



Client Voices Peru Country Report

Progress and Evolving Risks in an Advanced
Consumer Protection Environment

February 2016

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Keeping clients first
in microfinance

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Foreword

At the Smart Campaign, a global campaign to embed a set of client protection principles into the financial inclusion industry, we realized several years ago that there was an important voice missing from the discussions—the clients! In creating the seven Client Protection Principles (CPPs) we had made a series of assumptions of the risks, worries and problems clients experience with financial institutions. It was therefore crucial to address this issue.

We designed a Client Voices project to hear directly from clients in four markets—Benin, Georgia, Pakistan, and Peru. The research was designed to have an initial open-ended qualitative component to hear what issues and concerns they would bring up spontaneously. Then, with potential issues and problems sufficiently identified, the research team would return with a more targeted quantitative survey to measure the incidence in a larger sample. Going into the study we wondered:

- ▶ If asked in an open-ended way, would clients identify issues that aligned with the CPPs?
- ▶ Would the main issues identified across the four markets be similar?
- ▶ How candid would clients be about their good and bad experiences with financial institutions?
- ▶ What percentage of clients would it take to highlight an issue as problematic?

The Smart Campaign selected Peru as the market in Latin America for the Client Voices project for several reasons. A priority was for this research to act as a catalyst for industry discussion, a goal requiring strong and engaged local partners. The Peruvian regulating body, the *Superintendencia de Banca y Seguros del Perú* (SBS), has long demonstrated its leadership and commitment to improve client protection among all financial

providers in the country and was a natural partner for this exercise. They assisted the Campaign in convening a diverse group of stakeholders to sit on the National Advisory Council for this project. Additionally, Peru has ranked #1 for the two past years in the ‘Global Microscope’ report on financial inclusion, which assesses the regulatory ecosystem for financial inclusion in 55 different countries. With one of the most developed financial regulations in the world, together with the continuous measures currently being implemented there to improve the existing infrastructure for client protection, Peru provided a fascinating backdrop for Client Voices.

This report presents issues as relayed to us by 1,000 current and former microfinance clients in Peru. We were especially struck by the high levels of satisfaction among respondents with their microfinance services, but also by the increasing debt burdens growing among them. Additionally, clients also told us that they sometimes feel many MFPs do not seem to treat all clients equally. Other issues voiced, such as a general lack of understanding of loan terms and conditions, and the prevalence of aggressive sales tactics among some providers, contribute to the perception that MFPs are in some cases trying to take advantage of clients. Even if experienced by a small percentage of clients, as was the case in Peru, such treatment can damage an entire industry’s reputation, and should be carefully considered.

Each interaction between clients and staff should be marked by honesty, fairness, and respect. This should be the minimum for a pro-client financial service provider. Clients, even when they are having difficulties, should always be treated humanely and not just as a “problem.” Embracing and embedding this attitude will create organizations that naturally attract and retain customers—a win-win for both customers and providers.

The Smart Campaign

Introduction

1

About the Client Voices Project

This report presents key findings from qualitative and quantitative research for the Smart Campaign’s Client Voices project. This ambitious research project aims to understand what clients consider both problematic and good treatment by microfinance providers (MFPs), and to assess how common consumer protection problems are in four markets: Pakistan, Benin, Peru, and Georgia. The Smart Campaign¹ promotes the seven Client Protection Principles² (CPPs) in its standards, tools, and training programs for financial institutions around the world. With the Client Voices project, the Smart Campaign sought input from end-users of microfinance services in order to take a more consultative and client-centric approach to the CPPs. The Smart Campaign hopes that the project will both affirm and challenge the underlying assumptions made in drafting the CPPs about the risks, issues, and harms that microfinance clients experience. In addition, the project is designed to act as a catalyst for local actors including regulators, microfinance associations, consumer advocacy groups, and others in each of the four markets studied (Peru, Georgia, Pakistan, and Benin) to improve the client protection ecosystem. **Box 1** presents the research questions we defined at the beginning of the project.

Bankable Frontier Associates (BFA)³ and Datum International⁴ used qualitative and quantitative research tools to investigate consumer protection issues in Peru from January through July, 2015. First, we carried out focus group discussions and individual

interviews to understand what constitutes good and bad treatment from MFPs⁵ from the clients’ perspective. The qualitative research was designed to take an inductive approach to understanding what clients defined as good and problematic treatment. Qualitative research also sought to dig up any potential consumer protection problems specific to the Peruvian market, even if not experienced by our respondents personally, in order to design a quantitative survey that would not miss any country-specific issues.

Based on the recommendation of the National Advisory Council, we conducted qualitative research in urban and peri-urban Lima, Juliaca city and surrounding rural areas, and Cajamarca city and surrounding rural areas in January 2015.⁶ The focus group discussions included a ranking exercise in which clients classified the institutions they interact with on a regular basis (both financial and non-financial institutions) by the quality of how these institutions treat their customers. Respondents also participated in a role-playing exercise in which they acted out good and bad experiences with MFPs. Individual interview respondents in Lima also took photographs—a few of which we share in this report—representing positive and negative experiences with microfinance.⁷ Please see Annex B for more details on the qualitative and quantitative research methods used in the Client Voices project.

Second, to understand the incidence of consumer protection problems in microfinance we implemented a nationally representative survey of 1,000 current and

Progress and Evolving Risks in an Advanced Consumer Protection Environment: Client Protection in Microfinance in Peru

High-Level Findings

1

Clients are generally satisfied with microfinance services in Peru. Our research suggests that users benefit from the competitive, well-regulated market and effective credit reporting system in Peru. Sixty-five percent of current clients rate their experience with microfinance providers (MFPs) as good or very good. However, **26 percent of clients report that MFPs do not treat clients equally**, giving preferable treatment to well-dressed clients or those with personal connections at the institution.

2

Heavy debt burdens is a cause for concern: the median household dedicates 20 percent of monthly income to debt payments, and the average monthly debt-to-income ratio is 26 percent. Thirty-four percent of clients have made at least one late payment, and 9 percent have defaulted or failed to pay a loan at least once. Clients report receiving many offers for new credit products, with 10 percent reporting feeling pressured to take out a loan.

3

A combined 18 percent of clients have either taken out a loan for someone else or used a loan that was in another person's name. Having a loan in another person's name is associated with increased late payments, suggesting this behavior is risky for clients and institutions alike.

4

Centralized credit reporting to credit bureaus creates a strong incentive for repayment, and clients reported only minimal client protection problems in collections. However, clients do not have a good understanding of how the credit bureau works, or of the consequences of having a negative record.

5

Disclosure could be improved: Approximately 40 percent of respondents did not understand loan terms completely. Clients are especially confused about what insurance products they currently have and how they work.

6

MFP clients in Peru have many options for recourse, but the majority lack information about these channels: 71 percent reports that the MFPs did not inform them where to complain.

Client Voices Research Questions

- What do microfinance clients view as their most important worries and most negative experiences in dealing with microfinance providers?
- How common are experiences of consumer protection problems at the national level?
- What attributes are most important to clients in determining a positive customer experience?
- How do these priorities compare to assumptions the industry has made about what clients want (especially as reflected in the Smart Campaign Client Protection Principles)?

former microfinance clients. There is limited information about the demographics and location of microfinance clients as a group, let alone a complete sample frame that could be used to select a representative sample. Consequently, we relied on data on the number of clients in each municipality with loans less than 10,000 Peruvian Soles (approximately U.S. \$3,000) from the *Superintendencia de Bancos, Seguros y AFP* (SBS) to select the sample.⁸ Estimates provided in this report use population weights constructed based on the number of borrowers with loans less than 10,000 Peruvian Soles only, as other demographic information is not available for this specific population. All percentages included in this report refer to the national quantitative sample.⁹ All inference in this report includes these weights based on the number of borrowers. Please see Annex 2 for a complete description of the sample selection process.

There are various classifications of microfinance providers in Peru. We used a screener with clients to include the following categories of institutions in the survey, using the classification that clients were more familiar with rather than regulatory classifications:

- Microfinance providers, referred to as *financieras*;
- Rural and municipal savings and loan institutions (*Cajas* and *cooperativas*);
- Entities for the Development of the Small and Microenterprise (called *EDPYMEs* in Peru);
- MFPs offering group loans (referred to as *ONGs* in Peru).

Because we wanted to focus on institutions that are regulated as MFPs and unregulated institutions that report to COPEME (see section B), the questionnaire did not ask about loans from large commercial banks with microfinance portfolios.¹⁰ We also excluded loans from retail stores in order to avoid confusion between loans and credit cards or store cards. Focusing on more traditional MFPs also allows for a more appropriate comparison with other Client Voices countries.

The sample contains 55 percent current clients and 45 percent former clients who used microfinance services in the last six years.¹¹ Individual borrowers dominate the sample; only 6 percent of the quantitative sample respondents were group loan (joint liability) clients. Please see Annex 2 for more details on the quantitative survey methodology.

Consumer Protection in the Peruvian Microfinance Sector

Microfinance in Peru has grown rapidly. The sector grew by 33 percent per year between 2000 and 2009. In 2013, the World Bank estimated that microfinance sector assets represented 3.5 percent of GDP in Peru.¹²

In addition to regulated microfinance institutions, a number of unsupervised MFPs exist as well, including cooperatives and NGOs. These institutions report information

Peru is recognized as having a favorable environment for financial service providers serving the mass market. For the past seven years, Peru has taken the top spot in the Economist Intelligence Unit's *Global Microscope on the Microfinance Business Environment* rankings.

voluntarily to COPEME, a self-regulatory body of institutions, including approximately 40 NGOs providing credit services throughout Peru.¹³

Peru is recognized as having a favorable environment for financial service providers serving the mass market. For the past seven years, Peru has taken the top spot in the Economist Intelligence Unit's *Global Microscope on the Microfinance Business Environment* rankings.¹⁴ The rankings reflect Peru's initiative in developing a sound regulatory framework and a robust credit reporting system, relying on the SBS's main credit bureau and four other private credit bureaus.

Regarding grievance redressal mechanisms, Peru is exceptional in its well-developed public architecture for complaints resolution and arbitration. The *Instituto Nacional de Defensa de la Competencia y de la Protección de Propiedad Intelectual* (INDECOPI)¹⁵ resolves disputes between consumers and private companies in all sectors including financial services. Additionally, the *Superintendencia de Banca y Seguros* (SBS)' Client Service Platform (*Plataforma de atención al usuario*),¹⁶ works in cooperation with INDECOPI's Consumer Support System (Sistema de Atención al Consumidor), to process and resolve consumer grievances with financial providers.¹⁷ Microfinance users throughout the country are encouraged to contact INDECOPI to submit any complaints related to their experience with any providers, through any of their different communication channels (email, toll-free number, or by visiting a branch office). However, as we will see in Section F, the majority of clients are not fully aware of these channels.

The SBS requires all regulated financial institutions, including regulated MFPs, to assess the financial situation of all new clients, and report repayment data on their clients to SBS' credit bureau (*Central de Riesgo*) on a regular basis as a preventative measure to avoid over-indebtedness.¹⁸ This information from the public client registry is then shared equitably with the country's four private credit bureaus. Afterwards, these credit bureaus independently collect information on the non-regulated MFIs, commercial stores, and companies such as telephone, cable, etc., all through private agreements.

Having regulated microfinance organizations report to the credit bureau has created strong incentives for repayment throughout the country. However, about 40 NGO MFPs still exist that are not regulated by SBS, and therefore are not required to report any data to credit bureaus. With the aim of including a larger number of non-regulated MFIs into the credit registries, private credit bureaus have signed agreements with COPEME¹⁹ over the last few years to share the data that is reported to them on a quarterly basis by their affiliate institutions. This has significantly increased the number of MFPs in these registries, although there are still various cooperatives that are not reporting to any of them. This is also the case with other less formal loan providers, such as pawn shops, loan providers to the non-financial sector, etc.

Based on the Client Voices findings, prevention of Over-Indebtedness, Transparency, and Fair and Respectful Treatment of Clients emerge as the most relevant CPPs in Peru.

Key Findings

2

Clients are Generally Satisfied With Microfinance Services

Overall, clients have good experiences with MFPs. Only 9 percent of borrowers surveyed would classify their overall experience with microfinance as bad or very bad, as shown in Figure 2. In focus group discussions clients ranked different institutions they interact with regularly by the quality of treatment they receive from them. This ranking exercise included institutions from all sectors, such as police, hospitals, and schools, as well as microfinance providers. MFPs ranked in the middle or towards the top for good treatment in this institutional ranking. When comparing MFPs to other financial service providers, respondents reported that MFPs treat them better than large commercial banks. However, in general respondents still prefer their interactions with informal financial services like borrowing from family and friends and savings groups (called *juntas* or *panderos* in Peru) to engaging with MFPs.

Additionally, qualitative research respondents appreciated that MFP loans are disbursed quickly and that the application process and documents required to obtain a loan are reasonable. Respondents mentioned having positive impressions of MFPs because these loans enable them to pursue opportunities and take care of obligations. Figure 3 shows a photo a client took to show how MFPs enabled their family to purchase an important asset. Clients report being proud of their accomplishments that MFP loans facilitated, and many view MFPs as partners in their economic advancement.

