

## Assessing the Regulatory Environment – World Microfinance Forum Geneva

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## Prudential vs. Non Prudential

### Prudential Regulation

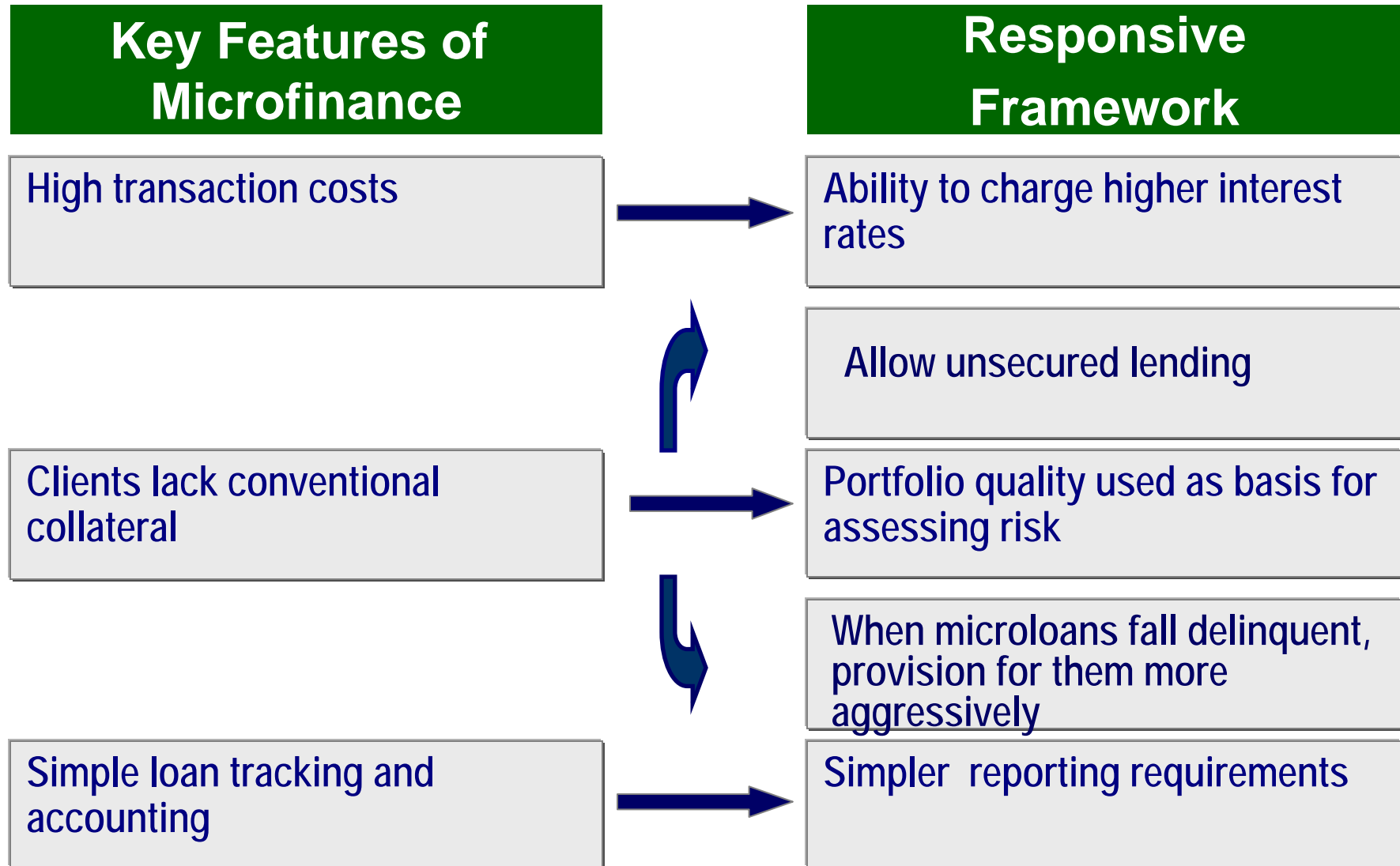
- Prevents unsafe institutions from risking depositors' money and damaging public confidence in the financial system
- Involves monitoring and protecting the core health of an institution
- Is relatively difficult, intrusive, and expensive

### Non-Prudential Regulation

Governs some business behavior, but

- Does not involve government taking responsibility for the financial soundness of the organization
- Tends to be easier to administer

General Principle: Avoid using burdensome prudential regulation for non-prudential purposes



Standard Banking Regulations	When Applied to Microfinance
Capital-adequacy ratios	May need more equity capital due to risk
Minimum capital requirements	Need to balance promotion of microfinance with the realistic capacity to supervise
Limits on unsecured lending	Impractical for character-based lending
Registration of collateral	Too expensive for tiny loans
Requirements for branches: Security standards, working hours, daily clearing of accounts, limitations on location	May interfere with innovations that reduce costs and bring more convenient service to clients
Standard loan documentation requirements	May be too expensive and time consuming

## Other Consideration

Non Prudential Issues	When Applied to Microfinance
Consumer Protection	Prevention of Abusive Practices Truth-in-Lending
Credit Bureaus	Prevention of over-indebtedness
Interest Rates Limits/Caps	Cost of operations
Limitations on Ownership, Management and Capital Structure	May limit funding due to restrictions on citizenship, ownership form, currency, etc.
Tax & Accounting Treatment	Need to remove arbitrary advantages
Mechanism for Transformation	Need to harmonize provisions and provide clear process