiple digital financial distribution channels. This can provide the impetus for outreach expansion and improved efficiency and productivity of services.

Branchless Banking

Pakistan is one of the fastest developing markets for branchless banking in the world. It became one of the first countries to issue guidelines pertaining to regulations for branchless banking which proved to be an important catalyst for exponential growth in the digital financial inclusion space. Currently, the industry is in the process of improving on those guidelines by looking at international examples of Agent Network Management to assess inherent risks to clients and how to reduce them.

Electronic Money Institutions (EMI) Regulations

An increasing number of institutions from the non-banking sectors in Pakistan have devised technologically innovative payment solutions in the last decade. The EMI regulations are meant to authorize non-banking institutions (EMIs) to offer e-money services to customers and have their agents in the market. In order to ensure clients are protected, the central bank has developed and implemented a regulatory framework[62] to ensure delivery of payment services in a safe, sound and cost-effective manner by prescribing the minimum service standards and requirements.

NFLP Client Awareness Campaign

There is growing recognition of the need for financial literacy to be incorporated with financial inclusion goals. Following this, under the directives of the SBP, the National Institute of Banking & Finance has launched National Financial Literacy Program for Youth (NFLP-Y), in order to support and enhance the financial literacy eco-system in Pakistan. An integrated media campaign has been launched for National Financial Literacy Program (NFLP) in 2019 through print, radio and social media. The campaign is aimed at creating general awareness and sensitizing the masses on the importance of financial literacy.

Risks & Challenges

Financial Inclusion

According to estimates Pakistan has a sizable unbanked population with estimates claiming 100 million adults; formally banked individuals comprise only 21 percent of Pakistani adults and only 7% of women are included in the formal financial sector[63]. It is further seen that only 15 percent of youth have a bank account[64] and only 6 percent of youth have mobile money account ownership[65]. In addition to portraying a discouraging picture for financial inclusion, these statistics also highlight that there is disproportionate impact on the youth population in Pakistan, which forms approximately 70% of Pakistan's population[66]. Going by these numbers, it can be ascertained that a significant segment of the population does not have adequate access to formal banking.

Financial Literacy

While significant headway has been made in developing regulation around client protection, it is pertinent to mention that the efficacy of these developments' hinges on client financial literacy levels which still remain low at approximately 26% of the adult population[67]. For instance, while pricing disclosure has been mandated by the SBP and SECP, low literacy rates in Pakistan makes conveying loan terms especially challenging. According to a survey, Clients Voices[68], it is seen that 49 percent of the respondents reported that they understood loan terms only somewhat or not at all at the time of taking out the loan. There is thus a need to make concerted efforts to improve the levels of financial literacy amongst the population at the national level, the industry level and at the individual institutional level.

Responsible Pricing

There is a lack of standardized, comparable pricing information on financial products available in the microfinance sector which hinders competition between players and prevents customers from knowing the true cost of the loan products, hence making informed decisions. In order to ensure that clients are provided with affordable loan pricing and fair terms and conditions, it is therefore important that microfinance organizations be cognizant of pricing their products in a responsible manner. This entails setting prices that are not too excessive or beyond a certain threshold while still allowing for the financial institution to operate sustainably. Products need to be priced in a manner that strikes a balance between the organization's stated development goals and respective profitability aims.

Future Outlook

Code of Conduct

Seeing the need for a better system and mechanism for disclosures by microfinance providers (MFPs), PMN has drafted and circulated an updated Code of Conduct. The proposed new Code of Conduct includes provisions pertaining to protection of whistle blowers and peer reporting mechanisms, certification of field staff to ensure client protection and establishment of processes to monitor and enforce the code. The new code also includes rules

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[62] Regulations for Electronic Money Institutions, 2019. State Bank of Pakistan Source:http://www.sbp.org.pk/psd/2019/C1-Annex-A.pdf
[63] Global Findex Survey 2017.
[64] Youth Entrepreneurship and Financial Inclusion: Outlook for ASEAN and SAARC, 2018. UNDP & UNCDF. Source:https://www.undp.org/content/dam/rbap/docs/Research%20&%20Publications/democratic_governance/UNDP-UNCDF-2018-Youth-Entrepreneurship-and-Financial-Inclusion-ASEAN-SAARC.pdf
[65] Ibid.
[66] Population Pyramid. Source: https://www.populationpyramid.net/pakistan/2019/
[67] Klapper, L., A. Lusardi and P. Oudheusdon. Financial Literacy Around the World: Insights from The Standard & Poor's Ratings Services Global Financial Literacy Survey 2014. Source: https://gflec.org/wp-content/uploads/2015/11/3313-Finlit_Report_FINAL-5.11.16.pdf?x70028
[68] Client Voices Pakistan Country Report, 2015. Center for Financial Inclusion.

pertaining to over-indebtedness, which is an issue being faced by the microfinance industry as it expands, thereby making it imperative for MFPs to conduct proper due diligence as per their internal credit policies.