FIGURE 1

Example of Positive and Negative Treatment From the Institutional Ranking Exercise in a Focus Group Discussion

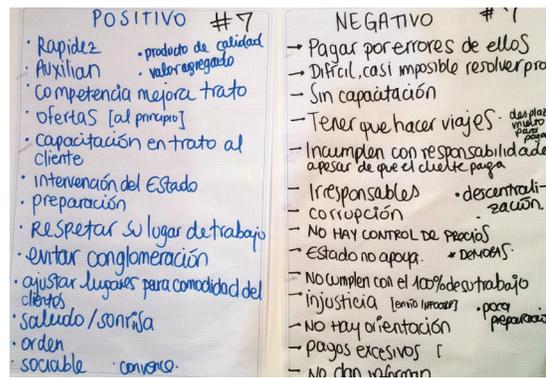


FIGURE 2

How Would You Classify Your Experience With Microfinance in General? (N = 1,000)

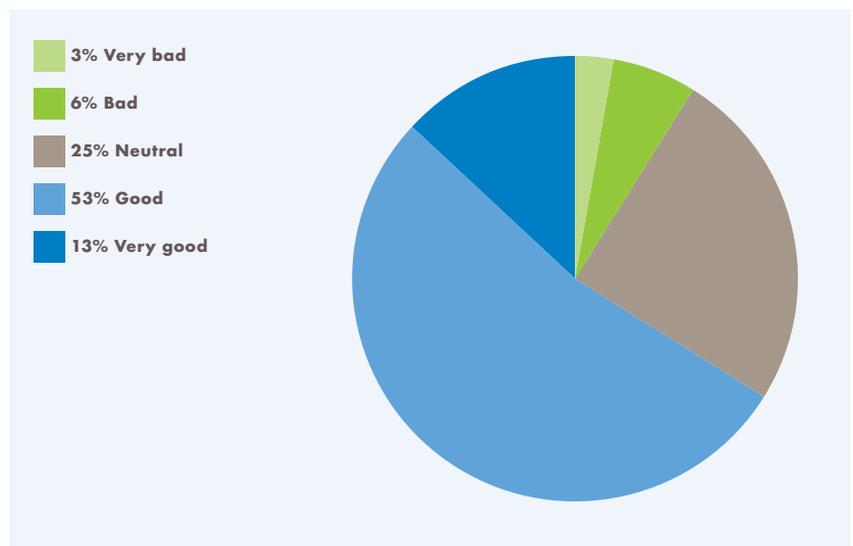


FIGURE 3

Photo Taken by a Client Reflecting What She Likes About Microfinance



“[MFPs] lend us money that allows us to buy a taxi so we can earn a living...”

WOMAN, URBAN LIMA

MFPs generally treat clients with respect, but give preferential treatment to some.

Quantitative survey results show that most clients think that MFPs are honest and respectful and that their data is safe with these institutions (Figure 4).

However, a combined 24 percent of clients (1 in 4) still disagree or strongly disagree with the statement that their personal information is safe with MFPs. Given that MFPs must protect their clients’ personal information in accordance with the National Law on Client Information Protection (N° 29733—*Ley de Protección de Datos Personales*), this is a signal that greater effort should be devoted to improving external communications on how MFPs safeguard client information to prevent fraud or potential abuse.²⁰

Regarding fair treatment, this national survey did not find overwhelming evidence of any clients being denied a loan because of discrimination. In total, of the 20 percent of clients who reported they had a reason to complain about MFP services, only 7 percent cited discrimination as the reason for their dissatisfaction (this is equal to 1.4 percent of the total number of borrowers with loans less than 10,000 Soles in the country).

Nonetheless, differential treatment may manifest in more subtle ways. Although only 11 percent of clients reported that MFPs do not treat clients with respect (reporting strongly disagree or disagree in Figure 4), more than one in four clients (26 percent) think that MFPs do not treat all clients equally. Qualitative research respondents also reported feeling judged at times for their appearance or clothing at microfinance offices:

“They don’t give you the attention you deserve. Sometimes you go dressed humbly and they don’t treat you well. The first thing they look at is what you’re wearing, if they see you dressed as a construction worker, for example, they leave you aside.”

MAN, URBAN CAJAMARCA

“Because there are people that wear a tie and look at you as if you are meaningless, like a small thing.”

WOMAN, RURAL CAJAMARCA

FIGURE 4

Client Perceptions of MFPs (N = 1000)

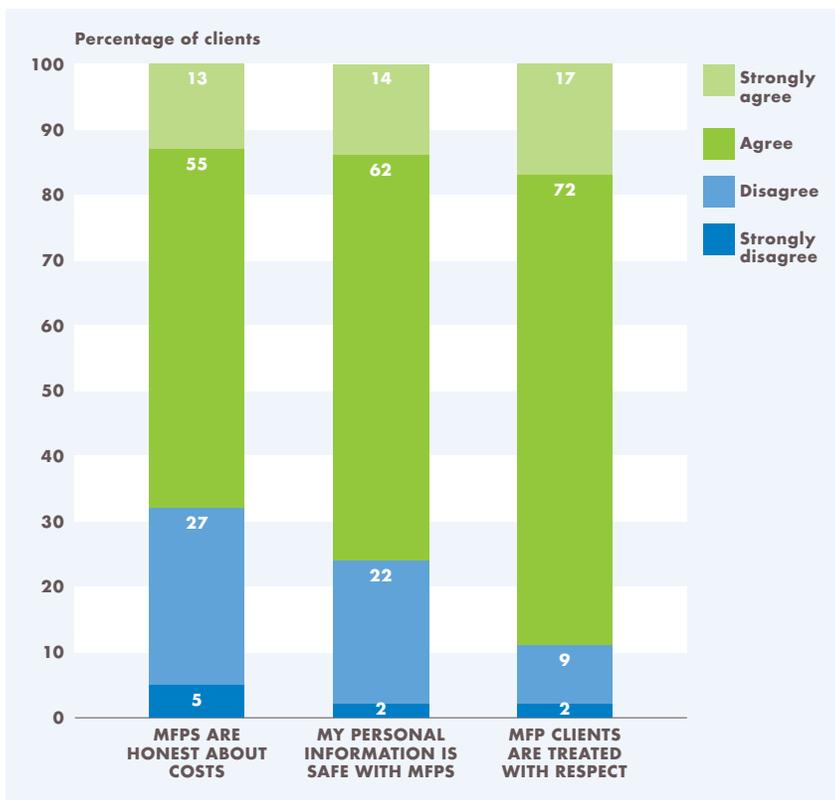
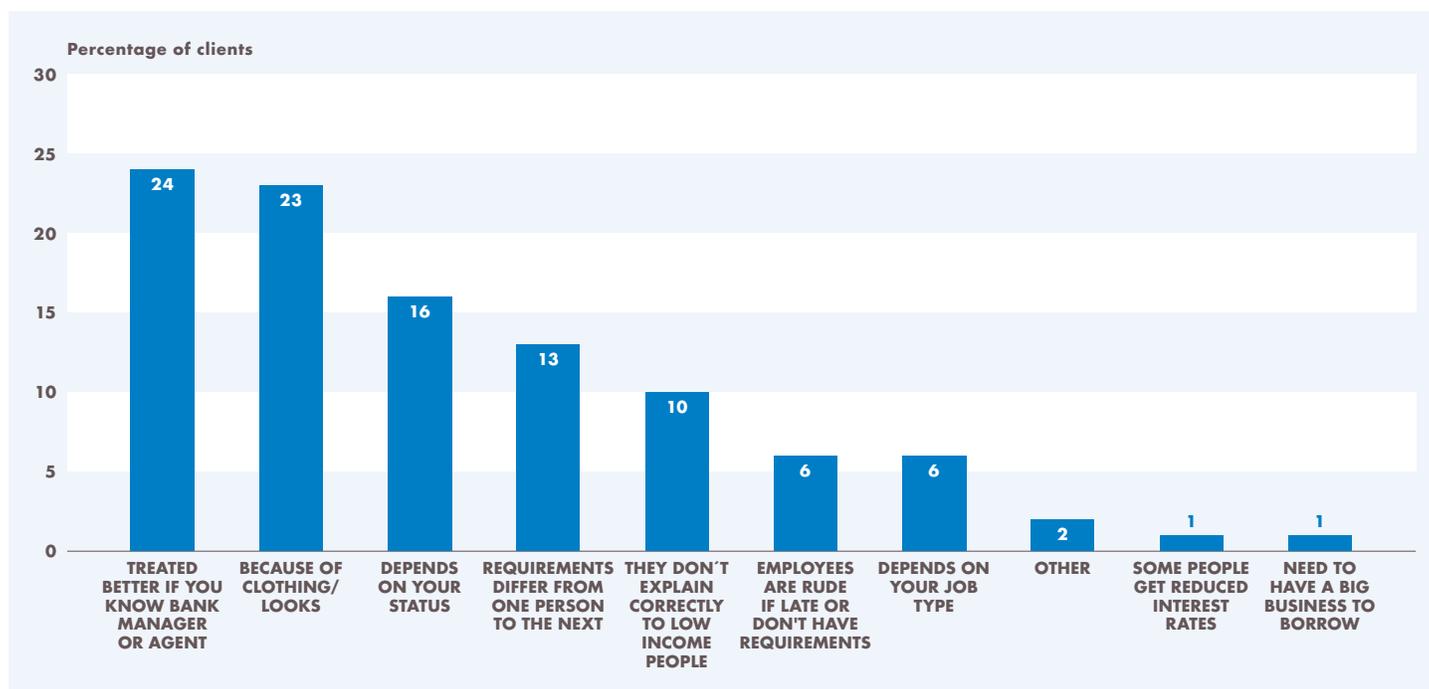


FIGURE 5

Why Are People Treated Differently at MFPs? (N = 260)



In response to an open-ended question about how MFPs treat clients differently in the quantitative survey, one-quarter of clients responded that MFPs treated clients with personal connections or better clothing or appearance more favorably (Figure 5).²¹

Although we did not find evidence of outright discrimination at scale, MFPs may still wish to improve efforts to counteract the impression that they treat some clients better than others.

High Debt Burdens May Be a Cause for Concern

“Endeudarse prácticamente es perder todo. [Getting into debt is almost like losing everything.]”

MAN, URBAN LIMA

The quantitative survey asked about all monthly debt payments and total monthly household income. Among current clients, the average debt-to-income ratio is high, with

the average household dedicating 26 percent of monthly income to debt payments.²² Current clients living in rural areas have even higher average debt-to-income ratios (35 percent). At the median, 20 percent of household monthly income is allocated to debt payments.²³ For some low-income households, keeping up with this level of debt obligations may be unsustainable. It seems savings is not providing a cushion to facilitate credit payments for about half of clients. While the overall median savings balance is \$0, respondents that reported any savings had a median level of savings of U.S. \$312.²⁴

Of the regions included in our quantitative sample, the debt-to-income ratio is highest in Cusco and Piura regions, as seen in Figure 6.

In addition to microfinance products, clients also have loans from a number of different sources, both formal and informal, as shown in Table 1. This means that MFPs are not the only institutions that are contributing to create heavy debt burdens with these clients.

TABLE 1

Do Any of the Members of Your Household Make a Credit Payment to the Following?

INSTITUTION	PERCENT OF RESPONDENTS WITH LOAN
Other MFPs (different than most recent loan)	57%
Debts to department stores	14%
Commercial banks	9%
Credit cards	9%
Loans from friends/family	6%
Debts to moneylenders	2%
Other	2%

High levels of debt lead some households to make sacrifices in an attempt to keep up with repayments. The preferred strategies for keeping up with loan repayments mentioned were to work more than usual and to reduce expenses (Figure 7). Nonetheless, 5 percent of clients have also taken on extra jobs, 6 percent have taken another loan or drawn on their savings and 2 percent have reduced food consumption to cover a due microfinance payment.

Managing high levels of debt relative to income can have transformative consequences for household well-being. In the photography exercise, a number of clients in Lima took photos that reflect the stress of loan obligations, as client photos show (Figure 8).

Exacerbating the challenge of keeping up with debt payments, income flows are unpredictable for many microfinance clients while monthly debt payments are highly structured and rigid. This mismatch demands active money management of variable income flows in order to keep up with debt payments. This is a common scenario among surveyed households, as 47 percent of households do

FIGURE 6

Mean Debt-to-Income Ratio by Region²⁵

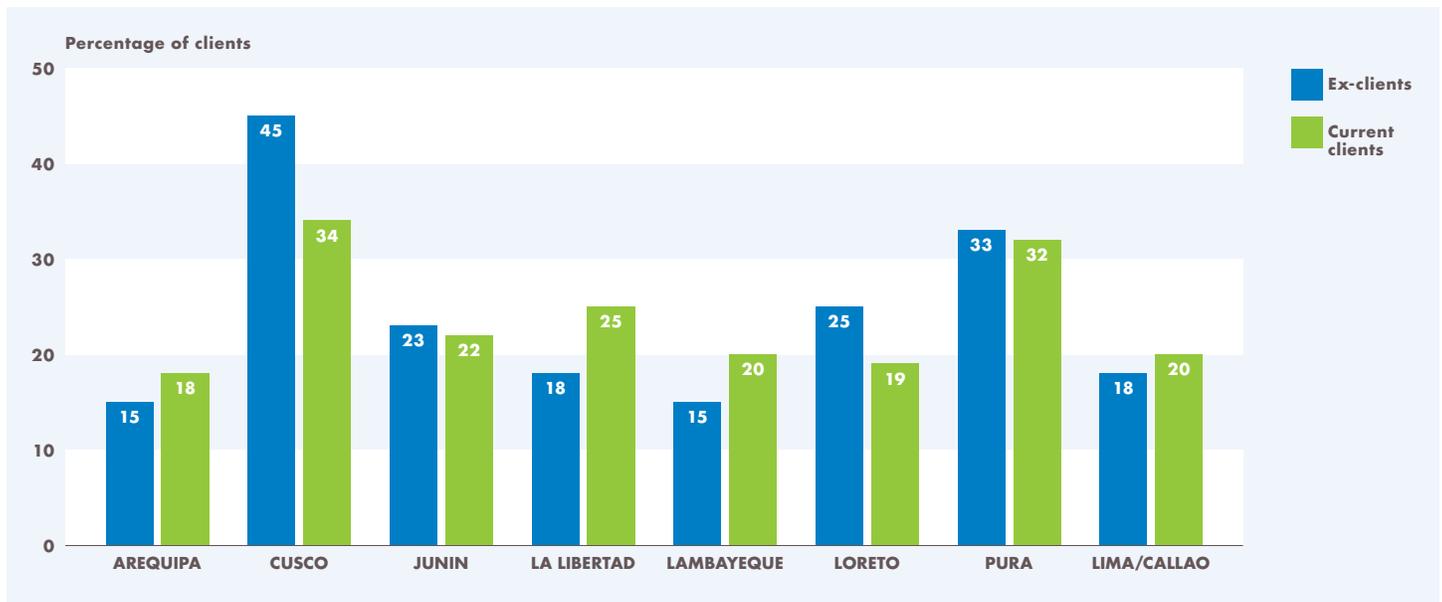


FIGURE 7

Have You Ever Done Any of the Following to Come Up With a Loan Payment? (N = 1000, multiple responses)²⁶

