

Comparing the development of consumer microcredit market in Europe. Finland and Russia.

Elizaveta Lim

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Author(s) Elizaveta Lim	
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<p>Consumer microcredit is a type of financial services that is easy to access. Over the past decade it has gained popularity among people who are unable to get financing through banks. The study investigates phenomena of consumer microcredit and payday loans in Finland and Russia. It studies the problems wide spread of fast loan services has caused for borrowers. It reveals microcredit background and how it has developed to present time. It gives an overview of different types of microcredit service providers in Finland and Russia.</p> <p>The research gives an analysis of legislation and amendments made to it over the past few years in Finland and Russia. It analyzes the scope of government regulation and control in both countries and gives an overview of different types of governmental and non-governmental organizations, which supervise microcredit markets. The amendments overlooked by this study cover maximum interest rate limit, overdue debt interest rate limit, customer due diligence, consumer protection during overdue debt collection process.</p> <p>The empirical part of research utilizes a collection of secondary sources and primary sources in a form of an interview. It gives an overview of market players' opinions on legislation's effectiveness and limitations it brought for service providing and debt collection. The study also covers competition in the market and borrowers' customer behavior change over the years. It narrates companies' point of views on the future of microcredit market. Further the study analyses statistical data and compares the results to market players' expectations.</p> <p>The study shows that consumer microcredit has contributed to a significant portion of consumer indebtedness, involving high overdue interest payments and court related costs for borrowers. New regulations have decreased level of indebtedness caused by payday loans in Finland, while in Russia it remained almost unchanged with a tendency to increase in the future. Regulations have eliminated small companies from the market in both countries. Market players believe that it will get harder for them to continue their operations with the law getting stricter in the future. Competition among remaining service providers will get tougher as they are going to expand their operations. Some borrowers benefit from new regulations, getting better protection against unlawful actions by creditors. For other ones the regulations mean a loss as they are deprived of the last financing option they could access.</p>	
Keywords Consumer microcredit, microcredit organizations, consumer protection, payday loans, debt collection	

Table of contents

1	Introduction	1
1.1	Background.....	1
1.2	Research Question	2
1.3	Demarcation.....	3
1.4	International Aspect	3
1.5	Benefits.....	3
1.6	Key Concepts.....	4
1.7	Research methods.....	5
1.8	Informants and risks.....	6
2	Microcredit industry overview	8
2.1	Microfinance establishment and history.....	8
2.2	Types of microfinance institutions	9
2.3	Microcredit products.....	11
2.4	Consumer microcredit.....	13
2.5	Consumer microcredit in Russia.....	13
2.6	Consumer microcredit in Finland.....	13
3	Legal framework.....	14
3.1	Finland.....	14
3.1.1	Consumer Protection Act	14
3.1.2	Other related legislation	15
3.1.3	Controlling institutions	16
3.2	Russia.....	17
3.2.1	The change in law accepted on 03.07.2016	17
3.2.2	Anti-collector law.....	19
3.2.3	Regulators and independent organizations	22
4	Results. Microcredit organizations and NBFIs	24
4.1	Market outlook	24
4.1.1	Russia.....	24
4.1.2	Finland.....	25
4.2	Market players' viewpoint.....	26
4.2.1	Russia.....	26
4.2.2	Finland.....	28
5	Real impact of microcredit activities	31
6	Discussion.....	34
6.1	Ethical side of the issue.....	34
6.2	Objectivity of the research.....	34
6.3	Conclusions	35

References	37
Appendices	44
Appendix 1. Historical reference and penalty interest rates in Finland	44

1 Introduction

This chapter covers general information on the reasons why author chose this thesis topic, what purpose it serves and who is going to benefit from it. The chapter contains an overview of the research and investigative questions, demarcation criteria for the thesis and its international aspect.

1.1 Background

The topic of the thesis is “Comparing the development of consumer microcredit market in Europe. Finland and Russia”. Microfinance is a small part of financial services in the world but its importance cannot be underestimated as it plays a significant role in providing financial services to those at the bottom of the pyramid. Its history has started with an establishment of Grameen Bank in Bangladesh in 1983. Its target customer sector was the “poorest of the poor”, whom it aimed to provide with loans that required no collateral, employment or credit history information. With the emphasis on women empowerment, female customers were receiving 95% of loans. (Fernando, Nimal A 2006, p.8.) Microfinance’s primary aim was to provide loans to families as a starting point for their family business. However, throughout time a separate line of microfinance services has developed, which focus was no longer on start-up loans. Microcredit (MC) is a part of microfinance, which aims to provide micro loans to those not eligible for traditional banking services. In this study author will focus on the phenomenon of a wide spreading of microcredit, the problems it has created, the government’s response to it and the outlook.

In author’s opinion, the need for this particular study has arisen from a spreading popularity of consumer microcredit. It is extremely easy to get access to this type of financial services for any person but as the practice shows it sometimes caused more negative effects than it did good to the consumers. In this study, author wants to go deeper in the issue and obtain reliable data to prove whether the issue of consumer credit really is as out of hand as it seems to an observer. In order to gain an understanding of the issue, thesis will cover the legal aspects: how well microcredit is regulated by current law, what changes have been made to ensure consumer protection, what changes will be made in the future. This is a significant factor influencing consumer credit proliferation. In many countries specific law regulating microfinance simply does not exist. From an observer’s point of view microcredit is a big scale phenomenon that seems to be under regulated or neglected by the government officials.

One of author’s personal long-term goals is to continue her education. In the future she wants to get a master degree in the field of business law or get a second degree in legal

studies. To make it possible the author needs to deepen her academic knowledge of legal framework. Hopefully, conducting this research will be a good start in achieving that goal. Moreover, she is interested in banking sector as a possible future career destination.

1.2 Research Question

This thesis aims to establish a firm outlook of the evolution of microcredit market in developing and developed countries, overview the current challenges in the industry and steps towards improvement that have already been or will be taken by regulators and service providers.

The research question (RQ) can be worded as: What is the current trend of microcredit market development and its government regulation in Europe?

Investigative question (IQ) 1. What microcredit services are available in different countries?

Investigative question 2. What problems have risen from wide spread of consumer microcredit services?

Investigative question 3. How well are Microcredit Organizations (MCO's) controlled by law in Finland and Russia?

Investigative question 4. How were commercial Microcredit Organizations affected by recent changes in law?

Table 1 below presents the theoretical framework, research methods and results chapters for each investigative question.

Table 1. Overlay matrix

Investigative question	Theoretical Framework*	Research Methods	Results (chapter)
IQ 1.	MC services statistical data, official regulating institutions reports	Desktop, qualitative	Overview of the industry (2,4)
IQ 2.	Rates, consumer protection acts	Desktop, qualitative	Consumer MC impact, ethical issues (2,4,5,6)
IQ 3.	Official law statements	Desktop, qualitative	Legal framework overview, future action plan (3)
IQ 4.	Publicly available performance data, company internal information	Desktop, qualitative	Examples of successful organizations, future strategies (4)

1.3 Demarcation

The first demarcation criterion for this topic is to isolate microcredit from microfinance. Those are two separate sectors that operate differently, use different means of funding and offer different services. It can be rather difficult in terms of theory, as microcredit is part of microfinance. The most important feature of this research is that it is not going to focus on services offered to entrepreneurs and SMEs but on those offered to natural persons.

In this research, the author wishes to focus on consumer microcredit because, in her opinion, it is the most controversial part of MC with unclear positive impact, complicated official regulation and large portion of the companies providing it are in the grey market. The author is interested in ethical aspect of this issue but will keep the research business-oriented. The thesis will focus on microcredit organizations as a business, studying legal ways of making this business more profitable.

1.4 International Aspect

This study will focus on two countries: Finland and Russia and compare what microcredit practices they have. The study will compare the legal framework that controls microcredit operations in these countries as well as give an overview of different kinds of service providers operating there. Moreover, research will cover the types of microcredit organizations prevailing in mentioned countries. These two countries have been chosen to demonstrate the differences in microcredit services in developed vs. developing countries. Russia was chosen because author as a habitant of this country had a chance to notice ubiquitous proliferation of microcredit there.

1.5 Benefits

The research should bring benefits to microcredit organizations, giving them an overview of an industry from another country point of view. Commercial MCOs might find the study useful as it is going to contain some insights from different types of service providers.

It should also be of some interest to potential customers and it might be of interest to institutions of legal regulation of MCOs. It will most certainly benefit author's future career and educational goals. The author is interested in banking industry as well as the legal aspect of banking regulation and thinks this research will support her future goals.

1.6 Key Concepts

Microfinance is a type of banking service that is provided to unemployed or low-income individuals, or groups who otherwise have no other access to financial services. It provides options to customers with limited resources to promote participation in productive activities or to support a small business (Kennedy 2012, 364).

Microcredit (MC) is an extremely small loan given to impoverished people to help them become self-employed. It is also known as "micro lending" or "micro loan" (Panchakshari & Huddedar 2012, 7).

Consumer microcredit is a microloan provided to low-income individuals for the purpose of buying durable consumer goods or consumption.

Payday loans – unsecured consumer microloans, usually characterized by very small principal amount and payment period under 90 days. Often referred to as fast or quick loans.

Micro Finance Institutions (MFI's) - nonprofit organizations that access financial resources from the Banks and other mainstream Financial Institutions and provide financial and support services to the poor (Microfinanceinfo 2016a).

Nonbank financial institution (NBFI) -a financial institution that does not have a full banking license or is not supervised by a national or international banking regulatory agency (Carmichael, Jeffrey & Pomerleano 2002,12).

Microcredit organizations (MCOs) – nonbank commercial organizations that provide microloans to natural persons, often mostly consumer microcredit.