Licensing of Credit Information Bureaus

The SBP has recently licensed two private bureaus (M/S Aequitas Information Services Limited and M/S Data Check Limited)[69] and has instructed all credit institutions to become members of at least one of the bureaus by September 30, 2019[70]. This initiative would require the credit institution to provide the credit bureau, accurate and complete, information as per defined frequency and timeline. Previously, the credit bureaus were working in the country in a legal vacuum. With these regulations in place, it is likely that the industry is better positioned to generate credit reports on borrowers on a wider scale and facilitate consumer protection.

[69] No. BC&CPD (CBU-01)/2018/24147 & No. BC&CPD (CBU-01)/2019/177, SBP
[70] Section 11(1) of Credit Bureaus Act, 2015. State Bank of Pakistan.

Sri Lanka

INSTITUTIONAL FRAMEWORK

Sri Lanka's microfinance sector consists of a number of microfinance providers, all of whom are governed by a diverse set of entities. These institutions are segregated into the following main categories

- Government
- Regulated MFIs
- Regulated Banks & Non-Bank Financial Institutions (NBFIs)
- Cooperatives
- Other unregulated Lenders

The government sponsored microfinance programme is called Samurdhi. Regulated MFIs are entities that fall under the purview of the Microfinance Act and accordingly, licensed microfinance companies are governed by the Central Bank as well as NGO MFIs is regulated by the National Secretariat for Non-Governmental Organizations. The guidelines to regulate NGO MFIs by the NGO secretariat are provided by the Central Bank. All Banks and NBFIs are also regulated by the Central Bank and they are regulated under the Banking Act and Finance Business Act respectively. Cooperatives in Sri Lanka are regulated under the Cooperative Act and their regulator is the Department of Cooperative Development. Other unregulated lenders mainly include private and public micro credit companies that are engaged only in lending.

The Microfinance Act No. 6 of 2016

In 2016 the Sri Lankan parliament enacted the Microfinance Act, No. 6 of 2016, which provides for the licensing, regulation and supervision of companies undertaking microfinance activities, called licensed microfinance companies (LMFCs). As per this Act LMFCs are to be directly regulated by the Monetary Board of the Central Bank of Sri Lanka (CBSL). The Act also provides for the registration of Microfinance Non-Governmental organizations (MNGOs) which are to be registered under the Voluntary Social Services Organizations (Registration and Supervision) Act, No. 31 of 1980. With this Microfinance Act however, only a small portion of MFIs was regulated and therefore the main issues in the industry were not addressed properly.

However, in the absence of a single uniform regulatory authority the methods and standards of regulation still remain quite varied in the Sri Lankan microfinance landscape, with a large number of NGO-MFIs as well as micro credit companies being left outside of the purview of any regulatory authority.

MACRO-LEVEL REGULATIONS FOR CLIENT PROTECTION

The current regulatory framework of Sri Lanka's microfinance sector is varied, with different types of microfinance organizations being regulated and supervised by different laws and bodies. At present, regulation and supervision of the regulated entities is mostly concentrated on prudential requirements while there are no laws or regulations that specifically serve as a basis for client protection.
In order to address this, the CBSL is in the process of drafting and enacting the "Microfinance and Credit Regulatory Authority Act", which aims to bring the microfinance sector under uniform regulatory control primarily to address the concerns of client protection.

Presently, however the state of regulation for aspects of Client Protection is as follows:

1. Prevention of Over-Indebtedness

High levels of multiple borrowing and consequent instances of over-indebtedness persist within the Sri Lankan microfinance sector. At present, only a small minority of microfinance entities are integrated into the Credit Information Bureau (CRIB) of Sri Lanka, given the weak regulatory legal environment, while CRIB membership is mandatory for commercial banks, licensed specialized banks, leasing companies and finance companies that are under the supervision of the CBSL. However, with the institution of the Microfinance Act of 2016 it is expected that more LMFCs will be encouraged to join the CRIB to share information on borrowers to minimize risks of over-indebtedness.

2. Transparency

The Department of Supervision of Non-Bank Financial Institutions at the CBSL has issued a framework for Financial Customer Protection[71] to safeguard the interests of the consumers. This includes a clause for giving customers complete, concise and accurate information regarding financial products and services and the right to access and understand the terms and conditions associated with those products. However, these regulations are only applicable to LFCs, which leaves a significant chunk of microfinance entities including LMFCs without proper regulations outlining transparency.

