Regulatory Issues for Consumer Protection in Digital Financial Services

SESSION # 4

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The Problem: Financial Inclusion?

Achieving Universal Financial Access by 2020

2 billion people lack access to a transaction account.

Here is the percentage in each focus country:

- China 11.6%
- India 20.6%
- Pakistan 5.2%
- Vietnam 2.4%
- Mexico 2.6%
- Brazil 2.4%
- Egypt 2.4%
- Pakistan 5.2%
- Bangladesh 3.7%
- Indonesia 5.6%

China + India = 32%

25 Focus Countries = 73% of the world’s financially excluded

Sources: Global Findex 2014, IMF Financial Access Survey
Main Aims

• Promote dialogue between Financial/Telco regulators

• Raise awareness re role DFS to promote Financial Inclusion and linkage to UN SDGs

• Clarify regulators roles and responsibilities in DFS

• Provide recommendations on selected policy and regulatory issues
ITU FG Digital Financial Services

Unique Forum
Bring together regulators and players from telecom and financial services sectors
Regulatory Objectives

• Enhance usage
• Create the consumer experience
• Enhance trust in the system
Main Topics

- DFS Ecosystem
- Interoperability
- Consumer Experience and Protection
- Technology, Innovation and Competition
Regulatory Overlap In DFS

Financial Services Regulator

- AML + KYC
- Settlement
- Payment licenses
- Micro loans
- Deposit
- Insurance

Telecom Regulator

- Open Access
- Dispute Res.
- Pricing
- Competition
- Consumer Protection
- Costs
- Network Integrity
- QoS
- SIM Registration

Regulatory Overlap In DFS
**DFS Value Chain Players**

- **Consumer**
  - Unbanked
  - Low literacy
  - Needs easy to use DFS application in local language

- **Agent**
  - Controls interaction with consumer
  - Agent behaviour can impact consumer trust

- **MNO**
  - Controls access to the telecom infrastructure
  - Direct impact on the quality of service and consumer experience of DFS

- **DFS Provider**
  - Agent behaviour can impact DFS provider
  - Provide mechanisms to address consumer complaints
  - Provide dispute resolution mechanisms
Consumer Protection Issues

Main Risks

- Protection of trust accounts
- Fraud
- Dispute Resolution
- Alternative Recourse
- Transparency
- Disclosure of Information
- Data Privacy
- Security of the network
- Agent behaviour
- User Errors
- Network Downtime
- Protection of trust accounts
- Fraud
- Dispute Resolution
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Consumer Experience and Protection WG

• Regulatory Review of Consumer Protection Framework
  – Conducted by University of Washington
  – Covered 22 developing countries
  – Analysed the regulation and mobile money guidelines

• Regulatory principles for Consumer Protection
  – Compiled from issues identified in the regulatory review +
  – Best practices from international organizations (ie. World Bank, Alliance for Financial Inclusion, CGAP, Better than Cash Alliance, GSMA…)
  – Framework for regulators to introduce DFS consumer protection guidelines/regulation
Regulatory Review of Consumer Protection

- 5 countries (Bangladesh, Egypt, Nepal, Pakistan, and South Africa) specify a bank-led DFS model.
- 16 allow mobile money operators (MMOs) that are not tied to banks.
- In all 22 countries, a financial regulator (often the central bank) is involved in DFS regulation.
- Telecommunication regulators license MNOs, oversee aspects of market competition, and manage quality of service within DFS channels.
- 14 countries have a competition authority, eight of which are also responsible for consumer protection. 8 countries have separate consumer protection authorities.
- The DFS provider is responsible for costs from consumer financial losses or other harm in the event of
  - System malfunctions: in 7 countries,
  - Fraud: in 3 countries,
  - Agent misconduct: in 16 countries,
  - Transfer failures: in 3 countries.
Regulatory Review of Consumer Protection

- 18 countries have regulations that mandate transparent communication of costs associated with DFS, and 6 have regulations mandating regulator reviews of provider Terms & Conditions.
- 18 countries have regulations mandating security policies for DFS providers to reduce the risk of loss of funds or data.
- 6 countries had regulations for accessing consumer funds or data.
- 9 countries had regulation which limits sharing of consumer data with third parties.
- 10 countries had regulations mandating training for agents and employees of DFS providers.
- 10 countries have regulations mandating specific mechanisms for consumers to report complaints.
- In 8 countries, regulations state that complaint channels should be free, and in 13 countries regulations specify maximum response times.
- 15 countries have regulations specifying alternative dispute resolution channels in case consumers are not satisfied with provider mechanisms.
Regulatory Principles For Consumer Protection in DFS

6 Pillars

1. Redress and dispute resolution mechanisms
2. Fraud prevention
3. Data protection and privacy
4. Information disclosure and transparency
5. Protection of funds
6. Encourage Competition
THANK YOU

More info: ITU FG DFS Website
Mechanisms for redress and dispute resolution

- Complaints policy and procedures
- Policy is clearly communicated
- Multiple recourse channels available
- Alternative Dispute Resolution Process
- Timeframe for Dispute Resolution Process
- Dedicated helpline
- Coordination between telecom and financial regulators
- Oversight of recourse system
- Capacity building for employees on handling disputes
Fraud Prevention

Prevention Measures

- Consumer Education
- Real time transaction
- AML/CFT Procedures
- Staff training on AML/CFT
- Due diligence on staff and agents
- Superevision/Oversight
- Reporting channels
- Security checks
- Tiered KYC
- Agent training
- Providers responsible for agents
- Agent Monitoring
Data Protection and Privacy

- Encryption of Data
- Access restriction to consumer data
- Minimization of data collection
- Protection of personal data
- Clear policy on data collection and sharing
Information Disclosure and Transparency

- Transparency of fees
- Terms and conditions are transparent
- Cooling off period
- Notice period for changes to T&C and fees
- Financial literacy and consumer awareness
- Consumer helpline
- Prohibit misleading advertisements, sales
- Policy on dormant accounts
Protection of funds

- 100% of e-value stored in corresponding bank
- DFS funds connected to a trust account
- Diversification requirements
- Deposit insurance schemes
Competition

- Ease of account/provider switching
- Bundling and tie-ins not allowed
- Agent exclusivity
- Promote interoperable systems which are market driven
- Supervision of competition