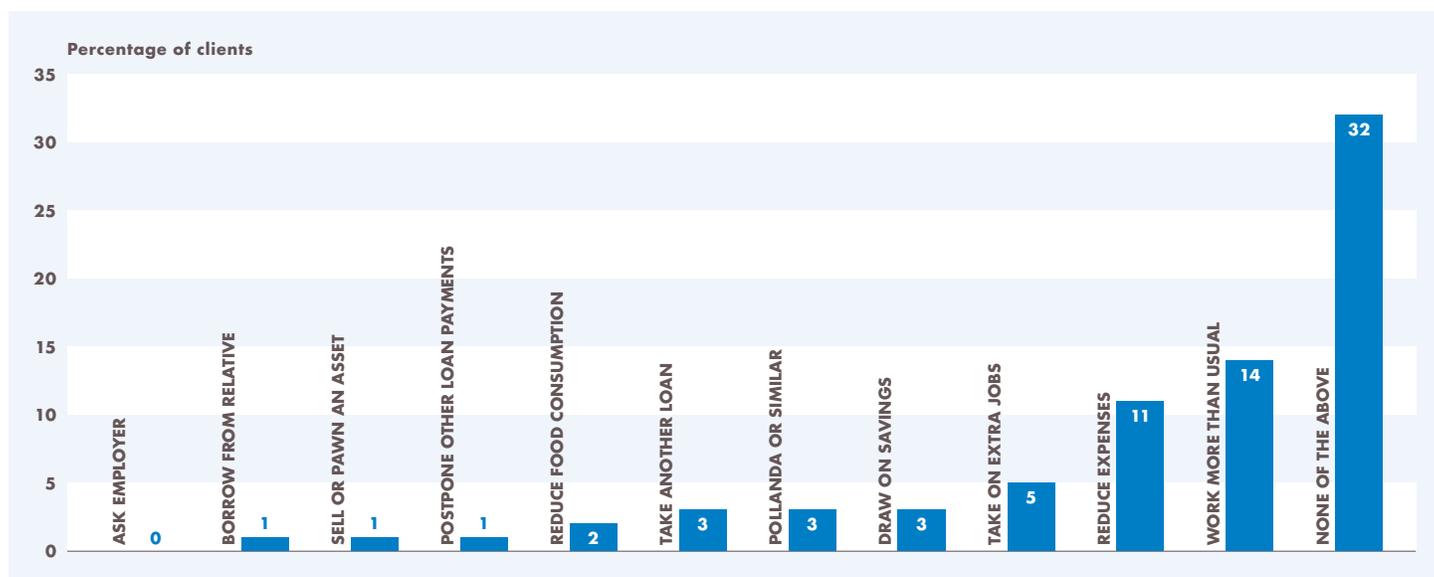


FIGURE 8

Photo Taken by a Client to Show the Little Money That is Left After Paying Bills and Debts

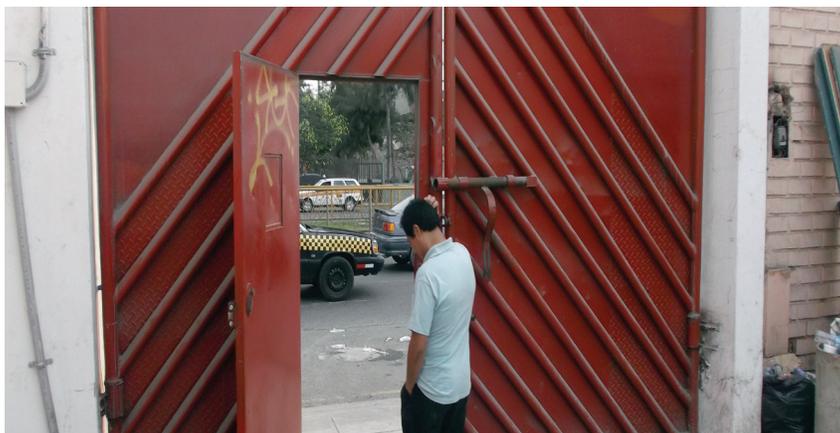


“This photo shows my husband after he paid our bills and debts. This is the money that is left over...I asked him for the money and he answered ‘this is what is left.’ We were just about to do grocery shopping, so I had to pay the rest of the grocery bill. I was upset because we needed that money but it went to pay the [credit] cards.”

WOMAN, URBAN, LIMA

FIGURE 9

Photo Taken by a Client to Illustrate the Stress of Making Debt Payments When Salaries Are Uncertain and Payments Are Delayed



RESPONDENT: “I see him worried, He is an old friend... he is not able to pay back his debt, I see him in a melancholy mood.”

MODERATOR: “Did you ask him why he was worried?”

RESPONDENT: “The debts that people have always make them worry. For example, he works in construction, and if he has a job he’s fine, but when he has no work, the debts pile up.

[He is] worried because he has to pay back the loan, but he doesn’t have the money... The problem is his boss is paying him late. His salary is not a certain thing.”

MAN, URBAN LIMA

FIGURE 10

The Last Time You Paid Late, What Was the Reason?
(N = 280, multiple responses)

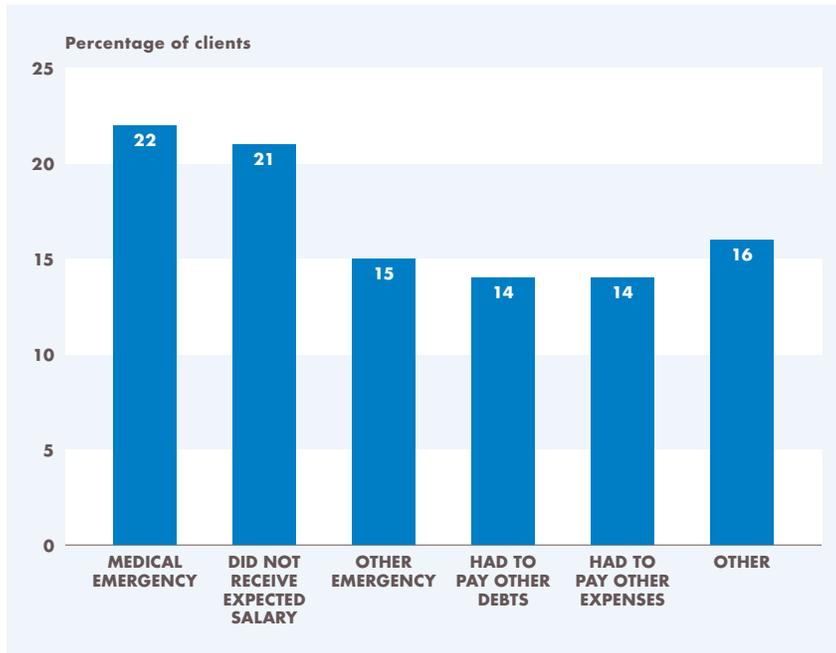
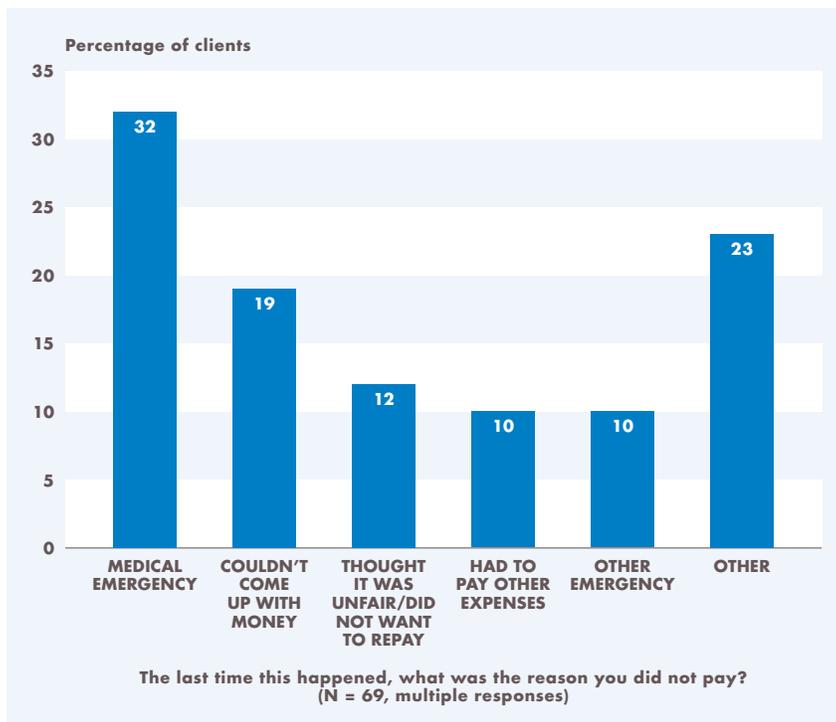


FIGURE 11

Reasons for Defaulting on a Loan Payment



not have any income earner with a regular job. Even for those who are employed in a formal job, employers may delay payments or end up paying less than the employee expected. As we will see in the next section, clients report that delays in income caused 21 percent of late payments (Figure 10).

About one-third of clients have paid late

The high percentage of clients paying MFP payments late provides further evidence that clients in Peru struggle to keep up with their credit payments: 34 percent of clients have paid at least one MFP loan repayment late and 9 percent report defaulting or not finishing to pay one or more loans.

As Figures 10 and 11 show, medical emergencies, unreliable income, other emergencies, and difficulties coming up with money were the main reasons why most clients paid late and in some cases even defaulted. On the other hand, the fact that 14 percent of clients who paid late did so to prioritize other debt payments shows that some clients are coming up short in their struggle to meet all of their credit obligations. In this case, families perform a kind of debt triage, deciding which payments to cover and which to delay. Further research is needed to understand how clients prioritize repaying loans from different sources.

MFPs sell aggressively to some clients and 10 percent have felt pressure to take on additional borrowing

The SBS has taken measures to limit over-indebtedness: regulations limit the amount of debt financial institutions can offer based on the information in the credit bureau. Despite rules specifying that this behavior is illegal,²⁷ aggressive selling or tactics used to tempt clients—such as sending checks that can be cashed to take out a loan that the client did not ask for, or making clients feel they will not have other opportunities to borrow if they pass out on a particular offer—still persist.

Overall, 51 percent of clients reported that they periodically receive calls and visits from MFPs offering new products. Some clients may welcome these calls and offers, but others feel bothered or find them hard to resist. For example, one woman described the experience of trying to resist a credit saleswoman who was pursuing her:

“My daughter was about to turn 15 [and have a quinceanera party], but I didn’t want to ask for a loan. [The woman from the bank] kept following me everywhere. I was working, and she kept coming to my house offering me a credit card that I didn’t want. She kept asking for my number for activating the credit card. At the end, I was very tempted because my daughter was turning 15, and I wanted to [throw a party].”

WOMAN, PERI-URBAN LIMA

Another woman described similar temptation of an MFP sending her a check that she could cash at any time to take out a subsequent loan she had not asked for:

“When I finished paying my loan, I got a letter with a check. It was for 15,000 Soles (U.S. \$4,475). I didn’t need it at the time; I was doing well with my business. But I felt tempted. Thank god I didn’t cash it, because I got mugged shortly after. Besides I was already 600 soles (U.S. \$179) in debt, and I could not keep paying.”

WOMAN, URBAN LIMA

In the photography exercise, a woman in Lima took a photo of a small stand offering credit cards and insurance products to show the ubiquity of where some financial products are sold in Lima (Figure 12).

“They call you and they say, ‘Look ma’am, wouldn’t you like to get a card, we are giving a great offer!’ So we stop by. [In this case] I already had this card. I said, ‘young man, I already have the card from your bank.’ But he said, ‘Look, now were are offering an insurance card.’”

WOMAN, URBAN LIMA

Which clients are more likely to receive such credit offers? There is a negative correlation between those who have ever had a negative record in the credit bureau and the probability that they receive calls with credit offers (statistically significant at the 1 percent level). MFPs could be looking at names in the credit registries to identify higher risk borrowers and subsequently avoid calling with offers. There is also a strong positive correlation between those who receive calls and those who compare loans. One possible interpretation for this is that receiving calls allowed clients to make

Table 2 ,

FIGURE 12

Photo Taken by a Client To Show Where She Was Sold Insurance on the Street That Resulted in a Bad Experience ²⁸



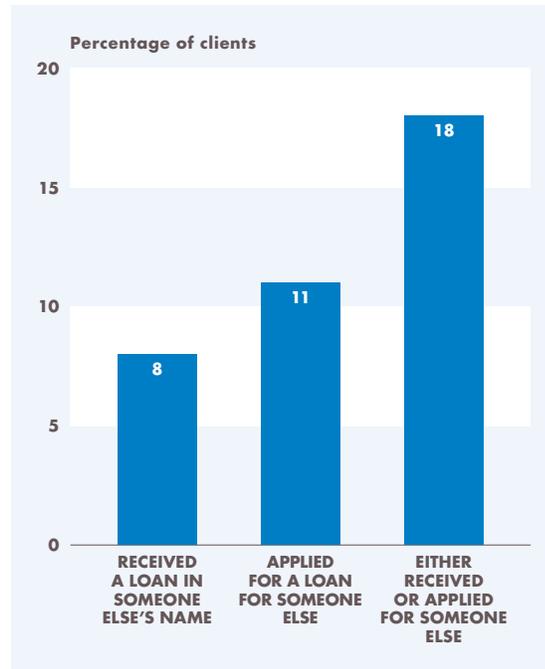
TABLE 2

Linear Probability Model, Currently Receive Calls From MFPs Making Loan Offers

VARIABLES	CURRENTLY RECEIVE CALLS	VARIABLES	CURRENTLY RECEIVE CALLS
Name is in the credit registries	-0.24*** (0.07)	Age	0.01 (0.02)
Did not want to lose opportunity ²⁹	0.33** (0.14)	Rural	-0.10 (0.07)
Has bank savings	0.15 (0.09)	Household size	-0.03* (0.02)
Has MFP loan	0.02 (0.05)	Log income	0.07 (0.05)
Compared loans	0.24*** (0.05)	Constant	-0.15 (0.52)
Females	0.06 (0.06)	Observations	979
		R-squared	0.16
ADDITIONAL CONTROL VARIABLES			
Education Level	YES	Marital Status	YES
Occupation	YES	Region	YES
ROBUST STANDARD ERRORS IN PARENTHESES		*** p<0.01	** p<0.05
			* p<0.1

FIGURE 13

Percent of National Sample Who Have Shared MFP Loan Products (N = 1000)³⁰



comparisons. On the other hand, there is also a positive correlation between clients who did not compare loans and those they said they took a particular loan because they did not want to lose an opportunity (statistically significant at the 5 percent level).