3. Responsible Pricing

In December 2018, the CBSL issued a maximum rate of interest charged on microfinance loans with the objective of protecting borrowers from higher interest rates. It is stipulated that LFCs[72] and LMFCs[73] shall not charge a rate exceeding 35% per annum (effective annual interest rate) inclusive of all other charges on the loan. However, this legislation still excludes a large of microfinance providers who continue to operate outside the purview of the Microfinance Act of 2016.

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[71]Financial Customer Protection Framework, 2018. Monetary Board Central Bank of Sri Lanka.
Source:https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/laws/cdg/Finance_Business_Act_Directions_No_1_of_2018_e.pdf
[72]Maximum Rate of Interest on Microfinance Loans, 2018. Monetary Board Central Bank of Sri Lanka
Source:https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/laws/cdg/Finance_Business_Act_Direction_No_10_of_2018_Maximum_rate_of_interest_on_Microfinance_loans_e.pdf
[73]Maximum Rate of Interest on Microfinance Loans, 2019. Monetary Board Central Bank of Sri Lanka
Source:https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/laws/cdg/Microfinance_Act_Directions_No_2_of_2019_e.pdf

4. Fair and Respectful Treatment of Clients

According to the Financial Customer Protection Framework[74], LFCs are required to treat clients equitably, honestly and fairly. However, this directive only applies to LFCs. There is no specific code of conduct regulation that caters to the LMFCs under the purview of the CBSL, nor is there one for other microfinance entities in the Sri Lankan landscape.

Meso & Micro Levels: Role of Microfinance Networks and Institutions in client protection

The meso level of the financial system helps support consolidation and expansion of retail providers, all the while promoting and advocating for better client protection. The microfinance sector is represented by the Lanka Microfinance Practitioners' Association (LMFPA), a network of around 57 MFIs. It primarily works to advocate and lobby for issues pertaining to the sector; working with regulatory authorities to improve the environment for microfinance; conducting training and awareness programmes for building the capacity of member MFIs; and working to improve the state of transparency and client protection in the sector.

LMFPA is working to improve the state of microfinance in Sri Lanka by;

- Introducing a Code of Conduct for the industry to help curb the practices leading to over-indebtedness and to encourage responsible and transparent pricing.
- Organizing workshops in collaboration with CBSL and SMART Campaign on Responsible Financial Inclusion by focusing on client protection principles
- Conducting Public Relations Campaigns to raise awareness of microfinance and client protection principles
- Facilitating microfinance organizations in attaining their microfinance licenses from the CBSL, following which they can be categorized as LMFCs and become subject to CBSL regulations[75]
- As a member of the SPTF, LMFPA promotes the Universal Standards of Social Performance Management (USSPM) among its members and stakeholders to help achieve their social goals in congruence with financial goals.
- The LMFPA also introduced a Recommended Maximum Interest Rate (RMIR) for its member MFIs that are largely unregulated. The formula that the LMFPA used for the RMIR is related to the Average Weighted Prime Lending Rate (AWPLR for 6months) as defined by the Central Bank of Sri Lanka. (AWPLR for 6 months * 3.5). LMFPA announces the RMIR to its members in 6-month intervals. Member MFIs who are charging above the RMIR are given a grace period of 2 years to comply while any potential MFI that applies for LMFPA membership is rejected if their interest rate is found to be above the RMIR.
- With regard to financial literacy, some MFIs, due to their extent of grassroots outreach, are able to provide services of financial education to help educate customers of their rights when borrowing and what best practices to look for in microfinance service providers.

Risks & Challenges

Over-Indebtedness

Over-indebtedness is a major cause for concern in Sri Lanka, with rampant multiple lending, high interest rates and non-regulation of a significant proportion of microfinance providers in the country[76]. Sri Lanka's credit bureau currently does not serve the needs of MFIs; it only reports on loans of commercial banks, licensed specialized banks, and the RDBs. Only a small number of MFPs report to the Credit Bureau, resulting in inadequate checks on creditworthiness of borrowers, leading subsequently to higher instances of multiple lending and over-indebtedness, which increases the cost of microcredit to the clients. In order to improve on the current scenario, it would be prudent for the authorities to regulate all MFPs to share information with the existing credit bureau or to develop and maintain a similar database for MFPs.

