



STANDARDS FOR RESPONSIBLE DIGITAL FINANCIAL SERVICES:
RESPONSIBLE PRICING STANDARDS SECTION

1 June 2022

DRAFT

CERISE + SPTF
Draft Standards: Responsible Pricing
(as of 1 June 2022)

Standards for Responsible Pricing

1. Board and management create a pricing strategy and review it with at minimum [X] frequency.
2. Communicate the annual percentage rate (APR) and all fees.
3. Have a simple fee structure.
4. Disclose the fee structure at the time the customer is choosing to use a product, not only at the moment when the customer is being charged a fee.
5. Do not have a minimum balance requirement for a savings account.
6. Put systems in place to protect customers from overdraft fees.
7. When a customer defaults, do not charge compounding interest or late fees.
8. Structure interest rate and repayment schedules for loans so that the customer never ends up paying more in interest than s/he received in loan capital.
9. Do not pass on innovation costs, inefficiency costs, or poor loan portfolio costs, to customers.
10. Reduce prices for customers who have a demonstrated record of on-time payment.
11. Monitor credit scoring algorithms to make sure they get more effective over time, leading to better ability by the FSP to price appropriately given actual customer risk and repayment probability.

Guidance on responsible pricing: concepts, examples of real practice, and questions to address

Concepts

- It is important to state clearly to customers the consequences of not repaying a loan (e.g., seize collateral, refuse a new loan, report to credit bureau) before s/he chooses to take out the loan. This issue straddles the topics of price and transparency.
- Some tips to reduce costs:
 - Launch new partnership with venture capital or other entities to share the upfront costs so you don't pass it onto customers.
 - Take advantage of open-source software for IT systems.
- One way to serve harder-to-reach populations sustainably is to cross-subsidize, using funds earned from higher-end customers to serve lower-end customers at affordable prices.
- The board could enable experimentation with product design while managing risk by setting aside a percentage of money as risk capital and that it would not hold that to the same risk standards. Its attitude would be, "Let's invest in learning more and building our confidence in these newer models."
- Two ideas for systems to protect customers from overdraft fees:
 - Use technology to identify when an account balance is not sufficient for a transaction and then deny the transaction rather than allowing overdraft. OR
 - Have in place a system to allow for overdraft up to a small modest amount, and to notify the customer in real time when s/he has an overdraft.

Examples of real practice:

- Mifos is one open-source core banking software option

Outstanding questions:

- The working group was split on how much of the content in the original Universal Standards around responsible pricing continues to apply in a digital context. About half the group that voted said all or almost all still applied, while almost half that votes said less than half still apply. SPTF will investigate this further.
- Should FSPs be moving away from a transaction-base fee structure, because it does not fit with current technology and current business models?