CONSUMER EDUCATION & AWARENESS

- **Disclosure and transparency on interest rates and other charges**
- **Complaints resolution process**
- **Interest calculation & the *in duplum* rule**

Introduction

Reserve Bank Consumer Protection Framework

As part of the Reserve Bank of Zimbabwe's mandate to promote access to appropriate financial services by all Zimbabweans, and to maintain financial stability, the Reserve Bank issued a Consumer Protection Framework in 2017. The Framework, which applies to all banking and non-banking financial institutions regulated by the Reserve Bank of Zimbabwe, is available on the Reserve Bank website on the following link: http://www.rbz.co.zw/assets/consumer-protection-framework---26-june-2017-.pdf.

The objectives of the Consumer Protection Framework include:

a) promoting the rights of consumers of financial services;
b) ensuring that customers understand the procedures for registering their complaints when the need arises; and
c) promoting trust between consumers of financial services and financial institutions.

The following sections provide highlights on the pertinent issues covered by the Consumer Protection Framework with respect to loans, interest rates and related charges.

What does the Consumer Protection Framework say on Disclosure and Transparency with respect to interest rates?

Banks and microfinance institutions are required to fully disclose in writing the following to their borrowing clients:

i. the interest rate charged and the manner in which it is calculated;
ii. all the applicable fees and any other charges; and
iii. every term or condition applicable to the loan.

The bank or microfinance institution should allow the customer sufficient time to consider the terms and conditions of a loan agreement before signing. The customer is entitled to request for such time if the institution has not provided them with sufficient time to review the terms and conditions of the loan agreement.

All communication with the customer including on the terms and conditions of the contract should be in plain, simple and comprehensible language and the customer is entitled to retain a copy of the loan agreement for their reference.

How Should Banking and Microfinance Institutions Compute Interest Charges on Loan Products?

In terms of the Consumer Protection Framework, banking and microfinance institutions are required to compute interest charges on their loan products using **the reducing balance computation method which is less burdensome** to the consumer when compared to the simple / flat interest rate method. An illustration of the different interest rate calculation methods is shown below.

Flat Interest Rate / Simple Interest Rate

This is where the borrower pays interest on the full original loan amount throughout the duration of the loan:

Interest payable per installment = (Original loan amount x *No. of years* x *Interest rate p.a.) / Number of installments*

Based on the above formula:

If one borrows $500.00 at 10% per annum over 5 years with instalments payable once a year using the flat interest rate, the repayment amounts will be as illustrated below:

Year	Paid Principal	Paid Interest	Total Payment	Loan Balance
1	100.00	50.00	150.00	400.00
2	100.00	50.00	150.00	300.00
3	100.00	50.00	150.00	200.00
4	100.00	50.00	150.00	100.00
5	100.00	50.00	150.00	0
Total	**500.00**	**250.00**	**750.00**	

Reducing Balance Interest Computation – Fixed Repayment

Under this method, interest is computed at periodic intervals on the portion of the original principal / capital amount that has not yet been repaid:

Amount of interest for each installment = Applicable rate of interest x *Remaining principal loan amount*

Since the borrower only pays interest on the portion of original principal that has not yet been repaid, interest paid is smaller every period.

Based on the above formula:

If one borrows $500 at 10% per annum over 5 years with instalments payable once a year using the reducing balance interest computation, the repayment amounts will be as illustrated below:

Year	Paid Principal	Paid Interest	Total Payment	Loan Balance
1	81.90	50.00	131.90	418.10
2	90.09	41.81	131.90	328.01
3	99.10	32.80	131.90	228.92
4	109.01	22.89	131.90	119.91
5	119.90	11.99	131.89	0
Total	**500.00**	**159.49**	**659.49**	

Reducing Balance Interest Computation – Reducing Repayment

Under this method, interest is computed at periodic intervals on the principal amount that has not yet been repaid. In the *fixed repayment* method, the instalment is fixed while in the *reducing repayment* method, the principal amount is the one fixed over the tenure of the loan.

> *Amount of interest for each installment = Applicable rate of interest* x *Remaining principal loan amount*

Since the borrower only pays interest on the portion of the outstanding principal that has not yet been repaid, interest paid is smaller every period and total instalment payable reduces as the loan is repaid.

Based on the above formula:

If one borrows $500 at 10% per annum over 5 years with instalments payable once a year, using the reducing balance interest computation (*reducing repayment*), the repayment amounts will be as illustrated below:

Year	Paid Principal	Paid Interest	Total Payment	Loan Balance
0	-	-	-	500.00
1	100.00	50	150.00	400.00
2	100.00	40	140.00	300.00
3	100.00	30	130.00	200.00
4	100.00	20	120.00	100.00
5	100.00	10	110.00	0.00
Total	**500.00**	**150.00**	**650.00**	

Consumers are urged to note the total interest payable in the above examples and to take their time to understand their full obligations before signing a loan contract.

Is there a Limit on the Amount of Interest Paid by Borrowers on Loans?

Further to the requirement to calculate interest on loan products using the *reducing balance* method, banks and microfinance institutions are required to comply with the *in duplum rule* in terms of the Consumer Protection Framework.

What is the In Duplum Rule?

The literal translation of *in duplum* is 'double the amount'. The *in duplum* rule is a common law rule that specifies that interest on a debt will cease to run when the total amount of arrear interest has accrued to an amount equal to the outstanding principal debt.

Consumers of financial services, in particular loans and other borrowings, often fail to appreciate the full scope of the impact of their borrowings and end up failing to repay according to the terms of the signed loan agreement. In some instances failure to repay may result from other reasons including difficult circumstances and poor business management practices. Whatever the underlying reasons, failure to repay a loan in line with the signed loan contract will result in accumulation of interest and capital / principal arrears.

In line with the objectives of the Consumer Protection Framework, the Reserve Bank wishes to assist consumers of financial services in understanding the operation of the *in duplum* rule.

Correct Application of the In Duplum Rule

In summary, the *in duplum* rule provides that a creditor, in this case a bank or microfinance institution, is entitled to the following:

(i) repayment of the unpaid capital sum; and
(ii) interest on the unpaid capital sum at the contract rate up to an amount equal to the unpaid capital sum.

Further, where a court judgment has been obtained, the financial institution (creditor), in addition to (i) and (ii) above, will be entitled to also collect from the borrower, interest on the sum of (i) and (ii) from the date of the court judgment to the date of payment by the borrower. This interest is the prescribed rate of interest and will be in the court order.

Consumers should take note that the *in duplum* rule :

- only applies where there has been continuous non-payment of both capital and interest; and

- it cannot be used to sum up all interest payments made throughout the loan term. It only deals with total unpaid interest. When this total unpaid interest equals the outstanding capital sum, no further interest can be charged.

What does the Consumer Protection Framework say concerning the Resolution of Complaints?

Consumers are encouraged to read the Consumer Protection Framework and familiarize themselves with both their rights and obligations as consumers of financial services and products.

The consumer or any person having a complaint against a bank or microfinance institution, should first approach the bank or microfinance institution to register their complaint.

A complaint may be made in writing or verbally.

The bank or microfinance institution is required to:

- acknowledge receipt of the complaint within 48 hours; and
- resolve the complaint within 10 days.

Where the customer is not satisfied with the resolution or other measures taken by the bank or microfinance institution, the customer may refer their complaint to the Director, Bank Supervision Division, Reserve Bank of Zimbabwe for an out of court settlement or refer the same to the courts.