Although not a feature of microfinance alone, aggressive loan sales can contribute to over-indebtedness. With special promotions and convincing salespeople who have pressing weekly targets to meet, our focus group interviews revealed that even clients who report an aversion to taking out loans have a hard time resisting such tempting credit offers. Furthermore, it is possible that by engaging in such behavior, MFPs may sometimes fail to perform adequate due diligence and not get an updated picture of the client's situation. This may pose a commensurate risk for the institutions. The SBS has measures in place to prevent aggressive sales, but this is an area to continue monitoring in the future.

Some Clients View Credit Lines as a Benefit to be Shared: A Combined 18 Percent of Clients Have Either Taken Out a Loan for Someone Else or Borrowed Using Another Person's Name

As new microfinance clients have experience with informal financial products that function through their social networks, such as savings groups and reciprocal loans between family and friends, it is no surprise that people share formal financial instruments as well. In qualitative research, clients reported having access to higher credit limits as a source of social capital, and many are happy to have a privileged borrowing status that they can share with their social network.

The quantitative survey revealed that a combined 18 percent of clients have either given the money from a loan in their name to someone else, or have used a loan that was formally in another person's name, as shown in Figure 13 (1 percent report both offering a loan to someone else and taking a loan in another person's name).

Qualitative research respondents described how family members or close friends take on loans in other people's names:

RESPONDENT (R): "Well, I've never asked for [a loan] directly. Since my sister is the one with the job ...she does me the favor, but I am the one who pays for it of course."

MODERATOR (M): "So the loan is written to her name, but you pay it to your sister?"

R: "No, I pay the bank. I go with the receipt she gives me of my debt and I pay it."

M: "Ok, but the bank is aware of the agreement between you both?"

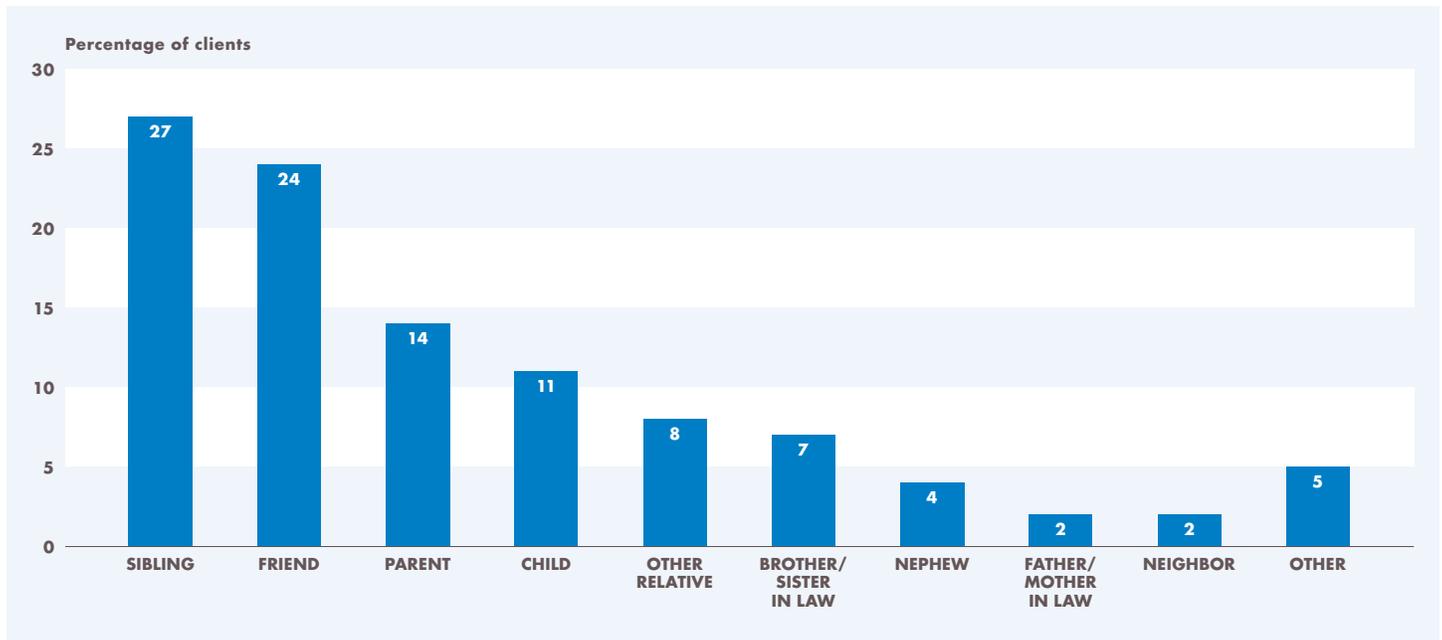
R: "No, it can't be like that. She gets the loan and lends it to me as if it were the bank. There is no problem with it as long as I pay on time. The one who must be on time with everything is me. I pay my debt, and her borrowing limit increases. So she benefits from it [too]."

WOMAN, URBAN LIMA

Most clients who give their loan disbursement to someone else or access a loan that is in someone else's name do so with immediate family members. However, about 30 percent

FIGURE 14

Relationship to Person Taking or Offering a Loan in Another Person’s Name (N = 162, multiple response)



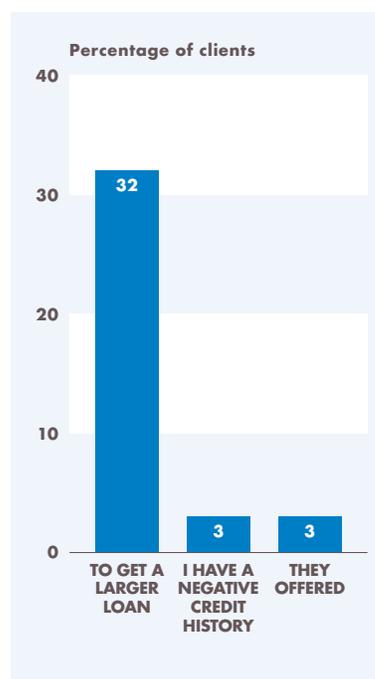
either received or applied for a loan from/for friends and neighbors (Figure 14).

Clients access loans in another person’s name because that person is already a client of the institution, meaning they have already submitted the paperwork and gone through the approval process (Figure 15). As a result, this person likely has a proven track record of repayments that grants them access to a higher credit limit. Yet skipping the application process can in itself be enough motivation for sharing credit products, regardless of credit limits. In some cases, clients are also borrowing in another person’s name because one person has a negative record in the credit bureau, or to take advantage of another person’s formal job, which grants easier approval and higher credit limits. MFPs may wish to communicate to clients that their application is not as onerous as they may think, which could help discourage to a certain extent the practice of sharing loans.

Although most clients reported that one is unlikely to have problems sharing loans with people they know well, things do not always work out as planned, as one respondent in Juliaca described:

FIGURE 15

Reasons for Sharing the Most Recent MFP Loan (N = 70, multiple responses)



Reason for Applying for Another Person (N = 103, multiple responses)

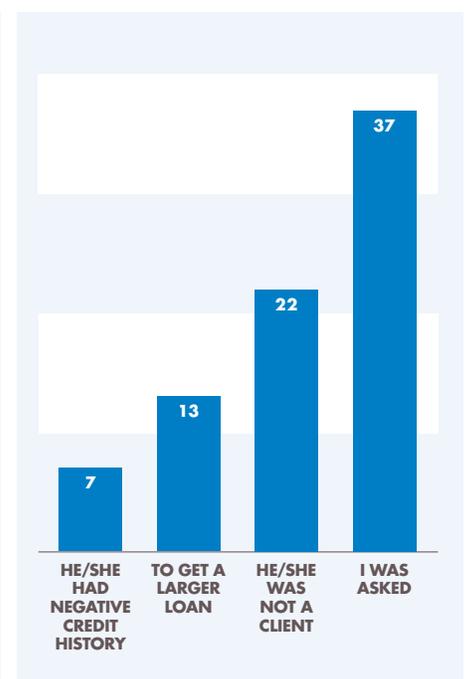


TABLE 3

Linear Probability Model, Ever Having Paid Late by Male and Female

VARIABLES	FEMALE PAID LATE	MALE PAID LATE
Has ever borrowed in someone else's name or taken out a loan for another person.	0.23*** (0.08)	0.29** (0.13)
MFP accepts late payments in the case of emergency	0.19** (0.09)	0.28*** (0.11)
Age	-0.01 (0.02)	-0.05** (0.02)
Current Clients	0.04 (0.07)	-0.06 (0.08)
Rural	-0.15** (0.07)	-0.03 (0.11)
Household size	0.03 (0.02)	-0.01 (0.02)
Log Income	-0.11* (0.06)	0.05 (0.07)
Constant	0.90 (0.59)	0.83 (0.73)
Observations	613	366
R-squared	0.18	0.27
ADDITIONAL CONTROL VARIABLES		
Marital Status	YES	YES
Education Level	YES	YES
Employment Type	YES	YES
Region	YES	YES
ROBUST STANDARD ERRORS IN PARENTHESES	*** p<0.01	** p<0.05 * p<0.1

“My sister-in-law needed money. I borrowed it for her, but I did not enjoy that money...I gave all the money to my sister-in-law thinking that she would pay back, but she didn't. One day I went to the bank, and my brother told me that I was bad on their system.”

WOMAN, URBAN JULIACA

Indeed, regression analysis reveals that there is a positive correlation between accessing a loan that is in someone else's name or borrowing for someone else and making late payments. The linear probability model in **Table 3** points to possible factors contributing to respondents paying late or defaulting on a loan. These results do not show causality, but the analysis shows that accessing loans in someone else's name is associated with increased late payments for both men and women. We find that both female and male respondents who have shared loans in this way are 23 and 29 percentage points, respectively, more likely to make a late loan payment, holding all else equal.

MFPs cannot control what clients do with the money they borrow, but it is important that financial institutions and regulators are aware of this behavior, as it may have implications for the credit reporting system. Providing additional information to clients about the risks of having another person make their payments, and emphasizing that the borrower is legally responsible for repayment would be helpful. Underlying factors may drive the reason why respondents are sharing loans and more research is needed to understand the risks associated with this behavior to both clients and MFPs.

Centralized Credit Reporting Creates a Strong Incentive for Repayment, and Clients Reported Minimal Client Protection Problems in Collections. However, Understanding of How the Credit Bureaus Work is Lacking

Before the installation of the credit bureaus, intimidating collection practices such as groups of people visiting houses and businesses to pressure errant borrowers, were common throughout Peru. Thugs who participated in these types of collectors were known as little yellow men, or *hombrecitos amarillos*. In qualitative interviews, a few

FIGURE 16

Consequences That Clients Experienced for Most Recent Late Loan Payment (N = 280, multiple responses)