Abbreviations

CBR	Central Bank of Russia
FCCA	Finnish Competition and Consumer Authority
MC	Microcredit
MCC	Microcredit company
MCO	Microcredit organization
MFC	Microfinance company
MFO	Microfinance organization

NBFI nonbank financial institution

1.7 Research methods

Research question: What is the current trend of microcredit market development and its government regulation in Europe?

Investigative question (IQ) 1. What microcredit services are available in different countries?

Investigative question 2. What problems have risen from wide spread of consumer microcredit services?

Investigative question 3. How well are Microcredit Organizations (MCO's) controlled by law in Finland and Russia?

Investigative question 4. How were commercial Microcredit Organizations affected by recent changes in law?

As shown in Figure 2 qualitative approach will be used in the research because this way a more detailed and reliable information can be obtained. Just gathering statistical data will not suffice as the author aims to get an insight of the industry and to figure out where the challenges are for different scale organizations in different countries. As one of the purposes of the study is to find out what different good and bad practices there are in different countries it will be crucial to get as detailed information as possible. Qualitative method will be combined with desktop research, which will utilize various forms of data, including statistical data, from reliable secondary sources.

To implement the research the author is going to need information on the current market situation, competitiveness, legal regulation of Nonbank Financial Institutions (NBFI), NBFI's funding, these institutions policies, consumer protection and more.

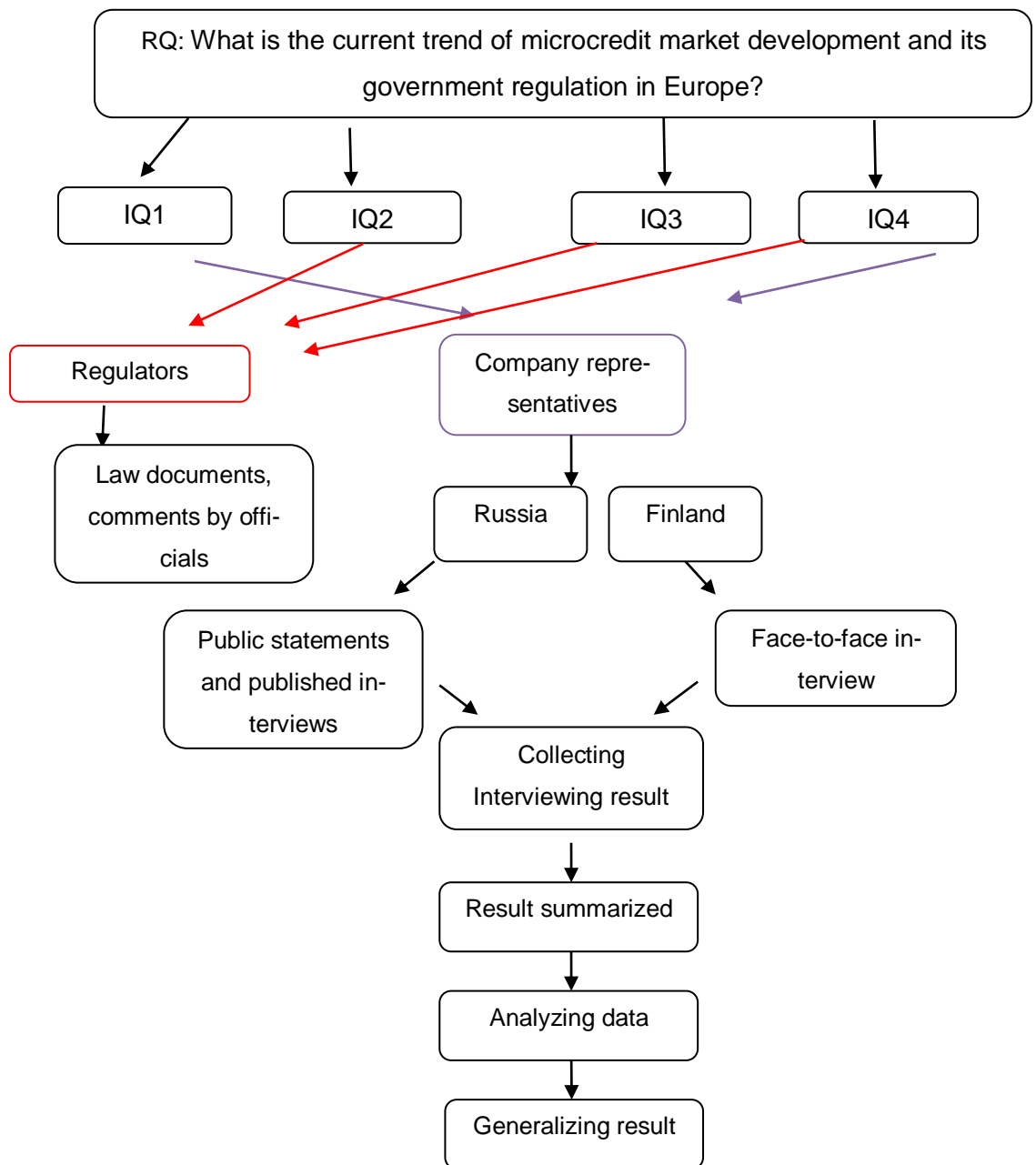


Figure 2. Research design.

1.8 Informants and risks

To get a fuller insight from different perspectives and to minimize bias the author will gather information from two different perspectives. First of all, the governmental institutions and associations that regulate microcredit institutions. Via studying laws, directives and comments from officials, author will get their point of view on the effectiveness of microcredit and its hazards as well as future strategy for tightening the control of MCOs and NBFIs. Next, the author will use interviews of the representatives of NBFIs to get an insight of the market condition from their perspective. The focus of the study is on commer-

cial or for profit organizations. From these informants a different view of the industry will be obtained, covering information about the challenges have they encountered, whether the changes in regulating laws have made it more difficult to stay afloat, what they had to change in their policies and where they see themselves in the future.

For Russia, a collection of secondary sources of interviews will be used. The information, provided by information portals and magazines will be assessed critically to ensure research's objectiveness. For Finland, due to lack of information available in English, information will be obtained via face-to-face interview.

The interviewees will likely have to express some estimations and predictions. Those might not be based on the actual data but the interviewee's personal opinion; this is one of the risks of conducting qualitative research. Author will have to make sure that she as a researcher can act as an impartial third party and is able to analyze the obtained data critically as the opinions of informants might not be true. There is no guarantee that company's representatives will not try to hide or distort certain information, which is another issue to be aware of.

2 Microcredit industry overview

This chapter elaborates on history of microfinance, its first practices, the evolvement of microcredit as a separate branch of microfinance services and what how these services are presented in the modern market.

2.1 Microfinance establishment and history

The idea of microfinance was born in the 19th century. American theorist Lysander Spooner has been writing about benefits of small loans to entrepreneurs and farmers (Microfinanceinfo 2016b). At the same time in Germany in 1849 Friedrich Wilhelm Raiffeisen has established the first credit union popularly known as village bank (Whitney 1922, 3).

As was mentioned in the previous chapter, the history of modern microfinance as a form of social help started with Grameen Bank's establishment in Bangladesh. From there the idea has quickly spread throughout the countries of South and South-East Asia and Africa, gaining popularity in third world countries. As the phenomenon of microfinance was becoming more prominent, more and more institutions came into being. Even though to this day microfinance is something people associate with poor countries, it exists in developed economies too. The methods and scales of microfinance activities in these countries are different but they all have the same roots.

In its initial stage microfinance existed in forms of small loans given to people excluded from traditional borrowing methods. These loans were given to people on preferential conditions and low rates. Subsidized credit rates were creating a negative environment for financial market. Throughout the years microfinance has expanded its services as the providers learnt more about customer needs. Nowadays microfinance services consist of different kinds of financial services like micro insurance, savings, money transfer, consumer microcredit and others. (Kopytina 2012, 15.)

There are no official, generally accepted terms defining microfinance and microcredit. Marguerite Robinson defines it as small financial services, related to providing loans and accepting deposits, provided to people whose occupation is agriculture, who own small or micro businesses that are producing, recycling, repairing and selling goods or providing services, who work for wages or commissions, who are gaining profit from renting small lands, vehicles, draft animals or machinery, as well as other individuals or groups of local habitants of developing countries both in cities and rural areas. Whereas, microcredit is a narrower concept, which includes only small loans provided by nonbanking organizations and banks. Other experts define the difference between microfinance and microcredit by

the maximum size of provided loan. For convenience, in this research the term micro-finance is going to be used when regarding big size loans provided to microenterprises and SME's, whilst microcredit is going to be describing all types of microfinance services provided to individuals.

Technological progress has also influenced the development of this industry. With fast rate growth of mobile industry, it has enabled financial institutions to provide their services on a new level. Just having a mobile phone has provided customers with an ability to make money transfers and pay their bills regardless of their location. This has been a great positive change for rural area habitants.

Technologies were going even further. These days e-banking is a widely used practice. For a few years now, a lot of customers have been paying their bills via internet. Micro-finance service providers did not stand aside. Online micro loans constitute for a significant part of micro loans offered by providers to individuals at this moment.

2.2 Types of microfinance institutions

In early stages of microfinance establishment, it was presented exclusively by nonprofit and governmental organizations. During those times, two major schools of thought have come into being: Welfarists and Institutionalists. Welfarists believed that the core mission of microfinance was to achieve social performance. They suggested microfinance should be performed by nonprofit organizations and that its commercialization is drifting it from its original mission. Institutionalists were confident that making financial performance the main goal is the best way of achieving social performance and that to be able to do this MFIs should become self-sufficient. (Adair & Berguiga 2013, 2.)

