

From: [Savita Shankar](#)
To: [Basel Committee, Service](#)
Cc: [Mukul Asher](#)
Subject: Comments on Consultative document on "Microfinance activities and the core principles"
Date: Tuesday 04, May, 2010 03:12:31
Importance: High

Dear Sir / Madam,

Below are comments on the above paper placed on the BIS web site.

The document is useful as it highlights the important prudential issues with regard to microfinance and interprets systematically how each core banking principle applies in the context of microfinance activities.

While prudential issues are understandably the focus of the committee, in the context of microfinance, some non-prudential issues such as transparency in interest rates and selling appropriate products are particularly important. As microfinance customers are often first time users of financial services and have low levels of financial literacy, they are especially vulnerable. As a result, selling them inappropriate products could result in excessive risk and consequent default. Since the loans are usually collateral free, this could in fact have an important bearing on risk management of the lending institutions.

The practice of quoting interest rates in a non uniform manner is observed widely in microfinance and could also have important risk implications with growth in availability of microfinance services, as customers are unable to assess correctly which loan contract is favorable for them.

The Basel committee could consider expanding its focus to these important non-prudential issues.

Thanks and regards,

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