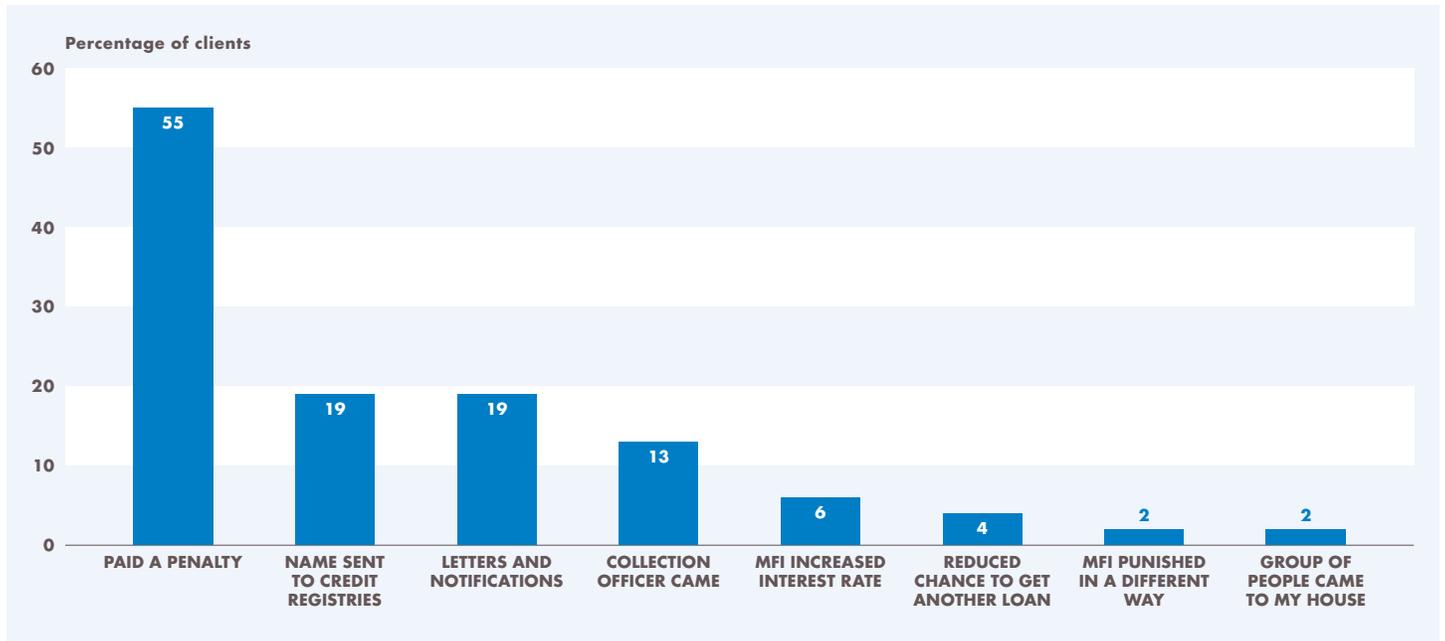


FIGURE 17

Client Perceptions of What Happens When Clients Make Late Payments

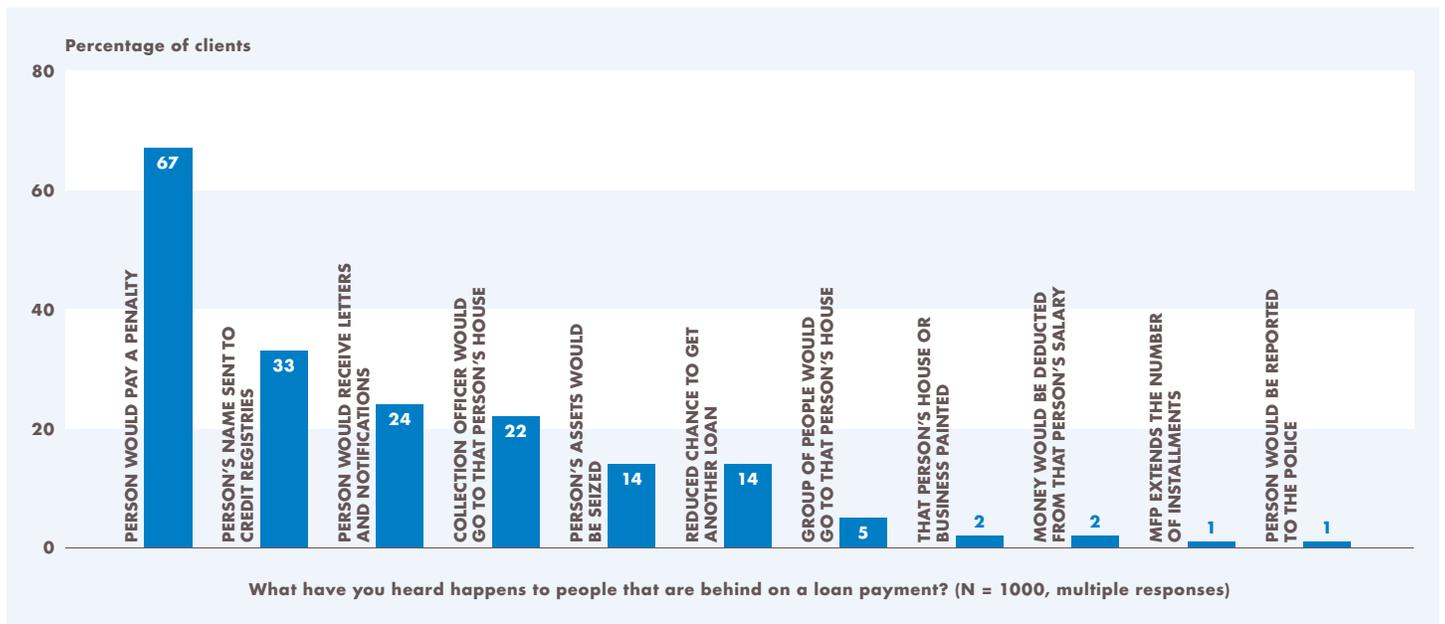


FIGURE 18

Photo Taken By a Client to Show Someone Selling the Second Floor of Their House to Prevent the Property Being Seized by the Bank



FIGURE 19

Reason for Negative Record in Credit Bureau³¹

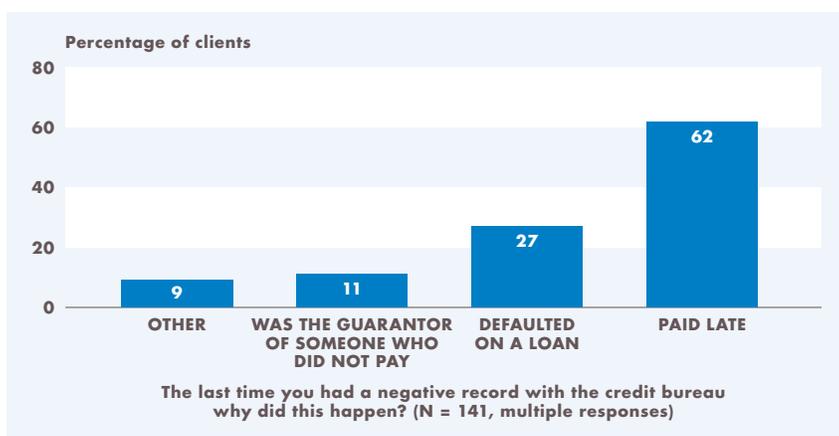
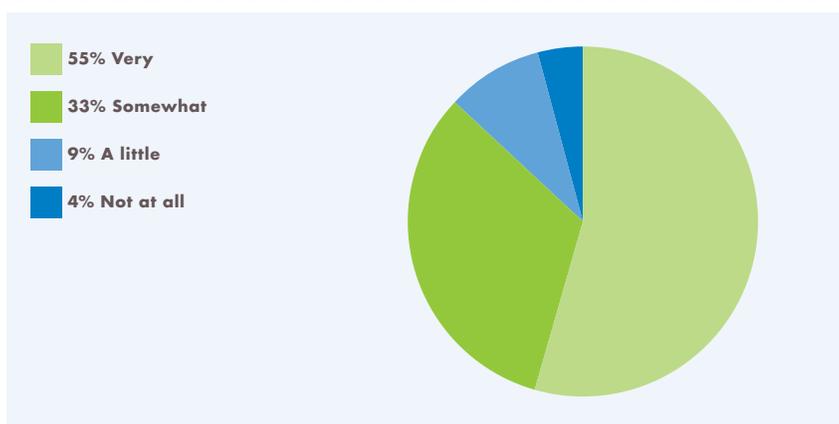


FIGURE 20

How Stressful Was Having Your Name in the Credit Bureau (Negative Record)? (N = 142)



respondents in Juliaca still mentioned having suffered from some of these extreme collection practices in recent years, such as groups coming to intimidate people at home or work, and painting people’s houses with the word “defaulter” (*moroso*). Fortunately, the quantitative survey finds no evidence that such abusive collection practices are common at the national level.³²

While shaming in collections—which the Client Voices project found to be a cause for concern in Pakistan and Benin—is rare in Peru, clients still must face the legally authorized collection practices of letters, calls, visits, and eventual court proceedings that may lead to a partial or complete seizure of assets. While Peruvian Law No 27598 (which modified the National Legislation on Consumer Protection in 2001)³³ states that financial institutions cannot send communications that resemble court documents or judicial proceedings, some clients still report that they are still being threatened with legal proceedings by MFP staff:

“Well, I have been late a couple of times, and they [MFP staff] have come to my home...They tell me that if I don’t pay back I can go on trial. Then the notifications start to come [letters and calls sent to the house].”

WOMAN, URBAN LIMA

One client took a photo of a unit that her neighbor had to sell in order to repay her debt payments before the bank seized the property (Figure 18).

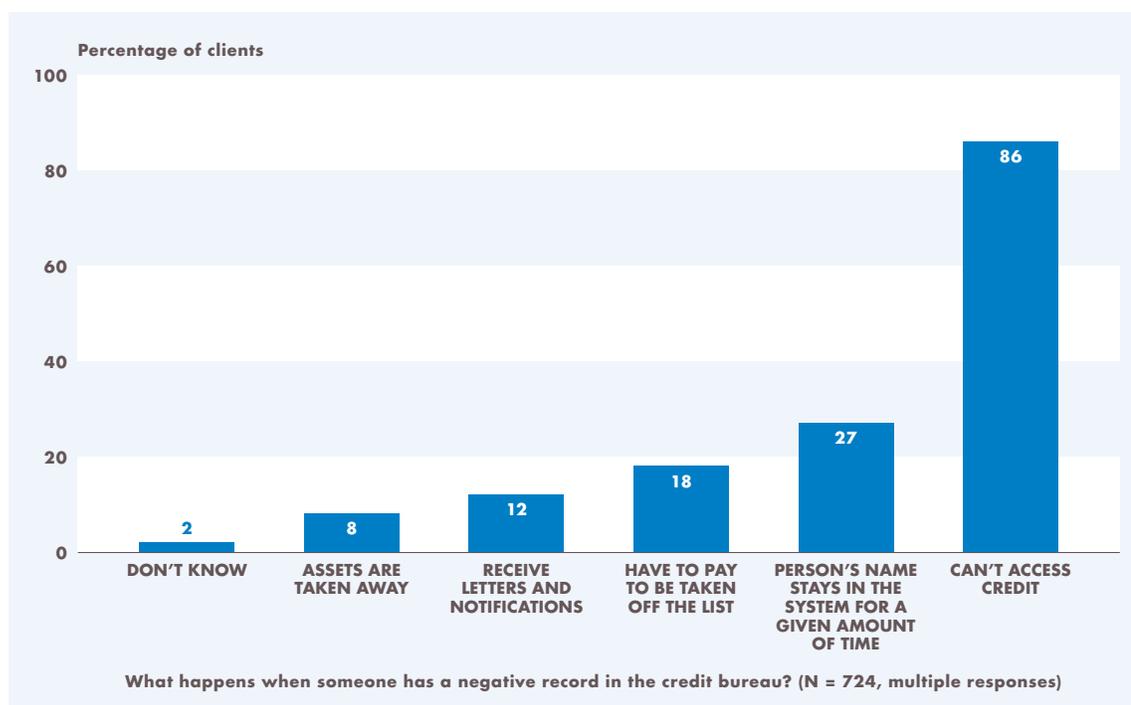
Although we do not detect continued use of painting houses or sending groups to collect from clients, regulators should remain alert to enforcing rules on the standards for fair collections practices.

20 percent of clients have had a negative record in the credit bureau, and the majority report this experience as being very stressful

One in five microfinance clients has had a negative record in the credit bureau. Paying late, abandoning a loan, and having co-signed for someone who did not pay are the main reasons that clients have had a negative record in the credit bureau (Figure 19). Unsurprisingly, the majority of clients who have had a negative record reported that the experience was stressful (Figure 20).

FIGURE 21

Client Perceptions of Having a Negative Record in the Credit Bureau



Of those who have had a negative record with the credit bureau, 12 percent do not know if their name is still registered at the bureau with a block on future borrowing. Surprisingly, 28 percent of current clients who have had a negative record with the credit bureau think that they still have a negative record, illustrating clients' confusion about the process, since they have since had a loan approved.

Clients lack information about how the credit bureau works

Although the credit reporting system affects a non-trivial proportion of clients, with 1 in 5 ever having a negative record, clients are not well informed about the system. The vast majority of microfinance clients—86 percent—have heard of the credit bureaus called *centrales de riesgo*. However, most clients still refer to all the different credit bureaus by the name of an old credit bureau that no longer exists: “INFOCORP” (now Equifax).

Additionally, clients seem to be unaware that credit bureaus now keep positive as well as negative information: in our research clients almost always spoke about “one’s name being in INFOCORP” to mean that they had a negative record only.³⁴ This is a clear indication of client misunderstanding of both the risks and benefits of credit reporting. Clients are also poorly informed about the implications and duration of having a negative record in the credit bureau.

For example, clients report different understandings of the consequences of having a negative credit record. Eighteen percent of clients thought one would have their name cleared only by repaying the full amount, or by waiting for a given fixed period of time (2 percent). Eight percent of clients believe that their assets would be seized before they could expunge their record (Figure 21). Conversations from qualitative research further highlight this point:

MODERATOR: “What happens if you miss a payment?”

R: “They notify you at home.”

R: They write in the walls “delinquent,” the bank tells you that you should pay.

R: “They put you in INFOCORP.”

R: “And that is it, you don’t get out of there!”

R: “Sometimes I would like to know how much time does it takes for you to get out of there, and nobody tells you anything.”

WOMEN, URBAN JULIACA

Another point of confusion is how long a negative record lasts:

M: “For how long [does one’s negative record stay in the credit registries]?”

R: “Five years, I think.”

R: “10 years.”

R: “For life.”

R: “Once you have paid, you must wait a lot of time to be trustworthy again.”

MEN, URBAN CAJAMARCA

Among those reporting that one’s name stays in the system with a negative record for a predetermined amount of time, answers for how long that time period is range from two months to 10 years. In reality, negative records in the Peruvian credit registry (which is centralized by SBS and then shared with the four private credit bureaus) only last for two years in cases where the debt is repaid, and five years in cases when it is not.

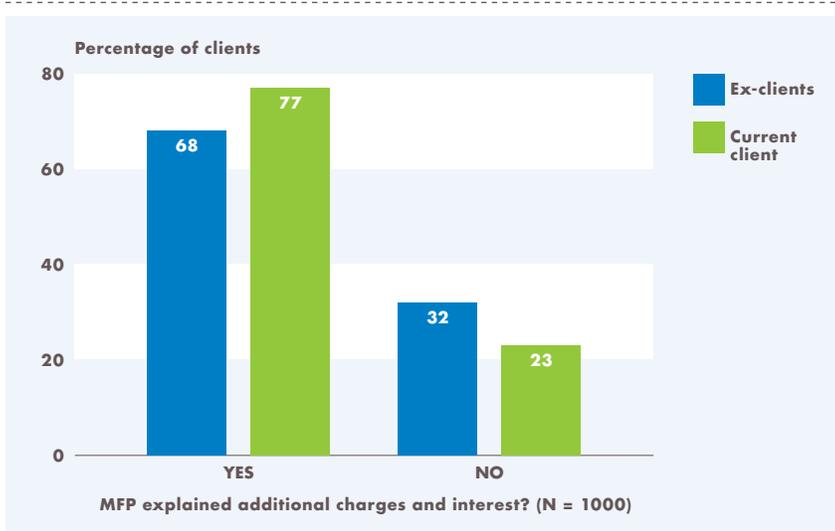
MFPs and regulatory authorities would do well to better inform users of the consequences of having a negative record and the duration of the limits imposed. More information about the consequences of having a negative record in the hands of clients is also likely to benefit MFPs as well by crystalizing the disincentive for paying late. Moreover, raising awareness about positive records could create further incentives for timely repayment, as clients can see their credit history as something they are investing in and building, rather than just avoiding punishment.

Disclosure Could Be Improved: Approximately 40 Percent of Respondents Did Not Completely Understand Their Loan Terms

Poor understanding of loan terms and conditions can result in clients thinking that MFPs are cheating them. Although 65 percent of current clients reported that they understood their loan terms well, they also report low levels of understanding in the case of bundled products, especially those that include insurance. On the other hand, 23 percent of current clients reported that MFPs did not explain the terms and conditions of the loan before signing (Figure 22). Consistent with findings from the other Client Voices countries, although most clients report that they have a good sense of their monthly payment amount, only 25 percent of current clients knew what the percentage interest rate was on their loans.

FIGURE 22

Clients’ Self-Reported Understanding of Loan Terms and Conditions



As an example, one client described her struggle to understand the fast-talking MFP officer in a focus group discussion:

“Often you go to them [the MFP staff] and don’t understand anything they say, because of how fast they talk. It is almost as if they have their tongues twisted. You end up not understanding in the end. [Then they say] ‘But ma’am I’ve explained it to you, how come you don’t understand? I’ve been very clear.’”

WOMAN, PERI-URBAN LIMA

Another issue that clients raised in the qualitative research was feeling rushed to complete the loan disbursement process by their MFP’s staff. Some clients feel they were not given enough time to ask the loan officer all the questions they had, either because there was a long line behind them or because staff were in a hurry.