These days microfinance is presented by a wide variety of organizations and institutions that serve different purposes: from directly providing services to acting as an intermediate third party between beneficiaries and service providers, to being controllers and legal advisors. These organizations are governmental, non-governmental and commercial; therefore, they are funded by various means. Interestingly, even though microfinance serves such an important social purpose as eliminating world's poverty, there are very few governmental organizations in charge of it. The rise of microfinance was mainly initialized and supported not by official institutions but by NGOs that to this day remain the core driving force of the industry.

Hereafter, is a detailed list of different types of microcredit service providers and institutions:

Non-governmental institutions – nonprofit international organizations, not controlled by governments. Their decisions do not have jurisdictional power and carry an advisory purpose only. These institutions usually play the role of an advising organization, connecting other MFIs around the world, conducting its own research that benefits the development of the market, producing publicly available documents. These are organizations like Micro-finance Information Exchange (MIX) that acts as an information provider and encourages information exchange and transparency within the community, Consultative Group to Assist the Poor (CGAP) who is also providing insights in the industry and others.

Savings and credit cooperatives – also called credit unions, are user-owned financial intermediaries. The members of the cooperative usually have a common trait, whether it is a type of occupation, an area of living or something different. (Consultative Group to Assist the Poor 2005, 1.) For example, University of Wisconsin Credit union, North Carolina State Employees' Credit Union etc. These cooperatives provide microcredit services to members and nonmembers, using internal and external funding.

The first credit union was established in 1849 by Friedrich Raiffeisen and was more known to public as a village bank. In the next two decades 425 unions were formed in Germany and 120 in Austria (Raiffeisenbank 2017). These unions, also called societies, were usually formed in communities of about four hundred people, each one having less than 100 members. Members were middle class farmers in their majority; those not able to maintain their membership were excluded from the society. Societies did not consist of poor members only but those were not prohibited from becoming a member. Each member of the society carried unlimited liability of all members' debt. Raiffeisen unions unlike modern credit unions were giving loans to members only. The interest rate was lower than in banks. (Whitney 1922, 4-6.)

Nonbanking financial organizations – commercial or noncommercial organizations that are directly providing to their target groups of consumers a range of microcredit services of their choice.

Commercial banks – commercial organizations that possess a banking license and among other financial services offer microcredit.

Crowdfunding nonprofit organizations – a type of nonprofit organizations that became active in microcredit sector during the last decade. It is a microcredit organization that gets funding from numerous natural persons who lend very small monetary sums. An example

of such an organization is Kiva - an online lending organization. On its website anyone can lend from as little as \$25 and this money will be delivered to a person in need in one of 82 countries in the world. Currently Kiva has 1.6M lenders and 2.2M borrowers. (Kiva.org 2016.) One of the success factors of this organization is that it does not call for donations, the money that the funders give is a loan and a borrower has an obligation to repay it. This gives people a stimulus to give the money and spend less time doubting the decision.

Microfinance organizations (MFOs) – a name of nonbanking financial organizations prevailing in Russian market. Its specifics are that its focus is providing consumer micro loans and payday loans.

2.3 Microcredit products

As was mentioned above, modern microcredit is not just micro loans but a whole set of various services. The services are similar to those offered by traditional banking but the conditions are much more flexible to fit the needs of consumers.

Micro loan – is a credit the loanable fund size of which can be from as small as \$500 up to \$50 000 depending on the organization. The loan is offered to small businesses and start-ups that wish to expand.

Microloans can be used for:

- Working capital
- Inventory or supplies
- Furniture or fixtures
- Machinery or equipment

(Small Business Administration 2017.)

The repayment terms can vary depending on the size of a loan and its intended use. Interest rates differ and are up to lenders but are on the average within the range of 8 to 30 percent.

Microsavings – are savings accounts for small deposits. The purpose of microsavings account is to help a customer save money. It usually implies low and sometimes no interest.

Involuntary deposit (compulsory credit-linked savings) –are savings enforced upon the borrower by the lending institution, required to become a member or get a loan. Only available upon the payment of the loan; low rates.

Demand deposit – savings that can be retrieved upon if there is an unexpected need. No regular income is required. Low/zero interest rate.

Contractual savings – savings for expected needs. Higher interest.

Time deposit – requires a larger deposit, has the highest interest, cannot be retrieved before the term ends with no penalty.

(Hulme, Moore & Barrientos 2009, 7.)

Micro insurance – is the protection of people from certain perils in exchange for regular premium payments proportionate to the probability and cost of the possible risk, provided on beneficial conditions (Churchill 2006, 12). The conditions are different from the regular bank insurance and are made to suit low-income consumers. Much like a regular insurance, micro insurance can cover such risks like health issues, death, disability, loss or damage of property, business losses, disasters. Among groups of people who benefit from this service are informal economy employees. The coverage of such insurance is low, so is the premium.

Consumer microloan – a small loan given to a natural person on preferential conditions for the purpose of buying goods. Such a loan is given to low-income individuals, who lack access to commercial banks' consumer loans due to inability to provide eligible information on their employment status and personal income, bad credit history and other. This type of a loan is not meant to generate profit and serves only as a temporary solution for poor people.

Payday loan – a type of consumer loan; a small (less than \$500) short-term unsecured loan, usually with repayment period of 1 or 2 weeks, given to the borrower to be repaid at their next payday. However, the repayment period can be up to 90 days. Payday lenders do not state the interest rate of a loan, instead charging the borrower a fixed fee, for example \$15 for a \$100. When calculated the annual interest rate of such loans can be from 300% to 1000% but in some cases can be as high as 3000%. (Federal Deposit Insurance Corporation 2004.)

2.4 Consumer microcredit

Consumer microcredit is in author's opinion one of microcredit sectors that causes the most controversy. Firstly, unlike other microloans it does not carry the purpose of increasing the borrower's profit or creating jobs. It is a type of loan that is supposed to help a person on a scale of a few weeks only. It is a mean to solve a one moment crisis but what is worse than this crisis is the aftermath of it. It is borrower's own responsibility to plan their finances and take on only those loans they are able to repay. This is, unfortunately, not the case. Practice shows that often the very reason why people find themselves in such a desperate situation that they need to utilize microcredit is exactly because they were not able to plan their finances carefully and ended up taking on too many loans via banking sector that they cannot take any more. Taking new loans in order to repay old ones is the most popular solution, which often leads to a person finding themselves in a so-called loan trap or loan pit.

2.5 Consumer microcredit in Russia

At present moment (3rd quarter of 2016) there are 3173 registered Microfinance Organizations (MFOs) in Russian Federation (Central Bank of Russia 2016). The amount of active organizations changes every year, as a lot of companies get eliminated from the register. The reasons for elimination are violation of law, liquidation or reorganization of the company. In rare cases the company does not get eliminated from the register but gets a limit on providing certain services or a temporary withdrawal of the license. Most of Russian MFOs offer payday loans, which are the main revenue source for smaller companies, while bigger companies offer more long-term contracts.

2.6 Consumer microcredit in Finland

In 2014 there were 47 registered microcredit firms in Finland. The amount was almost double (80 firms) in 2013. (Yle Uutiset 2014.) The drop in amount of service providers occurred due to the change in law that put limit on the interest that can be charged on payday loans, thus making it unprofitable for companies. The government's goal was to eliminate fast loan from the market altogether, however, they remained, in a form that is complainant with new regulations.

3 Legal framework.

3.1 Finland

At this moment, Finland does not have a specified legal act stipulating the conditions, on which microfinance institutions must operate. The activities of MFIs and NBFIs are controlled by Consumer Protection Act, Chapter 7, Consumer Credit (385/1986). This chapter describes the regulations related to running account credit, lump-sum credit and goods-or-services-related credit.

3.1.1 Consumer Protection Act

Some sections however, do not apply to short-term credit that is to be repaid within 90 days period (Consumer Protection Act 85/1993, Chapter 7, Section 4, Paragraph 1). Thereafter is an analysis of sections that do not apply to loans repaid within 3 months.

Section 6, Paragraph 1 of Chapter 7 of Consumer Protection Act states that whilst promoting lump-sum credit, creditor must affirm the annual interest (85/1993). This gives micro-credit companies an opportunity to market payday loans without presenting real annual rates to consumers and only showing the amount of fee to be charged.

Section 7 of Consumer Protection Act states that before the agreement on granting a consumer credit is made, the contract terms and other related information must be presented to consumers (385/1986). Furthermore, the consumer must be given a possibility to overlook the contract terms in written form. (Consumer Protection Act 85/1993, Chapter 7, Section 9.) Thus, consumers who take on payday loans might be deprived of their right to see the written contract.

Section 11 of Consumer Protection Act of the act is applicable only if the loan is to be accessed by credit card or other means of identification (85/1993). This section elaborates on the elements a loan agreement should include. Also consumers have no right to repay 3-months term loan before it matures (Consumer Protection Act 385/1986, Chapter 7, Section 12).

The amendment to Consumer Protection Act, enforced in February 2010 has prohibited loan providers to advertise their services during nighttime as well as clarified stricter requirements for customer identification. Another amendment made in December 2010 sets general requirements for responsible lending practice as well as obligatory procedures creditors must apply when checking customers' creditworthiness (Juridica International

2014). The document also claims obligatory registration of all consumer credit providers in the state register. Additions of the Act also establish more industry specific supervision system. Furthermore, the amendment made in June 2013, following the requirements of EU's Consumer Credit Directive has introduced a maximum annual percentage to be charged from consumer credit of the principal amount less than EUR 2000 – 50 percentage points above the reference rate (Yle Uutiset 2013). The reference rate is set twice a year and is calculated as “the average of 12-month Euribor rates published during three calendar months prior to the affirmation of the base rate, rounded to the nearest one-quarter percentage point” (The Bank of Finland 2017a). Euribor stands for Euro Interbank Offered Rate. The Euribor rates are calculated as the average of the highest and lowest 15% of all interest rates at which banks in EU borrow funds between each other (Euribor-rates.eu 2017). The amendment has also banned requesting loans by a paid SMS (Yle Uutiset 2016).