Responsible Pricing and Financial Literacy

While the Sri Lankan government has imposed interest rate caps on Central Bank licensed microfinance entities, these caps are not yet applicable throughout the industry, leaving a significant proportion of MFPs unregulated. This lack of industry-wide regulation results in higher interest rates being charged to the population at the base of the pyramid, thereby compromising customer protection. The problem is further compounded for the rural and marginal population, which often has insufficient knowledge of price calculation and interest payments. This lack of information threatens their interests and has possible consequences for leading them into indebtedness.

Financial literacy remains a challenge for a significant proportion of the Sri Lankan populace, as it stands only at 35%[77] (relatively low when compared to the nation's literacy rate which is at 92%[78]). There is a dearth of financial literacy and training programs in the country which prevents the marginalized segments from benefitting from microfinance services. This leaves people susceptible to violation of their rights, particularly regarding loan repayment amounts, interest rates charged and subsequent over-indebtedness.

Mechanisms for Complaint Resolution

Currently the Sri Lankan microfinance landscape does not have uniform legislation mandating a dedicated complaint handling mechanism for MFPs. The Financial Customer Protection Framework requires that clients have access to efficient, responsive complaint handling mechanisms for Specialized

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[74]Financial Customer Protection Framework, 2018. Monetary Board Central Bank of Sri Lanka. Source: https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/laws/cdg/Finance_Business_Act_Directions_No_1_of_2018_e.pdf

[75] LMFPA Annual Report, 2015. LMFPA. Source:http://www.microfinance.lk/documents/Annual%20Report%202016.pdf

[76]Suicides in Sri Lanka Blamed on Microfinance Loans, Regulation Criticized. MicroCapital Brief. September 2019. Source:https://www.microcapital.org/microcapital-brief-suicides-in-sri-lanka-blamed-on-microfinance-loans-regulation-criticized/

[77]Klapper, L., A. Lusardi and P. Oudheusdon. Financial Literacy Around the World: Insights from The Standard & Poor's Ratings Services Global Financial Literacy Survey 2014. Source: https://gflec.org/wp-content/uploads/2015/11/3313-Finlit_Report_FINAL-5.11.16.pdf?x70028

[78]Ministry of Higher Education. Government of Sri Lanka.

Leasing Companies and Licensed Finance Companies, there is no coherent framework for microfinance institutions. The Code of Conduct designed by the LMFPA is likely to aid in the process of improving complaint handling at the institutional level.

Future Outlook

Enactment of the Microfinance and Credit Regulatory Authority Act

The Sri Lankan Government is poised to introduce new regulation to govern the Micro-Finance industry with a new Micro-Finance Act, the primary purpose of which is consumer protection by preventing debt traps and exploitative lending programmes.

The main objectives of the Act will be to establish a Credit Regulatory Authority; to regulate and supervise licensed microfinance institutions and issue appropriate guidelines for consumer protection; to determine suitable policies for market conduct, coordinate with other regulators including Credit Information Bureau to ensure responsible lending practices; to carry out credit counseling and financial literacy programmes; and to establish a complaints handling mechanism[79].

[79]Credit Regulatory Authority Act, 2019. Central Bank of Sri Lanka.
Source:https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/laws/consultation_paper_20190705_proposed_credit_regulatory_authority_act_e.pdf

Future Roadmap for South Asia

The microfinance industry has experienced steady growth in South Asia, promoting financial inclusion. However, it is seen that the quality of growth has often been called into question in many countries, with issues ranging from high lending rates, over-indebtedness of borrowers and abusive loan collection practices, thereby undermining the overall impact of economic and social prosperity. For these reasons, greater emphasis has been laid on ensuring microfinance client protection as part of the policy agenda on financial inclusion, globally and in South Asia.

As seen from the preceding analysis, much has been achieved across all selected South Asian countries both at the regulatory and operational levels. However, there is room for improvement to meet the overarching goal of universal access to finance, namely by improving the standards of client protection with respect to both legal frameworks and practical application of those principles.

A number of Client Protection Practices (as defined by the SMART Campaign) are seen to be in place either at the policy/regulation levels and/or at the operational level of network associations and/or institutions. Prevention of Over-Indebtedness, Transparency, Responsible Pricing and Redress of Client Grievances are the principles most frequently adhered to at the level of regulation, although their implementation or vigilant monitoring of practices varies from country to country. The majority of countries have regulations concerning over-indebtedness, and some have or are in the process of developing credit reporting systems. Transparency and responsible pricing regulations are relatively well developed for most countries, although it is difficult to ascertain tangible impact of these policies without extensive analysis of client perspectives. Appropriate Design and Delivery of Products, Fair and Respectful Treatment of Clients and Privacy of Client Data appear with lesser frequency in the surveyed countries (See Annex I).