“Well, it’s a little bit of everything really [why we don’t read the contract]. One thing is that we are all working and some of us are running against the clock. [At the MFP office] there are people behind us who have been waiting to be attended to for a while. There is [this] feeling that I need the loan, and before they change their minds, I better sign it.

“And besides, the [loan officer] who is making you sign, they don’t encourage you to read it. They don’t tell you any of that.”

WOMEN, URBAN LIMA

Lack of clarity around fees and charges can result in clients feeling surprised by charges, which they often report as a bad experience. About 10 percent of current clients were surprised by an aspect of their interaction with the MFP (Figure 23). Of the clients who were surprised by something about the loan process, nearly 40 percent were surprised by the repayment installment amount being different than what had been agreed to and 20 percent thought their interest rate had increased.

Clients are especially confused about insurance

Clients exhibit poor understanding of insurance products that accompany microfinance loans. About one in four clients (both past and current) did not know whether or not they had insurance

FIGURE 23

Loan Terms That Surprised Clients

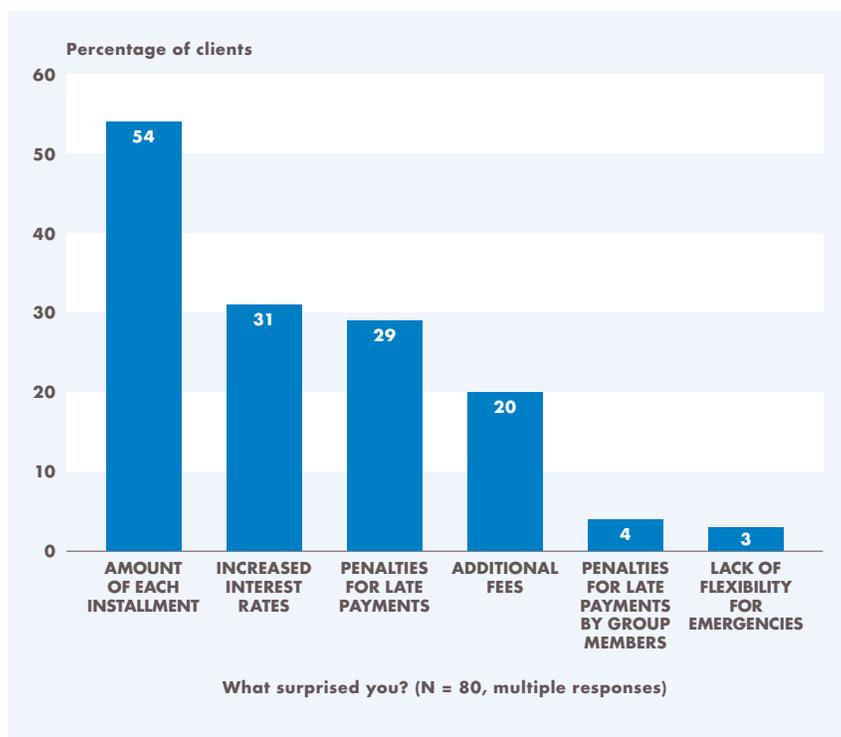


FIGURE 24

Nearly One-Quarter of Clients Do Not Know Whether or Not They Have Insurance

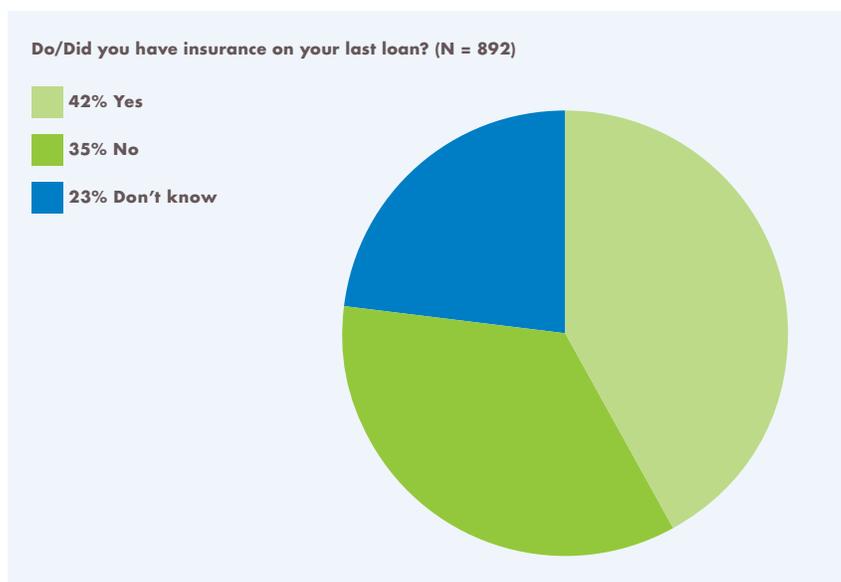


FIGURE 25

Client Reports of Types of Insurance With MFP Loans

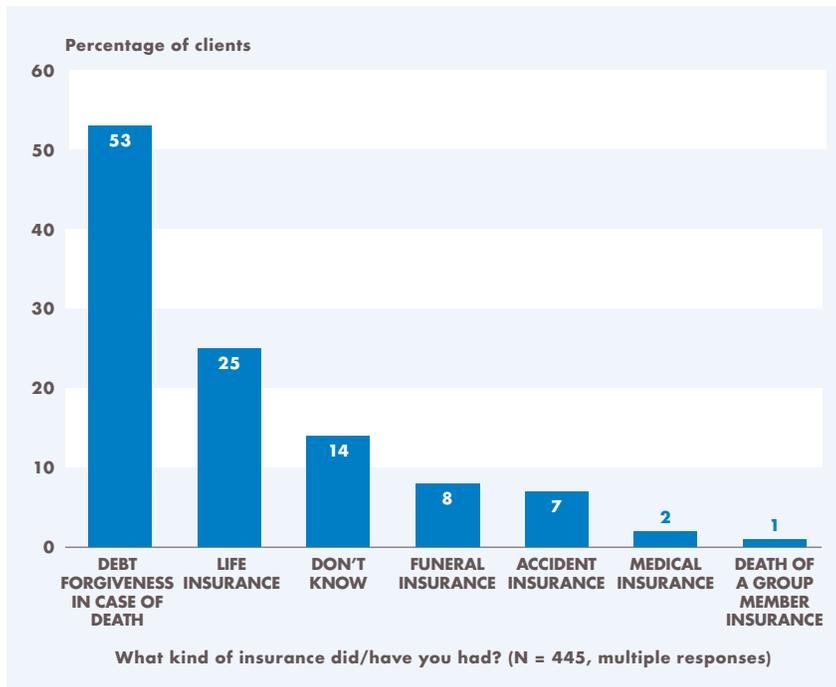
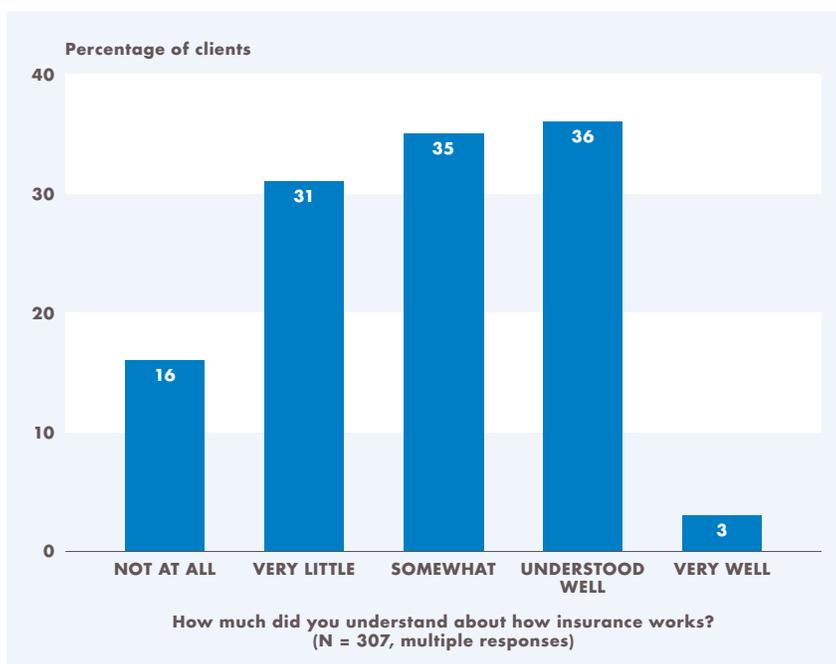


FIGURE 26

Understanding Among Clients Who Had Insurance With Most Recent Loan



with their most recent loan. Among those who were aware of their insurance, 14 percent did not know what kind of coverage they had. Overall, we estimate that about 30 percent of all MFP clients in Peru currently are not aware of the insurance policies tied to their loans, or even what the insurance covers. Special interest from regulators and key actors in the sector should be directed at this particular issue to increase client awareness of insurance policies used by MFPs.

Low levels of understanding of which insurance products clients have and how much they cost can result in bad experiences for the customer, as one respondent in qualitative research described:

“They tell you that you are eligible for the insurance of this thing and that other...They just give you a call—and you end up believing that it is going to come with the loan, but it’s not. You accept when they call you, but you don’t imagine that you are going to end up paying extra.”

WOMAN, PERI-URBAN LIMA

The low levels of understanding of insurance products that we found in our survey indicates that MFPs may wish to prioritize improving the explanation of insurance products that are linked to or sold in conjunction with MFP loans.

MFP Clients in Peru Have Many Options for Recourse, but the Majority of Clients Are Not Fully Aware of These Channels

Most clients are aware of public consumer protection resources

Peru features both a strong government consumer complaints institution (INDECOPI) and regulations mandating options for recourse at financial institutions. About two-thirds of clients have heard of the INDECOPI.³⁵ However, only 3 percent of all clients had ever engaged INDECOPI in a dispute. Although this is a small sample for further questioning, those who did complain with INDECOPI reported positive results. Slightly more than half of the respondents reported that their problem was resolved within two weeks. One man was even able to use the threat of escalating his complaint to gain leverage with an MFP that had charged him an unjust extra repayment:

“Many years ago I asked for a loan. I finished paying, but they [still] took away my money after that. I already had other debts, so I was very upset and looked for the assistant [loan officer]. He acknowledged it was a mistake, but said that I needed to wait 15 more days to get my money back. I couldn’t wait, so I threatened them to go to INDECOPI. I’m not sure how he did it...but he returned me my money right there.”

MAN, URBAN CAJAMARCA

Clients are using the available complaints channels

Of the 20 percent of clients who mentioned being dissatisfied with MFP services at some point, about one in four filed a complaint (Figure 27). Reasons for being dissatisfied include excessive charges, failure to explain terms, and rude treatment (Figure 28). Overcharging is a common reason for complaint, suggesting that if MFPs are transparent about charges from the beginning, they may be able to reduce costs by reducing the number of complaints. The fact that clients report being dissatisfied with poor explanations and rude treatment suggest MFPs may wish to improve staff capacity in these areas to improve client satisfaction.

However, as Figure 29 shows, less than half of these clients report that their complaint was

FIGURE 27

Percentage of Clients Who Have Had Reason to Complain and Did File a Complaint

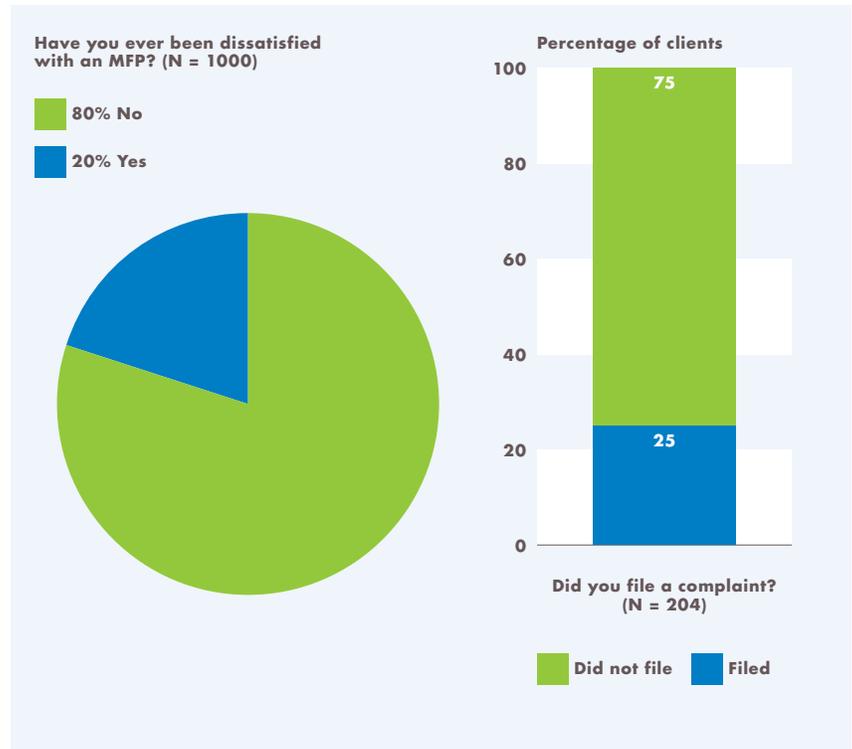


FIGURE 28

Reason Clients Wanted to Complain About MFP Services Among Those Reporting They Ever Wanted to Complain (Even If They Did Not Complain)