3.1.2 Other related legislation

Moreover, cases of overdue loan payments are overseen by the Debt Collection Act which applies to voluntary debt collection due to also other outstanding claims apart from those related to consumer debts (Debt Collection Act 513/1999, Section 3, Paragraph 2). Finnish Consumer Ombudsman supervises outstanding consumer debt collection and provides guidelines for good practice in consumer debt collection. Among other points, the guidelines put certain limitations to the practices, which can be utilized during debt collection procedures, ensuring the procedures fairness and legitimacy. Thus, guidelines designate that the creditor is not allowed to use extra sales promotion, in relation to debtor's existing debt, such as offering the debtor a new contract. (FCCA 2014.) Furthermore, Consumer Ombudsman speaks out the limitations creditors and debt collectors must follow, when contacting debtors. For instance, debtor should not be disturbed by personal meetings, calls or other means of direct interaction “on Sundays or public holidays or during weekdays between 8 pm and 7 am” (FCCA 2014). Creditor, on the other hand, must make it easy for debtor to contact them, without it causing inconvenience or extra costs for debtor.

Section 4c of the Debt Collection Act elaborates on the debtor's right to refrain from the voluntary debt collection and instead to move it to legal collection. Thus, debtor can minimize related costs to a cost of a reminder, which is justified by a need to notify the debtor on the status of the outstanding debt. The debtor can use this exemption from voluntary collection only if the full amount of debt has become due. (513/1999.)

The amount of interest that can be charged on overdue debt is specified in Interest Act 633/1982. Interest Act states that the debtor must pay annual interest for the outstanding payment for the part that is overdue. The amount of the interest is 7 percentage points higher than the reference rate. (Interest Act 846/2009, Section 4, Paragraph 1.) The reference rate in this case is “the interest rate applied by the European Central Bank to its most recent main refinancing operation carried out before the first calendar day of each half-year rounded up to the nearest halfpercentage point” (Interest Act 340/2002, Section 12). 2017 year’s penalty interest rate is 7%. Over the course of the previous 20 years it has varied from 7% to 11.5% (Appendix 1). The variation is due to the change in the reference rate, upon which the penalty rate is based.

The Act states that for the cases, when the interest rate agreed in the loan contract is higher than the penalty rate, the debtor shall pay the agreed interest rate for as a rate for late payment. However, in case of consumer credit, the maximum period a debtor should pay the agreed interest rate is 180 days prior the date when the debt became overdue. (Interest Act 846/2009, Section 4, Paragraph 2.)

3.1.3 Controlling institutions

Unlike traditional financial institutions, MCOs in Finland are not under supervision of Finnish Financial Supervisory Authority (Finanssivalvonta). Instead they are supervised by various agencies like the Regional State Administrative Agency (AVI) and Finnish Competition and Consumer Authority (FCCA). AVI grants licenses to credit providers and collecting agencies, whilst FCCA is more focused on promoting competing environment, conducting research on consumer protection and arbitrating disputes. AVI’s main responsibility is to make sure all those who need to register do it and to instruct them on how to do it correctly. Agency is also handling appeals and claims and is responsible for appointing performance audits. AVI also provides public access to the official register of currently registered and active MCOs. However, there is not much information available on supervising activities these organizations are performing that are aimed particularly on MCOs. Nonetheless, some MCOs are subsidiaries of bigger companies that are under supervision of Finanssivalvonta and consequently are controlled by Finanssivalvonta.

Regarding the communication between consumers and authorities, FCCA offers free of charge consultations with financial and debt advisers for those, who happen to be in a difficult financial situation.

3.2 Russia

In Russian Federation activities of Microfinance Organizations are controlled by a set of federal laws and Central Bank's provisions. Organizations that are authorized to grant microloans are present in several types of forms of non-profit and commercial organizations. The primary document stipulating the conditions under which MFOs shall provide their services is the federal law - On Microfinance and Microfinance Organizations that came into force in 2010. This law also gives official definitions of organizations whose activities it regulates.

According to the law MFO is "a legal entity, registered in a form of a fund, independent not-for-profit organization, institution (except for budget-funded institution), not-for-profit partnership, company or partnership which is pursuing microfinance and has been entered in a state register of microfinance organizations in the procedure envisaged by the present Federal Law" (On Microfinance and Microfinance Organizations 151-F3/2010, Chapter 2, Section1, Paragraph 2).

This law covers all conditions, under which MFOs shall carry out their activities. Furthermore, it is compulsory for every organization to be included in the national register of MFOs; the information contained in the register is publicly available.

Another act of Russian Federal law – On Consumer Credit (Loan) stipulates conditions, under which a loan can be granted, as well as obligatory contract structure and conditions that it must include. Furthermore, it states the maximum interest rate that can be charged from a borrower in case of overdue debt. In cases when according to contract interest rate for overdue period is charged, annual penalty interest rate cannot exceed 20%. For cases when the contract does not stipulate interest rate charge for overdue period, penny rate is 0.1% of overdue sum. (On Consumer Credit (Loan) 353-F3/2013, Section 5, Paragraph 21.)

3.2.1 The change in law accepted on 03.07.2016

As of 03.07.2016 a new edition of the law On Microfinance and Microfinance Organizations has been introduced by CBR. It states the changes in the market structure. According to the amendment, all MFOs will be divided into two categories: Microfinance Companies and Microcredit Companies (On Microfinance and Microfinance Organizations 230-F3/2016, Section 2, Paragraph 2.). All registered companies will be automatically transposed into Microcredit Companies (MCC's) status.

However, companies that meet two criteria: attracting investments from natural persons and working with online loans, will have to reregister in a new status, restructuring their companies into Microfinance Companies (MFC). MFCs will be authorized to provide microloans up to 3 million RUB (48 thousand EUR)¹ to legal entities and entrepreneurs and 1 million RUB (16 thousand EUR) to natural persons. For its financing a microfinance organization is allowed to use funds from any natural person or legal entity, including its shareholders' funds. They will be able to take in investments from citizens – no less than 1.5 million RUB (24 thousand EUR) from one person. MFCs will be able to utilize a simplified identification procedure through agent-banks and grant loans without customers having to be physically present at their office. (On Microfinance and Microfinance Organizations 230-F3/2016, Section 12, Paragraph 2.)

To be eligible for obtaining an MFC status the organization's capital has to be no less than 70 million RUB (1 million EUR) and has to show a transparent structure of ownership and operations of funds on the market (On Microfinance and Microfinance Organizations 407-F3/2015, Section 5, Paragraph 7).

Those organizations, which fail to meet the criteria for becoming an MFC will remain in a MCC status. MCCs will only be able to use their shareholders' funds as means of funding. They will not be able to take in investments or work in an online sector (where simplified identification procedure is involved). They will have a right to give a loan up to 500 thousand RUB (8 thousand EUR) to a natural person and up to 3 million RUB (24 thousand EUR) to a legal entity. (On Microfinance and Microfinance Organizations 230-F3/2016, Section 12, Paragraph 3.)

Experts of the market expected only about 100-200 MCOs (3% of the market) to be able to reach that level of financing (Bankir.ru 2016). However, according to the state register from 12th of April 2017 only 19 MFCs have been registered (Central Bank of Russia 2017b). Organizations that intended to reregister as MFCs had to do so by 29.03.2017, though the experts suppose that some MFCs could not register due to the mistakes made during documents collection process and by 2017 50-100 more MFCs will be registered. The remaining 3 thousand organizations will have to continue their activities as MCCs. (Bankir.ru 2016.)

¹ All exchanges are according to rate on 12.05.2017 (Central Bank of Russia 2017a)

Experts believe that this reorganization will clear out the so-called “black creditors” – financial pyramids that are pretending to be MFOs – from the market. Some players will just leave the market, while some will try to stay in the grey area, operating on the market illegally. Out of 19 currently registered MFCs 6 are organizations that operate exclusively online (Central Bank of Russia 2017b). Those online companies who failed to reregister are the most likely to start operating online illegally.

Middle size companies not willing to lose the investments market will increase their capital; there are probably going to be a fair amount of mergers. All in all, great changes are going to come. Yulia Zilbert, a head of the Microcredits of Russia project believes that the controlling procedures are going to be different for MFCs and MCCs. The control of MCCs will be less strict, possibly the supervision responsibilities will be given to self-regulatory organizations (SRO)². Direct inspections by regulators will only occur if there are complaints from consumers. As for the MFCs there are going to be more reports, more attention to the sources of capital and a possibility of obligatory audit procedures. (Microcredit-ru 2016)

3.2.2 Anti-collector law

In July 2016 a new law has been adopted by State Duma – On Protection of the Rights and Legal Interests of Natural Persons during Activities of Collecting the Overdue Debt (so-called anti-collector law). The law has come into force on 1st of January 2017. Its purpose was to protect consumers from unlawful collectors’ activities. The introduction of this law came into being under a pressure from a wide campaign among Russian politicians and the media, which arouse as a backlash in a response to numerous violations of law by collectors and their clients. There are records of collectors’ activities that caused damage to debtors’ property and health damage to debtors.

The law outlines general limitations to methods that creditors and third parties acting on behalf of creditors can use for overdue debt collection. Among standard collection procedures, the law presents three categories:

1. Personal meetings, telephone calls (direct interaction)
2. Telegraph messages, text, voice or other messages transmitted electronically
3. Letters sent by postal services

² Self-regulatory organization – a non-profit organization, uniting commercial organizations of similar industries: its purpose is regulating professional activities of these organizations beyond the minimal requirements set by the government (Sroportal.ru 2017).