This report serves as a tool to highlight the importance and benefits of addressing challenges within areas of client protection and to focus on both, at the policy and operating levels. Going forth the following recommendations can be made to galvanize the state of client protection in South Asia.

- One of the major pitfalls of the microfinance industry in most surveyed countries is that regulation often applies to certain segments of the microfinance sector or has multiple layers of regulations by different regulatory bodies. This creates space for some institutions to escape regulation putting clients at risk of unregulated practices. A robust, overarching regulatory framework for a country's microfinance sector would provide a solution to a plethora of client protection issues.
- Network associations operate in all the selected countries with varying levels of influence. These can and do play an effective role in promoting client protection approaches and policies in their member organizations by creating awareness, ensuring a culture of client protection within the industry, having codes of conduct and supporting systems of self-regulation. In order to benefit from these existing structures, these institutions should be developed and supported by the regulatory authorities so as to enable them to play a greater role in monitoring compliance on client protection of their members (as has been done to an extent in India). This can help establish self-regulation mechanisms within the industry thereby allowing for better compliance.
- The above changes need to be supplemented by changes in consumer literacy levels. As noted for most countries in this survey, client literacy levels remain low. This creates challenges for disseminating information on loan terms and conditions, interest rate calculations and introduction of new products. Any changes in policy, regulation or procedures will fail to have the desired impact on their implementation unless clients are proportionately educated or informed.
- Looking ahead, digital solutions for client protection cannot be ignored. As has been seen, most of the countries in the survey are using or in the process of developing digital solutions to conventional microfinance problems. These technologies have the potential to provide cost-effective methods of online disbursements, better record-keeping of clients, improving access to clients in remote areas, tracking and monitoring of defaults and timely sharing of information. These digital solutions can also be harnessed to develop and design customized products enabling greater satisfaction in clients.

Fortunately, in all countries surveyed there is growing recognition, commitment and support for Client Protection amongst all stakeholders within the microfinance industry. Going forth it is important for countries in South Asia to capitalize on this momentum of growth by further addressing and improving the microfinance experience for their clients.

Annex I

Client Protection Principles (CPP)	Appropriate Product Design and Delivery	Prevention of Over-Indebtedness	Transparency	Responsible Pricing	Fair and Respectful Treatment of Clients	Privacy of Client Data	Mechanisms for Complaint Resolution
Expected Practices	Providers will take adequate care to design products and delivery channels in such a way that they do not cause clients harm. Products and delivery channels will be designed with client characteristics taken into account.	Providers will take adequate care in all phases of their credit process to determine that clients have the capacity to repay without becoming over-indebted. In addition, providers will implement and monitor internal systems that support prevention of over-indebtedness and will foster efforts to improve market level credit risk management (such as credit information sharing).	Providers will communicate clear, sufficient and timely information in a manner and language clients can understand so that clients can make informed decisions. The need for transparent information on pricing, terms and conditions of products is highlighted.	Pricing, terms and conditions will be set in a way that is affordable to clients while allowing for financial institutions to be sustainable. Providers will strive to provide positive real returns on deposits.	Financial service providers and their agents will treat their clients fairly and respectfully. They will not discriminate. Providers will ensure adequate safeguards to detect and correct corruption as well as aggressive or abusive treatment by their staff and agents, particularly during the loan sales and debt collection processes.	The privacy of individual client data will be respected in accordance with the laws and regulations of individual jurisdictions. Such data will only be used for the purposes specified at the time the information is collected or as permitted by law, unless otherwise agreed with the client.	Providers will have in place timely and responsive mechanisms for complaints and problem resolution for their clients and will use these mechanisms both to resolve individual problems and to improve their products and services.
Afghanistan	**	*	*	*	*	*	*
Bhutan	*	****	****	****	**	***	****
India	*	****	****	****	****	****	****
Nepal	**	***	****	****	**	*	*
Pakistan	*	****	****	*	***	**	****
Sri Lanka	*	***	****	****	***	*	*

Legend		
Meets the CPP Standards Fully	****	This indicates that the relevant regulation exists for the particular country while its implementation may vary from country to country. This can also entail network level or institution level compliance with the CPP standards albeit in varying degrees.
Meets the CPP Standards Partially	***	This indicates that regulation consists of some elements of the CPP. It can also indicate network or institutional level initiative on the particular standards.
Work in Progress	**	This indicates that regulation is deficient in this standard, but few measures have been taken or are under consideration. While regulation may not be present at the moment there are network and/or institution level initiatives in place.
Does not meet CPP Standards	*	This indicates that there are no essential elements of CPP present in the country at the regulatory or network levels. However, individual institution level initiatives might still be present in the country.