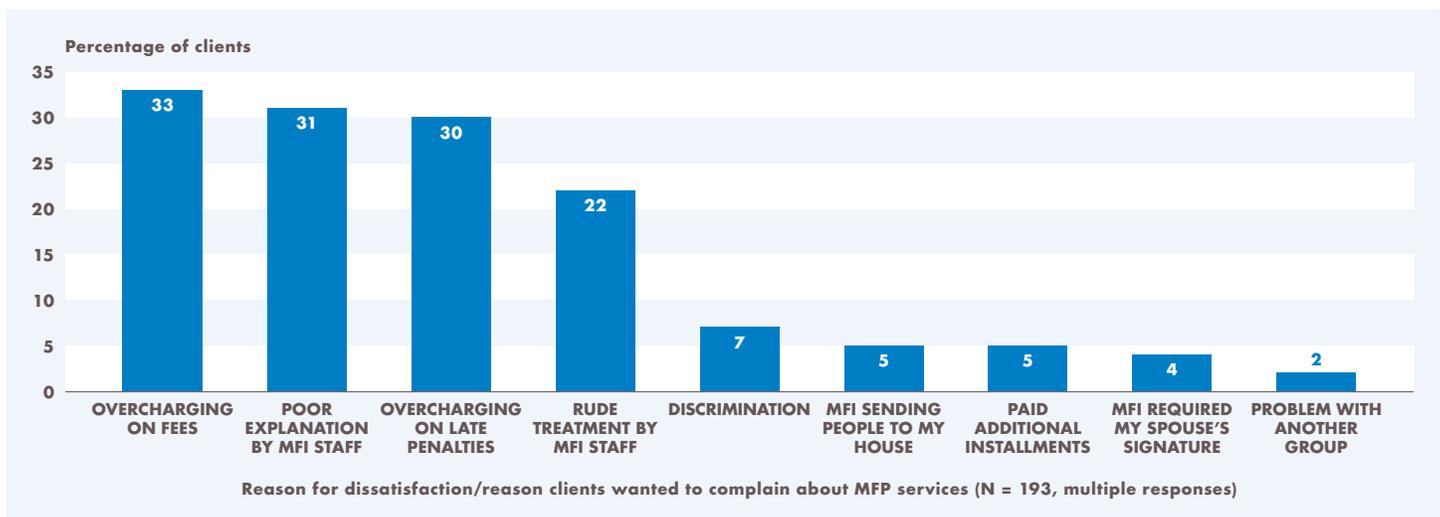


FIGURE 29

Client Satisfaction That Complaints Were Resolved

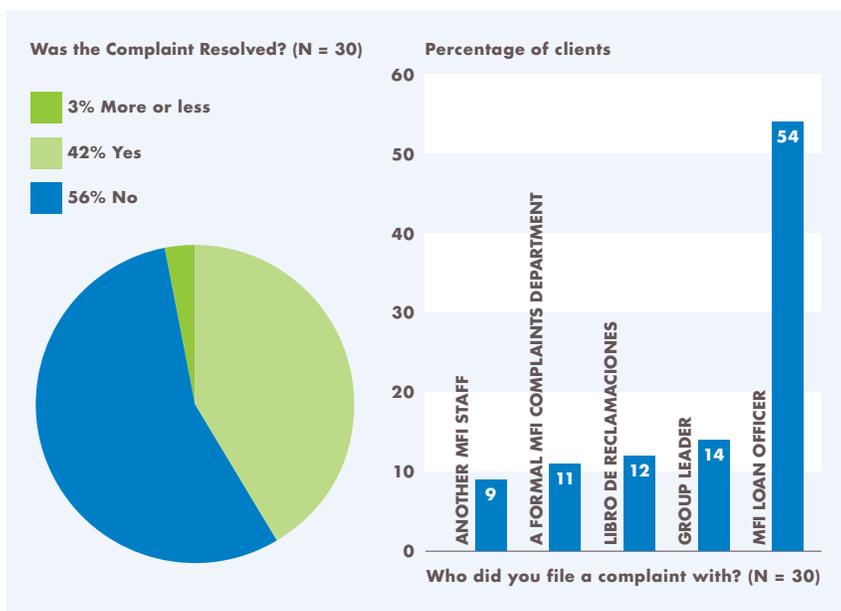
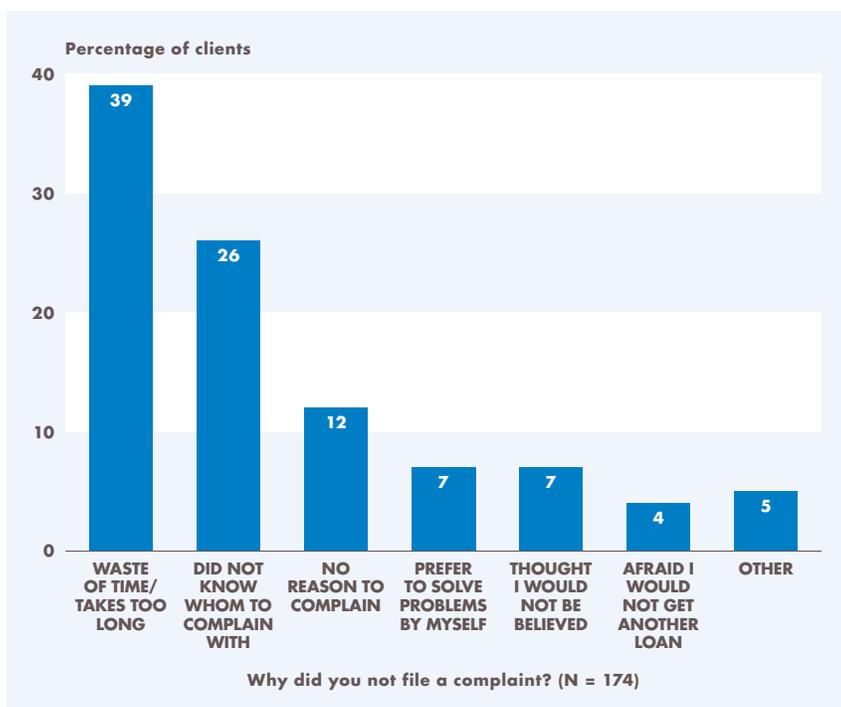


FIGURE 30

Reasons for Not Filing a Complaint



fully resolved. In more than half of all cases, clients were instructed to file any complaints directly with their loan officer, which can be problematic if the complaint they have is precisely related to the treatment they received from their loan officer. Best practices in the design of grievance redressal mechanisms suggest that MFPs should establish alternative channels of communication to prevent this problem. Although it is a small sample, we can see hints of that point to the presence of this issue in the right panel in Figure 29, which indicates that just over half of all reported unresolved claims were filed by the clients directly with their loan officers.

71% of clients report that the MFP did not tell them where they could complain

MFPs could do a better job of informing clients about the different grievance redressal mechanisms that are at their disposal. Only 29 percent of clients report that the MFP informed them of whom they could speak with if they have a problem with an MFP. Among those who reported having a reason to complain but did not do so, the most common deterrents are the fear that the process would be slow and not knowing where to complain (Figure 30).

In Annex 3 on consumer empowerment and agency, we explore how complaints, understanding, and other practices play into one definition of consumer empowerment.

Peruvian law requires that all business establishments have a complaints book where clients can express their grievances (*libro de reclamaciones*). Although 11 percent of those clients who have ever filed a complaint used the complaints book, most of them have the impression that doing so is purely symbolic:

RESPONDENT: “To whom are you going to complain?”

R: “There is a book for complaints. You fill yours along with your [national ID card] you sign, but they never call you.”

R: “They make that book vanish!”

FGD4 WOMEN, LIMA PERI-URBAN

When asked, qualitative research respondents reported that the complaints book is not a serious option for making a complaint heard.

Despite having a strong legal and governmental structure around complaints, there is still room for improvement in how recourse options are shared with clients.

Fostering a More Protective Ecosystem in Peru

3

With strong consumer protection regulations and public institutions offering recourse options combined with the well-functioning credit reporting system, Peru is advanced in protecting microfinance clients. Nonetheless, there is still room for improvement in key areas. The CPPs that emerge as the

priority areas for creating a more protective microfinance industry in Peru are Prevention of Over-Indebtedness, Fair and Respectful Treatment of Clients, and Transparency. We present ideas for measures that can be taken to address the main problems encountered in the Peru Client Voices research in **Table 4**.

TABLE 4

Consumer Protection Problems and Recommendations

CLIENT PROTECTION PROBLEM	PROPOSED RECOMMENDATION
<p>Clients are generally satisfied with microfinance services in Peru. However, some clients feel that MFPs do not treat clients equally, favoring wealthier or better-dressed clients.</p>	<p>Clients are happy with service quality at MFPs, and rank these institutions better than other formal financial service providers in terms of treatment. MFPs may wish to work to counteract the impression that they treat some clients better than others. Improved staff training at MFPs could help to raise awareness about conscious and unconscious bias that may result in differential treatment. For example: MFPs should work to correct the impression that they treat clients differently based on dress or appearance.</p> <p>Strengthening of MFP non-discrimination policies could also be beneficial. Investors, donors, and microfinance networks should continue to promote equal treatment of all prospective clients.</p>
<p>Some clients are burdened by debt and 10 percent have felt pressure to take a loan.</p>	<p>Additional research is needed to learn more about over-indebtedness among microfinance clients, and which types of clients are most severely affected.</p> <p>Our research suggests that many clients are aware that they should not take on additional debt, but are tempted by compelling limited time offers. Regulators should remain attentive to credit sales that might use deceptive tactics or pressure clients excessively.</p> <p>Additionally, many clients face a fundamental challenge—their income flows are irregular while debt payments are structured and inflexible. Products that offer flexible repayment structures and facilitate paying an amount proportional to earnings have potential to ease these burdens for clients. Reminding clients that they can pay their loan early under Peruvian law may also help some clients to match their payments to their income cash flow patterns. However, this is more likely a role for a government agency.</p>

TABLE 4

Consumer Protection Problems and Recommendations (continued)

CLIENT PROTECTION PROBLEM	PROPOSED RECOMMENDATION
<p>Some clients share formal financial instruments: a combined 18 percent of clients have either taken out a loan for someone else or accessed a loan that was in another person's name.</p>	<p>We find that respondents who have taken out loans in other's names or borrowed for another person are more likely to make late repayments or to default or abandon a loan, suggesting this practice is associated with risks to clients and MFPs. More research is needed to understand why clients share loans in this way.</p> <p>Although it is helpful for MFPs and regulators to be aware of this practice, trying to stop clients from accessing loans through their social network is unlikely to work: enforcement would be difficult, if not impossible. However, MFPs and government agencies should provide clear information reminding clients that they are legally responsible for the loan, even if they share the money with others. MFPs may not be emphasizing this message.</p>
<p>Centralized credit reporting creates a strong incentive for repayment, and clients reported minimal client protection problems in collections. However, clients do not have a good understanding of how the credit bureau works, or of the consequences of having a negative record.</p>	<p>MFPs and government agencies should share information with clients about the specific consequences of having a negative record in the credit bureau: what a client needs to do to clear his or her name and over what timeframe. The incentive system of credit reporting is likely to only work better with improved transparency.</p> <p>Additionally, raising awareness about positive records may create further incentives for timely repayment, as clients can see their credit history as something they are investing in and building, rather than just avoiding punishment.</p>
<p>Disclosure could be improved: Approximately 40 percent of respondents did not understand loan terms completely.</p>	<p>Investors and donors should continue to prioritize clear disclosure of fees and charges. Lack of transparency decreases MFPs' credibility in clients and can be damaging to the industry as a whole.</p> <p>Regulators may wish to investigate disclosure rules for insurance, as our research suggests that some clients have insurance products that they don't understand or know how to use.</p> <p>Similarly, providers should explore new ways of presenting information about how insurance works so key information gets through to policyholders. Increased use of shorter contracts and easy to read summary sheets would be beneficial.</p>
<p>MFP clients in Peru have many options for recourse, and they are making use of them. However, clients see complaints books (the mandatory channel) as purely symbolic. Some clients have little faith that filing a complaint will solve their problem.</p>	<p>MFPs should be sure to inform clients of all their options for solving any issues or problems with MFP services.</p> <p>Both MFPs and INDECOPI should work towards improving client satisfaction, as more than half of all clients who complained reported that their issue was never resolved.</p> <p>Regulators may wish to examine the efficacy of the complaints book law, and take steps to ensure these complaints are taken seriously, or to eliminate the practice if it is found to be inefficient and ineffective for both clients and businesses.</p>

The Smart Campaign and its partners have identified three pillars that are necessary for building a protective client protection ecosystem in individual markets: regulation for client protection and supervision, financial education and capability, and standards and codes of conduct for the industry.

Addressing these concerns requires a market-level approach that takes into consideration the unique role that regulators, industry and clients themselves each must play. The Smart Campaign and its partners have identified three pillars that are necessary for building a protective client protection ecosystem in individual markets: regulation

for client protection and supervision, financial education and capability, and standards and codes of conduct for the industry. Coordinating solutions between regulatory agencies, MFPs, investors, and consumer protection providers will be important in continuing to improve the consumer protection environment in Peru.

FIGURE 31

The Smart Campaign's and Partners' Pillars for Client Protection



Members of the IAC and NAC

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Kim Wilson,
Fletcher School at Tufts University

Monique Cohen,
Board of Microfinance Opportunities

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Ever Eguzquiza, COPEME

Gloria Acosta, EDPYME Raíz

Viviana Salinas, FINCA Peru

Nino Mesarina, Accion

Description of the Research Methodology

Qualitative Research

The main objectives of qualitative research were to hear from clients on what they consider good and bad treatment, and to uncover microfinance consumer protection issues specific to Peru. We relied on the research tools described in **Table 5** during the qualitative research.

The National Advisory Council assisted us to select Lima, Cajamarca, and Juliaca as the sites for the qualitative research. In Lima we recruited participants from the urban

center and semi-urban areas surrounding the city. In Cajamarca and Juliaca we recruited respondents from the cities as well as rural small towns within about one hour of Cajamarca and Juliaca cities, respectively. **Table 6** provides more details on the number of interviews.

Respondents participating in qualitative research were clients of various designations of MFPs, including MFPs, savings and loan institutions, cooperatives, and NGOs offering group loans (*financieras, cajas, cooperativas, and*

TABLE 5

Qualitative Research Tools and Objectives

RESEARCH TOOL	OBJECTIVES
Focus group discussions	To understand clients' perspectives and reasons about what they view as good or bad treatment, and to rank the attributes of such treatments and various institutions using a variety of exercises.
Individual in-depth interviews	To gain a deep understanding of individuals' interactions with MFPs, and how experiences are shaped by circumstances. A secondary objective was to obtain personal details and information about financial situations not appropriate for discussion in a group context.
Photography exercise	To incite discussion and better understand clients' views of good and bad treatment, through images and metaphors, contextualized by information from interviews with the individuals.

FIGURE 32

Locations of Qualitative Research



ONGs in Peru). For this phase of the research clients with loans from the microfinance arm of commercial banks, as well as loans from large retail stores were also included in the sample. Discussing different types of institutions together caused confusion a few times during the discussion, and we hypothesized that more traditional microfinance clients might face specific consumer protection issues. Because of this, and to avoid including products like large bank loans or store cards in the quantitative sample, we excluded these institutions from the national survey. Datum International, our Peruvian research partner, recruited respondents in markets, shops, and commercial centers to participate in research. We compensated respondents for their time, and we gave the clients who took photos for the photography exercise the simple point-and-shoot cameras they used as a gift.