(On Protection of the Rights and Legal Interests of Natural Persons during Activities of Collecting the Overdue Debt 230-F3/2016, Chapter 2, Section 4 Paragraph 1.)

In regard of described ways of interacting with the debtor, the law claims certain limitations to the way those should be executed. It puts limits on creditor's right to interact with third parties (debtor's family members, relatives, people who are living with the debtor, neighbours). Creditor only has a right to initiate an interaction with a third party if they have obtained a written permission from the debtor and a third party has not expressed disagreement against the interaction. (On Protection of the Rights and Legal Interests of Natural Persons during Activities of Collecting the Overdue Debt 230-F3/2016, Section 2, Paragraph 5.)

The law outlines the types of organizations that are allowed to take described actions of collecting overdue debt. Furthermore, the law limits the amount of third parties that can be involved in a collection process on behalf of the creditor to one. Creditor must notify debtor that a third party has been involved in the collection process in 30 days period. The law does not permit the involvement foreign entities to a debt collection process. (On Protection of the Rights and Legal Interests of Natural Persons during Activities of Collecting the Overdue Debt 230-F3/2016, Section 9, Paragraph 1.)

The law also provides general guidelines to the ways of applying debt collection methods lawfully and responsibly. The guidelines are in line with other Russian Federal laws, which state criminal and administrative punishments for causing persons health damage, damaging their property, putting people under psychological pressure, threatening etc. Among the issues, which are specific to anti-collector law, is the requirements of the creditor to restrain from misinforming or misguiding the debtor on information regarding the liability, including:

1. Legal form and size of a liability as well as the conditions and time period of debt repayment.
2. Engaging the debtor into a litigation process and the administrative and criminal consequences it can result in
3. Creditor or collector being a governmental organization

(On Protection of the Rights and Legal Interests of Natural Persons during Activities of Collecting the Overdue Debt 230-F3/2016, Chapter 2, Section 6, Paragraph 2.)

Furthermore, creditor is not allowed to apply direct interaction methods if the debtor has been acknowledged as bankrupt, is incompetent to take juridical actions, is in a hospital, is disabled or underage. Debtor has a right to sign an agreement with the creditor to state their wish to be contacted through an appointed representative – lawyer. Four months after the debt has become overdue, debtor can appoint to creditor a statement of re-

nouncement from interaction with the creditor. (On Protection of the Rights and Legal Interests of Natural Persons during Activities of Collecting the Overdue Debt 230-F3/2016, Section 8, Paragraph 1.)

To qualify for becoming a collector agency a company must have a share capital of no less than 20 million RUB. It should hold an insurance covering damages caused to a debtor during a debt collection procedure by 10 million RUB. It should not have been eliminated from the national register for the past three consecutive years. (On Protection of the Rights and Legal Interests of Natural Persons during Activities of Collecting the Overdue Debt 230-F3/2016, Section 13, Paragraph 1.)

Even though the law makes regulation of creditors and collectors stricter, it still does not cover certain points. For example, the control (regular checks) of collector companies are executed in accordance with the federal law, covering the control of any registered legal entity or entrepreneur. According to this law, regular checks must be concluded once in three years (On Protection of Rights of Legal Entities and Entrepreneurs during government and municipal control 246-F3/2015, Section 9, Paragraph 2). Anti-collector law states exceptional cases that can constitute for a reason to hold an unscheduled check, those can be either a decision of a controlling institution or an official complaint addressed to a controlling institution (On Protection of the Rights and Legal Interests of Natural Persons during Activities of Collecting the Overdue Debt 230-F3/2016, Section 18, Paragraph 2).

In addition, Section 21 of the law elaborates on the amendments to the 2010 edition of the law On Microfinance and Microfinance Organizations (On Protection of the Rights and Legal Interests of Natural Persons during Activities of Collecting the Overdue Debt 230-F3/2016, Section 21). It states the new limit on the amount of interest that can be charged from a natural person. If before it was no more than 4 times the size of a loan, now it has been decreased to no more than 3 times the size of a loan. For the overdue debt, the amount of interest keeps being charged on an unpaid portion of a loan until the interest reaches double size of an unpaid portion of a loan. This, according to MFO Zaymer's Analytics Centre, will keep certain MFOs from using financial schemes, where most revenue comes from pennies and fines from overdue debt. Zaymer's analytics believe that the government is using microfinance sector for testing the new legislation before applying it for the entire financial sector. Thus, the State Duma is now working on a new edition on the law On Consumer Credit. The edition will limit the interest to be charged for a consumer loan to a triple size of a loan, similarly to microloan. With that said, right now microfinance consumers are protected better than clients of a banking sector, where no such

limit has been introduced yet. (Zaymer.ru 2016.) However, it is of importance to mention that the previous amendment to On Microfinance and Microfinance Organizations, limiting the interest to 4 times the size of a loan, has been put into force only in March 2016. Therefore, it is too early to judge whether the amendment has had a positive effect, it was expected to.

3.2.3 Regulators and independent organizations

Central Bank of Russia has a right to request information about persons who own or are involved in activities of an MFO. CBR also requests all necessary information from MFOs about their activities as well as accounting reports and supervises MFOs compliance with the applied legislation. CBR is responsible for setting an order of procedure of forming organization's reserves for possible losses from loans.

Apart from official governmental organizations, several NGOs offer Russian citizens, experiencing troubles related to their credit activities, help and consulting services. One of such institutions is Interregional NGO Credit Legal Advocate. This NGO is offering free legal consultations related to loan issues, collectors, insurances, legal suits etc. It was created in 2012, first in Volgograd only but now is present in 6 regions. Its main goal is to raise people's awareness and understanding of legislation. The organization acts as an online educational portal that offers a summary of related legislation to help citizens improve the knowledge of their rights. It also offers free consultations with lawyers.

Moreover, in 2014 a project called For Borrowers' Rights was established by Vladimir Putin's appointment, through All Russian People's Front (ONF) movement. ONF was established in 2011 by Vladimir Putin's initiative and is an alliance between Russian's ruling party United Russia and various NGOs. For Borrowers' Rights project's purpose is to protect borrowers from illegitimate actions of collectors during debt collection procedures, from illegal credit providers and creators of financial pyramids and other wrongdoings directed at consumers of financial products (For Borrowers' Rights 2017). Among other activities, the project holds free webinars and real life lectures, for rising citizens' knowledge on managing their finances and knowing their own rights. However, these lectures are mainly aimed at younger audience - school and university students. Meanwhile, people of older age, above 45 years old and elderly people rarely are aware that such events are taking place. Though these people stand for a significant portion of microloan borrowers, they are usually the least educated ones in terms of financial and legal knowledge.

Furthermore, there are two officially acknowledged and included in CBR's register credit rating agencies: Analytical Credit Rating Agency and Expert RA Rating Agency. These agencies are conducting independent research on economic and financial issues and phenomena and are creating public rating lists of banks, MFCs and MCCs, insurance and leasing companies, pension funds and companies from non-finance sector. Expert RA is a more widely recognized agency, whose ratings are used by CBR, Moscow Stock Exchange, SROs and many others. Companies are using them for making decisions on competitions and tenders but common users can surely benefit from using it too. Most research papers are unavailable for public free of charge; however, consumers can check the credibility and trustworthiness ranking of a loan issuer on agency's website (not all registered MCCs have a ranking by the agency).

4 Results. Microcredit organizations and NBFIs

4.1 Market outlook

4.1.1 Russia

At the moment, Russian government is carrying out a wide campaign against unrighteous microloan providers. According to the Central Bank of Russia's official reports, in the third quarter of 2016 there was the highest level of reduction of market participants since the end of 2014. The amount of MFOs has diminished by 10.9% compared to the second quarter of 2016 and by 14% compared to the end of year 2015. During 2016, 717 default or unviable MFOs have been eliminated from the register, 309 organizations have left the register voluntarily. Meanwhile 164 new organizations registered. (Central Bank of Russia 2016a, 5.)

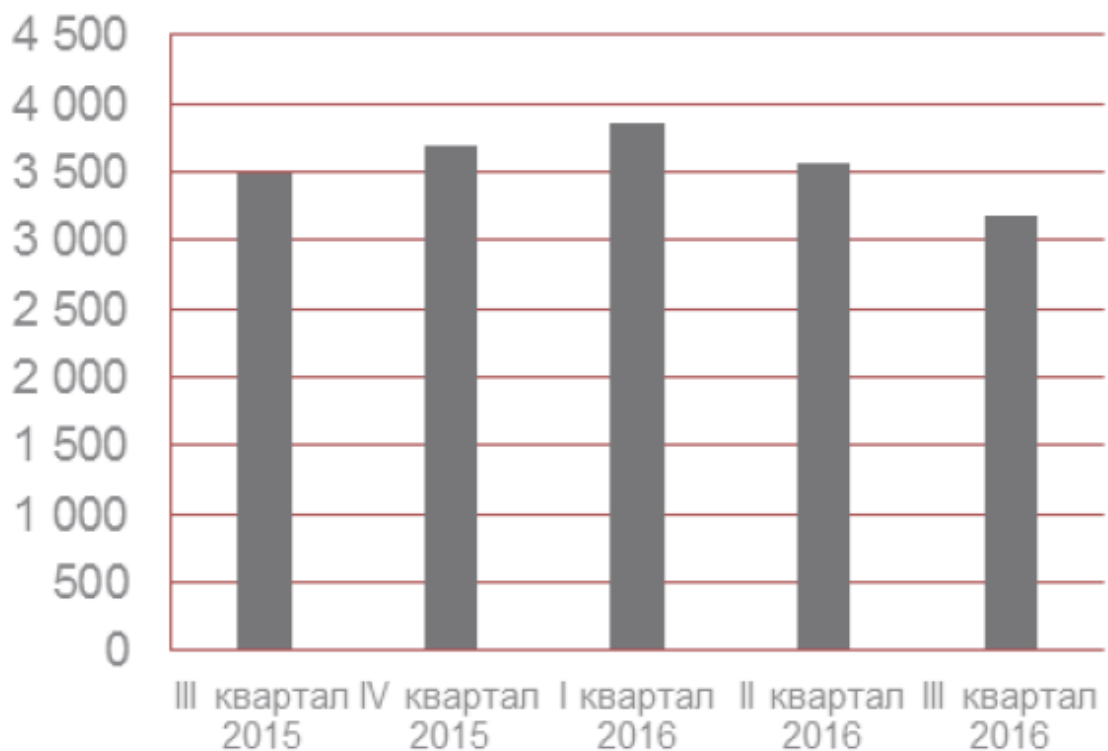


Image 1. Amount of MFOs in national register by quarters, in units
(Central Bank of Russia 2016a, 6)

The demand for microloans has been increasing rapidly. Only through three quarters of 2016 the demand has increased by 41% compared to the previous year (from 3.3 to 4.7 million borrowers). Top 100 biggest MFOs of Russia are controlling over 70% of the market. (Central Bank of Russia 2016a, 5.)

By the results of Q3 2016 the total amount of operations on the market resulted in 85.5 M RUB – 36.9% more than in the previous year. Out of this amount legal entities make up 10.7%, entrepreneurs - 13.4%, natural persons – 75.9%. It is of significance that out of the total amount of loans given to natural persons, short-term loans constitute only for 30%. (Central Bank of Russia 2016a, 6.)

As the demand for microloans increased, 74.2% more microloans contracts were signed in Q3 of 2016, compared with Q3 of 2015. Simultaneously the total volume of microloans granted throughout Q3 of 2016 was 44.5% more than that of Q3 of 2015. As a result, the average size of a loan decreased from 12.5 to 10.3 thousand RUB. The volume of short-term loans, including online short-term loans and pay-day loans up to 30-day repayment period have increased by 65.2% throughout year 2016. (Central Bank of Russia 2016a, 7.)

4.1.2 Finland

As of 01.01.2017 there were 56 registered microcredit services providers in Finland (AVI 2017).

Name	Loan amount	Loan Duration
Ferratum	Min €50 Max €300	7-30 days
Vivus	Min €10 Max €2010	3-30 days
Lutturaha	Min €50 Max €2000	45 days
Ekstraluotto	Min €10 Max €2100	1-26 months
Ainalaina	Min €50 Max €2000	45 days
Euroloan Group	Up to €500	3 months-3 years
Everyday.fi	Min €20 Max €2000	3 months-1 year

Image 2. Finnish microcredit providers loan range (Cashfloat 2017)

The image above indicates the range of loan amounts and duration among some of the most well-known Finnish payday loan providers, analyzed by a UK quick loan provider Cashfloat. The maximum loan amount and maturity period varies a lot. According to a study by Statistics Finland conducted in 2012, the average short-term loan was 229 EUR, average repayment period was 32 days (Cashfloat 2017).

The market size is quite small, one of the reasons for that being banks providing their versions of fast loans. The market is mostly presented by large international companies, which sometimes are part of the group that is under Finanssivalvonta's supervision.

4.2 Market players' viewpoint

4.2.1 Russia

Russian microfinance organizations have already expressed their opinions on the effectiveness of the anti-collector law. The information portal Bankir.ru has conducted a survey of the market players and has interrogated them about the difficulties they have come across. Part of the interviewees note the decrease in effectiveness of debt collection. MoneyMan's head of overdue debt department, Aleksander Vasylev, states that the level of effectiveness of debt collection in the organization has decreased by 5% in January-February 2017. According to the CEO of Domashnie Dengi, Andrey Bahvalov, at this early stage post the law introduction they do not see significant changes in effectiveness. However, Bahvalov notes that for debt, which is overdue by more than 90 days, (this cases are passed on to collectors agency) the effectiveness has dropped by 30-50% on the average. In MFO Robot Zaymer the law has not caused strong effect, though it is expected to decrease the rates by about 20% in the future. Collectors themselves also note that the effectiveness of debt collection has gone down. According to Juridical Collection and Accompaniment Agency's CEO Sergey Shpeter's comment, after the law has been enforced debt collection levels have dropped by 20% on the average on both bank and MFO level. (Bankir 2017.)

In MFOs market players' opinions such a decrease in effectiveness of debt collection is due to the limitation of collector and debtor interaction. Andrey Bahvalov believes that both collector agencies and companies' own internal debt collection departments cannot legally send debtors reminders as often as they used to and because of that debtors "calm down" and stop repaying their debts (Bankir 2017).

Another problem is that debtors overuse certain points of the law. For instance, debtors have a right to refrain from interaction with collector after 4 months since their debt has become overdue. However, according to Robot Zaymer's CEO Sergey Sedov, even though the law has been enforced in January, some debtors started refusing to communicate with collectors, using the law as a reference, already since February. The problem escalates even further, with some debtors refusing to repay their loans completely, justifying it with excessive amount of calls from collector, illegitimacy of collectors' actions and a will to repay only through a litigation process. CEO of Bystrodengi Group, Andrey Kleymenov, states that the amount of clients, refusing to repay their loans have already increased by 50% on the average. Customers are delaying the repayment date, collectors have to spend more time working with each client and consulting them on the details of the new law while the debt keeps increasing. (Bankir 2017.)

Market participants are expecting the situation to worsen even further. Andrey Bahvalov supposes that some consumers will just stop paying their debts, which eventually will lead to an abatement of an accessibility of microloans as companies will most likely make the evaluation of potential borrowers stricter and decrease the volumes of issued loans. This is going to result in an increase of litigations. Alexander Vasylev claims that it is important for companies to make clear that borrowers cannot simply abandon their liability to repay the loan. If creditors fail to compromise with borrowers, they will use judicial dispute resolution more. He believes that the companies are ready to take this step because they are acting in accordance with current legislation. (Bankir 2017.) This factor potentially can create difficulties as the new law facilitates dispute resolution processes but the budgets for courts and bailiffs will remain unchanged, therefore leading to litigations taking a longer time. Clients will try to delay the repayment date, the debt will keep increasing, topped with the court costs. It is too early to state anything but the prospects do not look too promising, as it is unclear if the law is going to protect consumers or bring them into deeper indebtedness.

Out of all current trends, influencing the situation on Russian microloan market right now, the changes in legislation has been noted as the most significant by most companies, which participated in a questionnaire by a portal Bankir.ru. Yuriy Provkin, the CEO of Bystrodengi Group, believes that the new regulations will limit up to 90% of market players' ability to get financing from natural persons. As a result major risks will be diminished, such like the risk of financial pyramids being built, the risks of small-sized MFOs implementing unlawful practices, the risks of excessive growth of overpay for financial products. He also mentions that as the control of MFCs will be stricter it will decrease the risks for

investors, which will lead to the increase of interest in investing in microfinance. (Bankir.ru 2016).

As mentioned above, according to CBR's official statistics the amount of registered organizations has diminished significantly throughout 2016, compared to the previous year. Boris Batin believes that the trend will go even further and there will be no more than 1500 companies in 2017 and 1000 in 2018. The CEO of Domashnie Dengi, Andrey Bahvalov, states that in his opinion with the course of time there might be just 100-200 big players left on the market. (Bankir.ru 2016.)

When talking about the general portrait of a microloan consumer, opinions of interviewees differ. Online MFC MoneyMan noted that their average consumer became older: amount of borrowers aged 18-30 years has increased by 2% (to 48% of total borrowers) and those aged 31-40 years by 3% (to 30.5% level), the level of male borrowers has also increased from 55% to 58%. MoneyMan state that their average size of a loan has increased by 10% through the year, due to the rise of the price of main consumer products. Bystrodengi confirm that their average loan size has increased by 11%. At the same time MFC Domashnie Dengi states the opposite, according to their information the decrease in purchasing power of consumers has had a negative effect on the average loan size; loan repayment period has also gown down.(Bankir.ru 2016.)

Market players are expecting the volumes of microloan borrowings to go up in 2017 but with a slower pace than in 2016. Local, small players will keep leaving the market, whereas bigger players will be strengthening their positions, setting up new regional offices and developing the online segment. Experts state that the portion of online services will increase by 2.5 times by the end of 2017. Overall, companies expect some negative effects caused by a negative macroeconomic situation but microfinance sector will still be growing. (Bankir.ru 2016.)

4.2.2 Finland

Finnish market players have an opinion that goes in line with their Russian counterparts. The demand for microloans is constantly increasing, leading to a need in a more specified, detailed and industry-oriented legislation. The laws, requirements and control are getting stricter.

The author has interviewed Markus Vuolle, the Country Manager of a Finnish affiliate of Bigbank Group. The company was established in Tallinn in 1992 and currently "operates

in Estonia, Latvia, Lithuania, Finland, Spain and Sweden, while providing cross-border services on the German, Austrian and Dutch markets” (Bigbank 2017). The company is operating under a banking licence; however, it considers itself to be a part of microfinance market. According to Vuolle, in Finland Bigbank only offers consumer microloans, with interest rate from 8.9% to 50%, the average rate is 20% and is risk rated. The bank offers loans with repayment period from 6 months, though the average repayment period is 2 years. Their loan size varies a lot and can be from 2 to 40 thousand EUR. The company uses different means of financing, including deposits (in 9 countries) also other typical types of funding such as bonds.