BFA and Datum implemented qualitative research in January and February 2015.

National Quantitative Survey

The main objective of the quantitative survey was to understand how common problems with microfinance providers are at the national level in Peru. There is no aggregate information or address listing for all microfinance borrowers as a group, and the research budget did not permit carrying out a census in enumeration areas in a national sample. Fortunately, we were able to leverage SBS data on the number of borrowers with loans under a certain value to gain information about where microfinance borrowers are likely to be located. Through discussions with the Smart Campaign, the SBS, and the National Advisory Council we decided to use the loan value cutoff of 10,000 Soles, (about U.S. \$3,000) in the sample selection. This was less than a definition of 20,000 Soles (U.S. \$6,000) that SBS uses to distinguish small loans. We elected to use the 10,000 Soles limit to include more low-income people in the sample and to keep the sample more comparable with the types of respondents included in surveys in the other Client Voices countries.

We oversampled rural areas, aiming for 30 percent of enumeration areas being rural, as shows in Table 6. In practice 24 percent

TABLE 6

Distribution of Focus Group Discussions and Individual Interviews

	CAJAMARCA	LIMA	JULIACA	TOTAL
FGDs	1 Focus Group Discussion women, urban	1 FGD women, urban	1 Focus Group Discussion women, urban	9 Focus Group Discussions in total
	1 FGD men, urban	1 FGD women, peri-urban	1 FGD men, urban	
	1 FGD women, rural	1 FGD men, urban	1 FGD women, rural	
Individual interviews	1 man, urban	2 men, urban	1 man, urban	11 individual interviews in total (5 with photography)
	1 woman, urban	1 woman, urban	1 woman, urban	
	1 woman, rural	All 5 participating in photography exercise.	1 woman, rural	

of the unweighted sample was from rural enumeration areas.

The sample included 72 districts in eight provinces (Table 7).³⁶ We oversampled rural areas, keeping 25 percent of the sample rural in each department. To select the sample, we ordered districts by the number of clients with loans under 10,000 Soles and did a random selection of the urban and rural districts with the most borrowers in each of the eight provinces. Although we wished to survey low-income microfinance clients, the selection criteria of loans below 10,000 Soles did not take into account which types of institutions loans were from, and the selection from Lima and Callao resulted in wealthy areas being selected into the sample, likely due to large numbers of credit cards and retail store loans. To correct for this, we limited the sample selection in Lima and Callao to neighborhoods

classified by the government as socioeconomic classification C or D (on an A–E scale, with A being the wealthiest).³⁷ All analysis in this report uses sample weights created by Datum International based on SBS data on the number of MFP clients with loans under 10,000 Soles.

In the second stage of sampling, households were selected using a random-walk approach as we did not have an address listing. If there was more than one eligible household member, we selected randomly between them using a Kish grid. All analysis in this report uses sample weights created by Datum International based on SBS data on the number of MFP clients with loans under 10,000 Soles.

BFA participated in piloting the questionnaire and enumerator training with Datum International. Piloting and training took place in late May, and the survey was applied in the field in June and July 2015.

The main objective of the quantitative survey was to understand how common problems with microfinance providers are at the national level in Peru.

TABLE 7

Sample Distribution, Quantitative Survey

REGION AND CITY	TOTAL NUMBER OF BORROWERS WITH DEBT LESS THAN S/. 10000	URBAN POP.	RURAL POP.	PERCENT OF SAMPLE URBAN	RURAL OVER-SAMPLE	TOTAL SAMPLE	URBAN SAMPLE	RURAL SAMPLE
Region: Lima/City: Lima	3,630,924	1,818,895	3,136	100%	0%	200	200	0
Region: Arequipa/City: Arequipa	308,202	196,520	4,457	70%	30%	200	140	60
Region: La Libertad/City: Trujillo	221,657	171,819	3,111	70%	30%	150	105	45
Region: Lambayeque/ City: Chiclayo	173,551	158,983	12,658	70%	30%	100	70	30
Region: Piura/City: Piura	172,675	121,815	20,809	70%	30%	100	70	30
Region: Junin/City: Huancayo	122,428	78,854	4,276	70%	30%	100	70	30
Region: Cusco/City: Cusco	96,794	88,962	2,910	70%	30%	75	53	22
Region: Loreto/City: Maynas	60,817	77,826	9,887	70%	30%	75	53	22
TOTAL						1000	761	239

Consumer Agency

The methodology and survey questionnaire posed a unique opportunity to measure respondent empowerment or “agency” with their relationship with MFPs.³⁸ By creating an index of questions, it is possible to identify an “Agency Score” aimed at measuring how much control a respondent has when working with MFPs.

The Agency Score is a normalized score from 0–100 based on an index of nine questions. Each question relates to MFP complaint resolution, respondent beliefs, and understanding of loan terms. The following questions are indicator variables that aggregate to form the Agency Score:

- The MFP told the respondent where to complain
- The MFP explained additional charges related to the loan
- Respondent feels that his/her complaints are listened to
- Respondent compared other loans before signing
- Respondent understood how insurance works
- Respondent understood the written language related to the contract
- Respondent understand verbal language explain by the loan officer related to the contract
- Respondent has heard of the INDECOPI

TABLE 8

Relative Weighting of Each Variable to Agency Score

VARIABLE	WEIGHTED COEFFICIENT
Understood overall loan terms	0.60
Understood written language of loan terms	0.48
Understood verbal language of loan terms	0.46
MFI explained charges/consequences	0.24
Understood insurance	0.17
Compared other loans	0.12
Felt MFP listened to complaints	0.11
MFP told respondent where to complain	0.09
Heard of INDECOPI	0.03

By creating an index of questions, it is possible to identify an “Agency Score” aimed at measuring how much control a respondent has when working with MFPs.

In addition to a standard index, we carried out factor analysis on the above indicators to map the relationship of the included variables to an unknown latent variable, called Agency Score. Factor analysis is a statistical method that represents correlated variables with a “derived” variable. One benefit of factor analysis is the ability to weight variables (0–1) based on their correlation with the underlying variable, thus

TABLE 9

Agency Score by Demographic Characteristics

VARIABLES	FACTOR ANALYSIS	
	AGENCY SCORE	AGENCY SCORE
Urban	44	50
Rural	40	50
Male	46	54
Female	42	48

some variables have more explanatory power in the Agency Score than others.

Table 8 shows the weighted coefficients of variables and their relationship with the derived “Agency.” Understanding of loan terms and the verbal/written language used in the loan are weighted most significantly relative to other variables.

Identifying and measuring a MFP client’s agency is necessary not only for consumer protection but also, potentially, for the long-term financial health of clients. Table 9 shows the Agency Score as derived from a normalized index and from factor analysis. The two scores are similar and show similar trends. Overall, respondents have an average Agency Score of 44 (50 with factor analysis) out of a possible 100 points. Additionally, females have an Agency Score that is less than men’s scores. Respondent agency over beliefs about MFPs, their understanding of loans and avenues of complaint resolution taken together is missing for a large share of respondents. MFPs could potentially do more to empower their clients and foster an environment that builds up client control even more. Increasing client agency potentially improves the client MFP relationship, ultimately driving greater financial capability to clients.

Endnotes

- 1 See www.smartcampaign.org/about/campaign-mission-a-goals for more details.
- 2 The Smart Campaign CPPs are: 1. Appropriate Product Design and Delivery; 2. Prevention of Over-Indebtedness; 3. Transparency; 4. Responsible Pricing; 5. Fair and Respectful Treatment of Clients; 6. Privacy of Client Data; 7. Mechanisms for Complaint Resolution.
- 3 www.bankablefrontier.com
- 4 www.datum.com.pe
- 5 We use the term Microfinance Provider, or MFP, to cover the types of financial institutions included in this research, namely MFPs, savings and loan associations, and NGOs offering group loans, or as they are known in Peru, *financieras, cajas rurales, cajas municipales, cooperativas, ONGs*.
- 6 See Annex 2 for a map and additional details about these locations.
- 7 The schedule of the qualitative research unexpectedly ran into carnival celebrations in Juliaca and Cajamarca, which disrupted our ability to distribute cameras and collect photographs from clients in these areas. Therefore only respondents from Lima participated in the photography exercise for Peru.
- 8 This information was provided at the anonymized, aggregate level, and no personal or identifying information was shared.
- 9 As the qualitative sample is not large enough to draw meaningful conclusions from proportions, we do not report any percentages from qualitative research.
- 10 Respondents with products from commercial bank's microfinance portfolio were only included in the qualitative sample and not in the quantitative survey.
- 11 This is a larger portion of former clients than in other Client Voices countries. In Peru we were interested in problems in collections in the past and how the incidence of such problems may have changed over time.
- 12 The World Bank, *Peru: Diagnostic Review of Consumer Protection and Financial Literacy*. (Washington, DC: World Bank, 2013).
- 13 See www.copeme.org.pe/
- 14 Economist Intelligence Unit, *Global Microscope on the Microfinance Business Environment* (London: EIU, 2013). See: <http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38098109>
- 15 www.indecopi.gob.pe/
- 16 The Superintendency of Banking, Insurance and Private Pension Funds (SBS) Client Service Platform (PAU) is in charge of responding to inquiries, providing orientation and receiving formal complaints from consumers. Additionally, a memorandum of understanding between the SBS and INDECOPi governs cooperation between the two institutions in relation to the exercise of their respective powers and functions. Source: Diagnostic review of consumer protection and financial literacy, SBS.
- 17 Center for Financial Inclusion at Accion. "Client Protection in Peru," Client Protection Library, available at: www.centerforfinancialinclusion.org/publications-a-resources/client-protection-library/108-summary-of-client-protection-in-peru
- 18 Clients often refer to the four credit bureaus in the country (known officially as *Centrales de Riesgo*) by the name of one of them, INFOCOR, so we used this terminology when speaking with users throughout the project.
- 19 Copeme, *Reporte Financiero de Instituciones de Microfinanzas* (March 2014), available at: www.copeme.org.pe/old/images/reportes/microfinanzas/2014/reportes_copeme_imfs_marzo2014.pdf
- 20 Additionally, the SBS in Peru prohibits financial institutions and their employees from sharing any client information without their express written permission.
- 21 We asked clients a free response question and then coded answers.
- 22 Only includes observations with debt-to-income ratios greater than zero with all outliers removed.
- 23 It is possible that monthly income is underreported, a common challenge in household surveys. For a discussion of this issue see for example Angus Deaton, *The Analysis of Household Surveys: A Microeconomic Approach to Development Policy*. (Baltimore: Johns Hopkins University Press.,1997).
- 24 Overall, respondents had a median loan size of U.S. \$624, with a median monthly loan payment of U.S. \$72.
- 25 Only includes observations with debt-to-income ratios greater than zero with all outliers removed.
- 26 "None of the above" refers to respondents who have taken none of these actions to come up with a loan payment. A *pollada*, or chicken party is a uniquely Peruvian way of raising money. The host will buy the supplies and prepare a large barbeque meal, charging his or her friends and neighbors per plate. Hosting a *pollada* results in fairly small profit margins, but it is a good way to get money quickly. For more detail see: www.theguardian.com/global-development-professionals-network/2015/jan/29/chicken-parties-poor-raise-money
- 27 As per the law SBS N° 6941-2008
- 28 CreditScotia and similar microfinance products from large commercial banks like Scotia Bank were included in the discussions in the qualitative research including the photography exercise. However, these types of institutions were not the focus of the quantitative survey. If a respondent only had a loan from a commercial bank with a microfinance portfolio and no other MFP products, he/she would not be included in our sample. The question in the quantitative survey about receiving offers asked, "Do you currently receive visits or calls from MFPs offering you loans?" ("Actualmente, recibe visitas o llamadas de financieras ofreciéndole préstamos?")
- 29 Respondents that did not compare loans before signing; a follow-up question asked why respondent did not compare loans.
- 30 The column to the right (18%) is the sum of those answering yes to the other two options (1% did both).
- 31 The questionnaire referred to what clients understood as default. This does not specify the number of days in arrears.
- 32 Juliaca was not selected into the quantitative sample through random selection, so we do not have quantitative evidence on the prevalence of this problem in this area. It is worth mentioning that despite the fact that there is evidence that MFPs no longer engage in such extreme collection practices, a small percentage of clients (around 5%), still have the impression (and perhaps fear) that if they ever fall back on their debt payments, a group of people might be sent to their house to pose threats or even paint their house, as shown in Figure 16.
- 33 <http://peru.justia.com/federales/leyes/27598-dec-13-2001/gdoc/>
- 34 Clients around Peru most commonly refer to this as "estar en INFOCOR" or "tener mi nombre in INFOCORP" (previously one of the credit bureaus, now called Equifax). The quantitative survey did not ask if clients know about positive records in the credit bureau directly.
- 35 Additionally, for any sort of dispute with financial providers, clients also have additional public mechanisms available, such as the "Plataforma de Atención al Usuario" of the SBS and the "Defensoría del Consumidor Financiero," which can serve as first instances before raising the issue at INDECOPi.
- 36 The eight provinces are Arequipa, Cusco, Junin, La Libertad, Lambayeque, Loreto, Piura, and Lima/ Callao.
- 37 See for example APEIM, "Niveles Socioeconomicos 2014," available at: www.apeim.com.pe/wp-content/themes/apeim/docs/nse/APEIM-NSE-2014.pdf
- 38 We use the term "agency" when referring to the Peruvian market, as the SBS already has a specific definition of empowerment, and we wish to avoid confusion with this metric.

The Smart Campaign is a global effort to unite microfinance leaders around a common goal: to keep clients as the driving force of the industry. The Smart Campaign consists of microfinance leaders from around the world who believe that protecting clients is not only the right thing to do but the smart thing to do. By providing microfinance institutions with the tools and resources they need to deliver transparent, respectful, and prudent financial services to all clients, the Smart Campaign is helping the industry maintain a dual focus on improving clients' lives while attaining financial sustainability. The Campaign is headquartered at the Center for Financial Inclusion at Accion. Learn more at www.smartcampaign.org.

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CENTER for
FINANCIAL
INCLUSION

ACCION



Keeping clients first
in microfinance