Vuolle has shared his view of consumer credit demand in Finland. According to him, the demand has increased a lot and the need for this kind of services will increase in the future. In his opinion, Finland is following the same path as more mature markets like Sweden and the UK and US. As for the reason for this rise in demand, Vuolle believes that it is partly due to the change in people’s mindsets and partly due to bigger trends such like urbanization and the way of consumption. In consuming people’s decision making happens much faster than in the past, therefore the need for fast loan decisions is increasing. Vuolle claims that in the past Finnish people used to save much more and buy when they have saved enough. Now Finns tend to buy things immediately, which results in a reverse saving process. Vuolle finds the situation similar to what is currently happening in Germany. The reason for that is the similarity in mindsets of Finnish and German consumers.

As for the competition, Vuolle states that it has become tougher nowadays. He noted that this year Norwegian competitors came into market and that it has changed advertising. Online advertising in particular, which is the most crucial for Bigbank. After that, the prices raised quite heavily. Vuolle believes that it will get even tougher in 2017, if the current trend picks up. Meanwhile, the local competition is present but Finnish players are small and most competition comes from abroad, Norway in particular. According to Vuolle’ comment, some Norwegian players have good funds in their background. They are currently widening their operations and are going to constitute to even bigger portion of competition in the future.

Regarding recent amendments to legislation, Vuolle states that it has become much stricter. Since 2008 financial crisis a lot of new regulations have been introduced. Vuolle divides them into two categories. First one is EU’s Anti-Money Laundering and Terrorism Directive, the other is directly related to finance sector. The reason for these amendments is, in Vuolle’ opinion, government’s response to the incidents that happened in that period, like the collapse of Lehman Brothers Holding in 2008. To prevent similar situations from

happening, the legislation is becoming so much stricter that the trend looks frightening for the market players. Another trend to take into consideration is that many MFOs and banks in Finland are partnering with loan brokers like Lainatos and Lendo. Brokers compare lenders on behalf of customer and give recommendations.

According to Vuolle, Bigbank utilizes a solid combination of procedures to check their customers' credibility: "...public registers, negative payment histories, some positive registers are available, when customer gives permission" (Vuolle 27 December 2016). Bigbank continuously evaluates their portfolio and payment behavior of their customers. They run tests before making any changes. To be more responsible lenders, Bigbank upgrades their customer payment capacity evaluation tools.

As for the future of microcredit market, Vuolle's view is that according to trend, small loans are growing but due to regulation there will be a group of customers who can't get financed. It will put citizens into different lockers or categories, those who can't get financed will be even in a worse situation in a future. (27 December 2016.) Regarding, Bigbank's own strategy for the future, according to Vuolle, it will be focused on financial stability and growth and digitalization.

5 Real impact of microcredit activities

In this chapter author compares official statistical data with experts' prospects and market players' expectations. The purpose of this chapter is to recognize the real size of consumer microcredit market in Finland and Russia and how it has changed over the years.

Moreover, it seeks for statistical proof of effectiveness of new legislation, introduced in the last five years and whether it was able to change the situation for better or worse.

According to statistical data provided by Expert RA Rating Agency, in 2015 50% of all granted microloans was overdue by more than 30 days. This data comes from a survey the agency conducted among Microfinance Institutions. (RAEX 2015.)

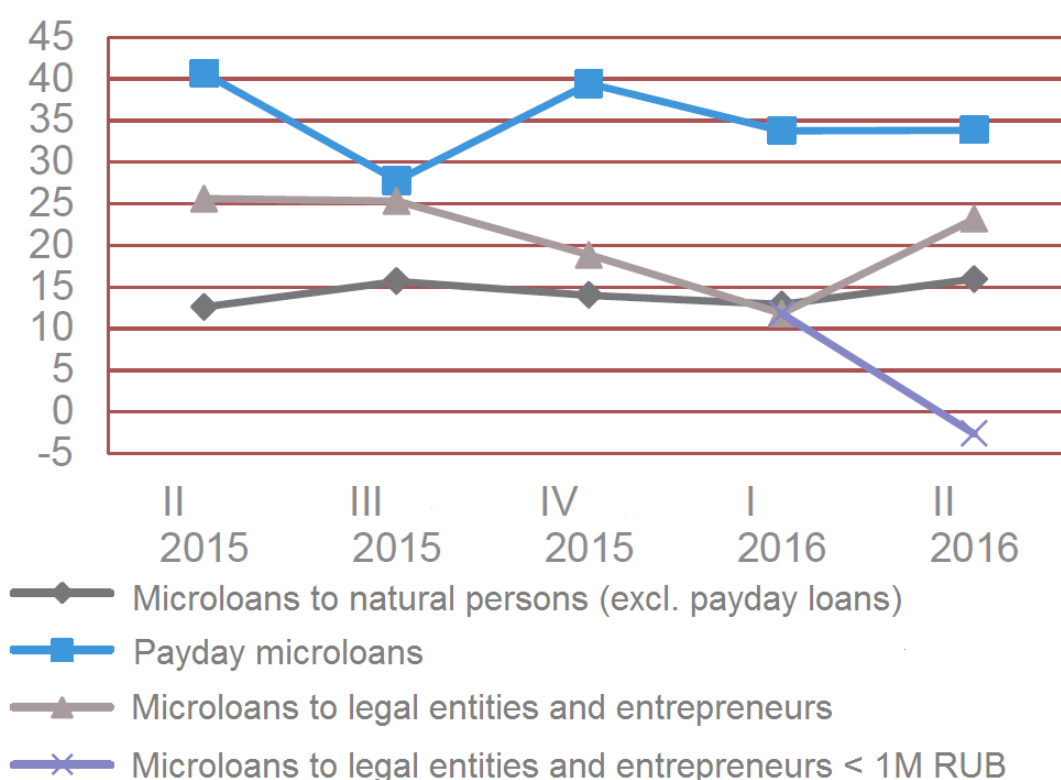


Image 3. Microloans portfolio growth rates by quarters for national and private MFOs (%) (The Central Bank of Russia 2016b, translated by Elizaveta Lim)

The image presented above displays the growth rates of microloans portfolios of national and private MFOs. Portfolios reflect the outstanding balances of loans' principals. As can be seen from the graph, portfolios of microloans to natural persons have slightly grown since the second quarter of 2015, reaching 16% by the end of the second quarter of 2016.

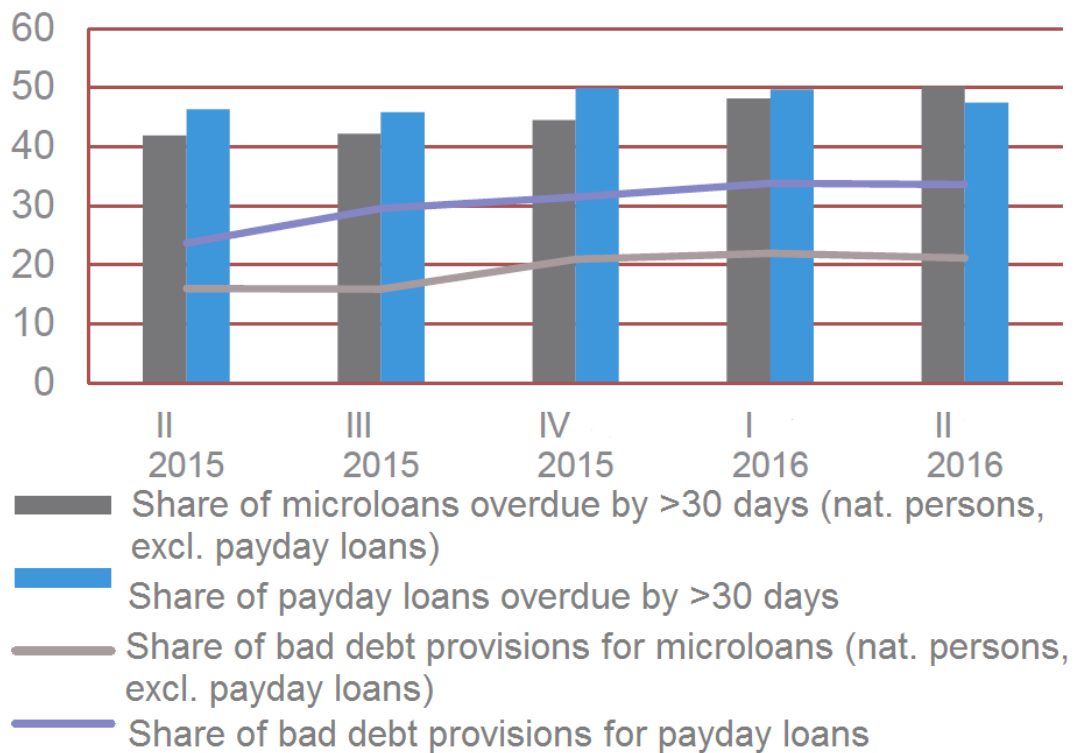


Image 4. Key indicators of quality of portfolios for microloans, granted to natural persons by quarters

(The Central Bank of Russia 2016b, translated by Elizaveta Lim)

The image above displays the change in quality of portfolios of microloans and payday loans throughout 2015 and 2016. The share of microloans (excluding payday loans) overdue by more than 30 days has increased in first half of the 2016 (by 2 percent points), constituting for 50.2% of the microloans portfolio. The share of payday loans overdue by more than 30 days has slightly decreased. By the results of a survey conducted by CBR among MFIs, the highest growth rate of the overdue debt occurred in consumer microcredit segment, which can be partly explained by high growth rates of in the previous periods. Responding to these trends, MFIs have increased their bad debt provisions. (The Central Bank of Russia 2016b.)

As for Finland, even though the scope of consumer microcredit demand seems to be significantly lower than in Russia, the overall tendency of the society becoming more credit than saving is noticeable, though the speed at which the shift is occurring is pretty slow. At the moment, Finns are quite hopeful about the future. According to the consumer survey, conducted by Findicator in April 2017, 60% of consumers found that now is a favorable time for saving money. The survey states that 67% of respondents claimed they have been able to save some money and 75% believed they will be able to do so in the next

year. Meanwhile, 75% of consumers believed the time was good for taking out a loan. (Statistics Finland 2017.)

Finnish government is planning to introduce positive credit register to increase transparency. According to Ari Kaperi, Executive Chairman of the Federation of Finnish Financial Services' (FFI) Board, consumer credit and quick loans are those with the lowest payment rates and the cause of most bad credit history of consumers. In his opinion, positive register will help loan providers, who by looking at credits a customer already has creditors will be able to get a better understanding of a client's actual repayment abilities, which will eventually benefit customers too. (FFI 2017.)

According to Helsinki University's Institute of Criminology and Legal Policy study of almost 2000 debt cases throughout 2012-2014, debt among people aged from 18 to 34 years has decreased. Yle claims the change occurred as a consequence of law amendment in 2013 and the limitation of maximum interest rate and ban of SMS loan request it brought. However, it does not mean that young Finns have restrained from taking on loans altogether. While they now have less problems with payday loans, the debt in bigger sized loans has increased. Moreover, among borrowers of 55 years of age and above the portion of payday loans debt has increased compared to other types of loans. (Yle Uutiset 2016.)

Regardless of the positive change the amendments have made, its effect has not been as strong for online loan providers. For instance, the ban of nighttime loan advertising has barely any effect on them, since they advertise online. Furthermore, some fast loan companies keep charging rates at a level higher than the limitation illegally. Others are trying to disguise loans under 2000 EUR as bigger loans that do not fall under the rate restriction (Yle Uutiset 2013).

6 Discussion

6.1 Ethical side of the issue

The lack of adequate financial education of common public is, in author's opinion, one of the major issues of Russian borrowers' community and one of the main reasons why many people keep being lured into financial pyramids and the like. The government has already taken several attempts of strengthening the law but not much has been done to raise citizens' awareness. In author's opinion, one of the important problems is the overall spread of fast loans advertising. The advertisements of credit make up a significant portion of visible advertisements located in public places like public transportation, bus stops, newspapers and there are no limitations. This problem was recognized by Google as a response to unlawful activities of American MFOs like Hydra Group, who had several lawsuits that drew public's attention and brought more recognition for microfinance problems. Google reacted to this by completely forbidding payday loan advertising from appearing on AdWords platform. Even though, the decision was made in USA, it will affect every country where Google has its affiliates.

Similarly, Finnish government has made an attempt to limit advertising of quick loans but it is not easy to do, especially for online market players. Author believes that the problem is that it is impossible to forbid people to take on fast loans, whatever limitations are made the final decision is a consumer's own choice. The amendments of laws made in both countries have already brought down or will decrease the amount of fast loans given but it is debatable whether it really is benefitting the consumers.

6.2 Objectivity of the research

There are several limitations to this study's objectivity. The study compares two countries. These countries' amount of inhabitants, economic situation, level of urbanization and other factors affect the degree to which consumer credit markets there could be compared to each other. Moreover, due to the scarcity of information on Finnish market available in English, some of it was inaccessible to author. The primary data obtained by author is also limited. Therefore, conclusions based on this study should be regarded with attention to the mentioned limitations.

6.3 Conclusions

Microcredit services, consumer microcredit and payday loans are phenomena that exist in different markets, regardless of the level of their development. Over the course of the past decade consumer microcredit has caused consumers' indebtedness to the level that the problem got recognized by the government. Several steps have been taken in both Finland and Russia to strengthen the regulations controlling activities of service providers. The scale of the issue was wider in Russia, to the point where a separate law was adopted.

Both countries have introduced maximum interest rate that can be charged for small consumer microloans in order to strengthen consumer protection. Amendments to law made in Finland were somewhat more focused on eliminating fast loans from the market. Many consumers shifted from fast loans to bigger loans with a longer repayment period. However, the legislation still does not give full protection for consumers, as a lot of requirements stated by Finnish Consumer Protection Act do not apply for payday loans with repayment period under 90 days. Therefore, the legislation will most likely be developed further in the future.

As for Russia, the focus of new regulations can be seen as a mean to decrease consumers' indebtedness and make debt collection process more organized and legitimate. The most recent new Russian legislation, so-called anti-collector law, a mean to protect consumers from unlawful actions of debt collectors, has caused difficulties for service providers. Even though the law came into force only several months ago and it is too early to claim any certain results, market players have already noted changes. Irresponsible borrowers overuse the law and refuse to repay their debts. Therefore, the levels of consumers' indebtedness are likely to get even higher in the nearest future. Author supposes that one of the consequences can even be a new peak in borrowers' activity in taking on new fast loans, as now they will be filled with hope that they will never have to repay it. This is going to hurt smaller loan providers but can mean a positive change in the market structure, as untrustworthy companies, which were depending on collecting pennies on overdue debt, will get eliminated from the market.

Furthermore, the division of Russian MFOs into MFCs and MCCs have also eliminated a lot of smaller companies. The trend is similar for Finland. As the regulations are getting stricter, it is more difficult for smaller players to stay afloat. Therefore, it can be predicted than in the next few years only big microcredit companies will stay in the market, which will mean higher quality of services and less risks for consumers. However, simultaneous-

ly this will mean stricter criteria for becoming eligible for getting microcredit financing and many consumers will not be able to get financed through this sector anymore.

The competition among large players that will stay in the market will probably get even tougher. Market players in both countries claim that the demand in consumer microcredit sector is increasing. They note that the shift from saving society to credit society is getting more and more noticeable.

To conclude, the changes in law in both countries will lead to microcredit market structure change. In the future the market will be dominated by big companies, who are going to expand their operations on regional and international level. It will mean that microcredit will become a more organized and more regulated part of finance sector. This will also mean that a portion of consumers will get hurt as they will no longer be able to get microloans as customer due diligence will get stricter. Meanwhile, the need for consumer microcredit remains strong and perhaps the regulations will lead to a bigger portion of small players provide their services illegally. For some people, especially in Russia, payday loans are a solution for survival, as poverty levels are high. That is why payday loans are not easy to eliminate while the level of government support remains as low as it is in Russia. Perhaps, consumer microcredit was not able to become a good tool in fighting poverty, as was microfinance. Some new solutions for solving these problems will be needed in the future.

All in all, it is evident that the governments recognized the problems existing in microcredit market and it is already a start for fixing them. Microcredit market is strengthening its positions and probably will take place in traditional finance sector in the future as it is becoming more stable, legitimate and regulated.

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Appendices

Appendix 1. Historical reference and penalty interest rates in Finland

Reference rate and penalty interest rates, %

Period	Reference rate confirmed under Interest Rates Act	Percentage-point margin on overdue payment; applicable if not otherwise specified in loan agreement	Penalty interest rate on overdue payment; applicable if not otherwise specified in loan agreement	Percentage-point margin on commercial contracts	Penalty interest rate on commercial contracts	
2017	1 Jan – 30 Jun	0.00	7.00	7.00	8.00	8.00
2016	1 Jul – 31 Dec	0.00	7.00	7.00	8.00	8.00
	1 Jan – 30 Jun	0.50	7.00	7.50	8.00	8.50
2015	1 Jul – 31 Dec	0.50	7.00	7.50	8.00	8.50
	1 Jan – 30 Jun	0.50	7.00	7.50	8.00	8.50
2014	1 Jul – 31 Dec	0.50	7.00	7.50	8.00	8.50
	1 Jan – 30 Jun	0.50	7.00	7.50	8.00	8.50
2013	1 Jul – 31 Dec	0.50	7.00	7.50	8.00	8.50
	1 Jan – 30 Jun	1.00	7.00	8.00		
2012	1 Jul – 31 Dec	1.00	7.00	8.00		
	1 Jan – 30 Jun	1.00	7.00	8.00		
2011	1 Jul – 31 Dec	1.50	7.00	8.50		
	1 Jan	1.00	7.00	8.00		

	- 30 Jun					
2010	1 Jul - 31 Dec	1.00	7.00	8.00		
	1 Jan - 30 Jun	1.00	7.00	8.00		
2009	1 Jul - 31 Dec	1.00	7.00	8.00		
	1 Jan - 30 Jun	2.50	7.00	9.50		
2008	1 Jul - 31 Dec	4.50	7.00	11.50		
	1 Jan - 30 Jun	4.50	7.00	11.50		
2007	1 Jul - 31 Dec	4.50	7.00	11.50		
	1 Jan - 30 Jun	4.00	7.00	11.00		
2006	1 Jul - 31 Dec	3.00	7.00	10.00		
	1 Jan - 30 Jun	2.50	7.00	9.50		
2005	1 Jul - 31 Dec	2.50	7.00	9.50		
	1 Jan - 30 Jun	2.50	7.00	9.50		
2004	1 Jul - 31 Dec	2.50	7.00	9.50		
	1 Jan - 30 Jun	2.50	7.00	9.50		
2003	1 Jul - 31 Dec	2.50	7.00	9.50		
	1 Jan - 30 Jun	3.00	7.00	10.00		
2002	1 Jul - 31 Dec	3.50	7.00	10.50		
	1 Jan	4.00	7.00	11.00		

	- 30 Jun					
2001	1 Jan - 31 Dec	4.00	7.00	11.00		
2000	1 Jan - 31 Dec	3.00	7.00	10.00		
1999	1 Jan - 31 Dec	4.00	7.00	11.00		
1998	1 Jan - 31 Dec	3.00	7.00	10.00		
1997	1 Jan - 31 Dec	4.00	7.00	11.00		

(Bank of Finland 2017b)