

Ad Hoc Expert Meeting on Financial Consumer Protection

Palais des Nations, Geneva

27 November 2023

Responsible Digital Finance Ecosystem

Presentation

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CGAP

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CGAP

Responsible digital finance ecosystem

UNCTAD Ad Hoc Expert Meeting on Financial Consumer Protection

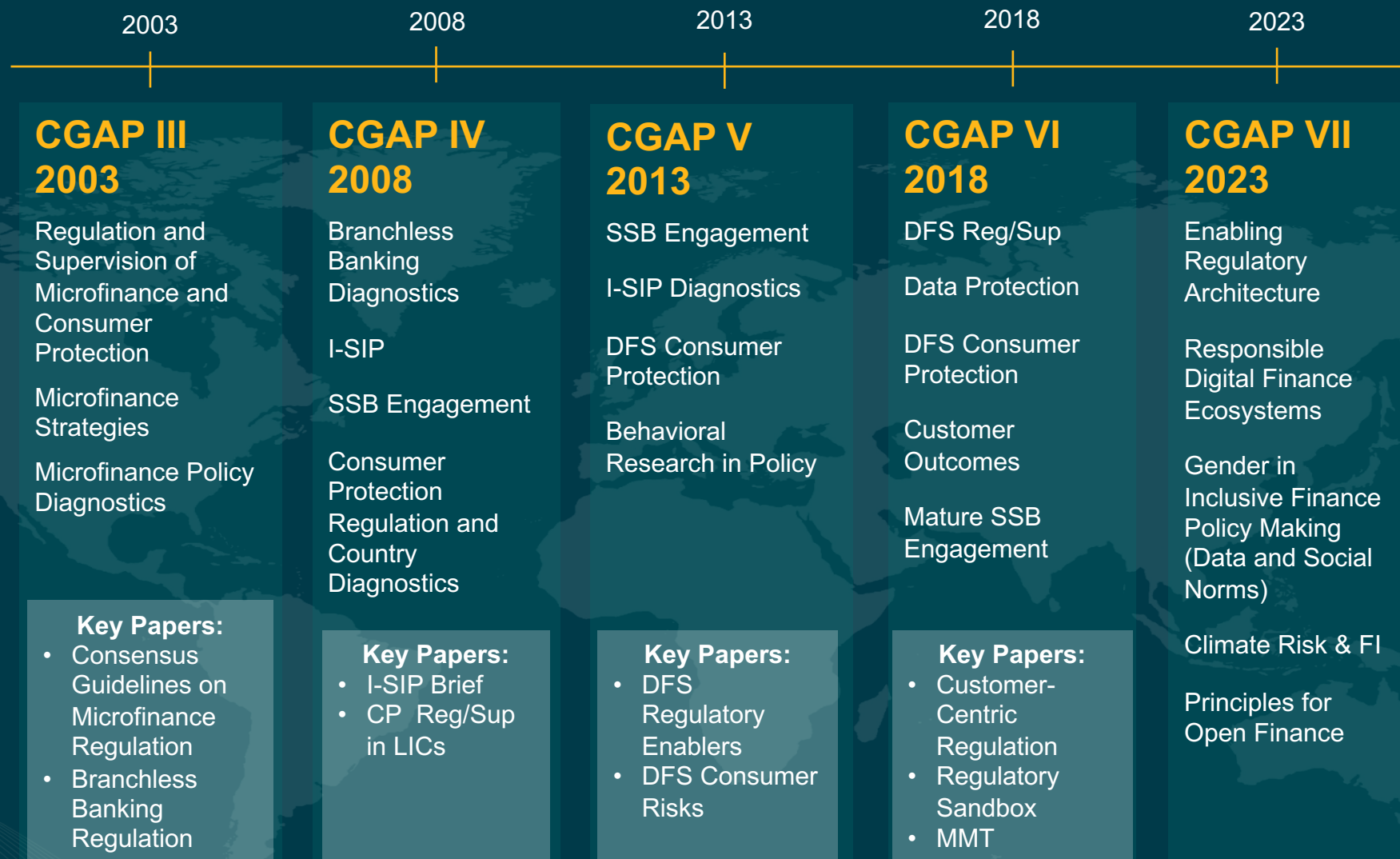
27 November 2023

“

How can financial consumer protection and other institutions address challenges posed by digitization, including fraud, data security, and complex financial products, while attending the needs of digitally vulnerable groups ?

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CGAP has a long history of working on financial inclusion policy





Digital financial services risk

> Diagnostic

Nicolas Réméné, 2020 C4D

Digital has unlocked financial inclusion for the poor

Four main barriers...

- Long distance (and low population density)
- High cost
- Poor product/channel design
- Low financial literacy

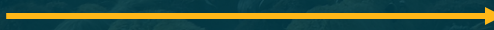
...addressed with 2 key assets...

- Technology
- Agents

...expanded FI depth and breadth

- More segments
- More use cases

Cash remains key



Agent networks (telco) play a crucial role

Innovations are transforming the financial sector landscape



EMERGING TECHNOLOGIES

DLT
APIs
AI/ML
Cloud Computing
Biometric Technologies



NEW PRODUCTS AND SERVICES

Cryptoassets
Digital credit
Crowdfunding
CBDC



NEW BUSINESS MODELS

Fintechs
Platforms
Digital Banks



MORE DATA AND USES

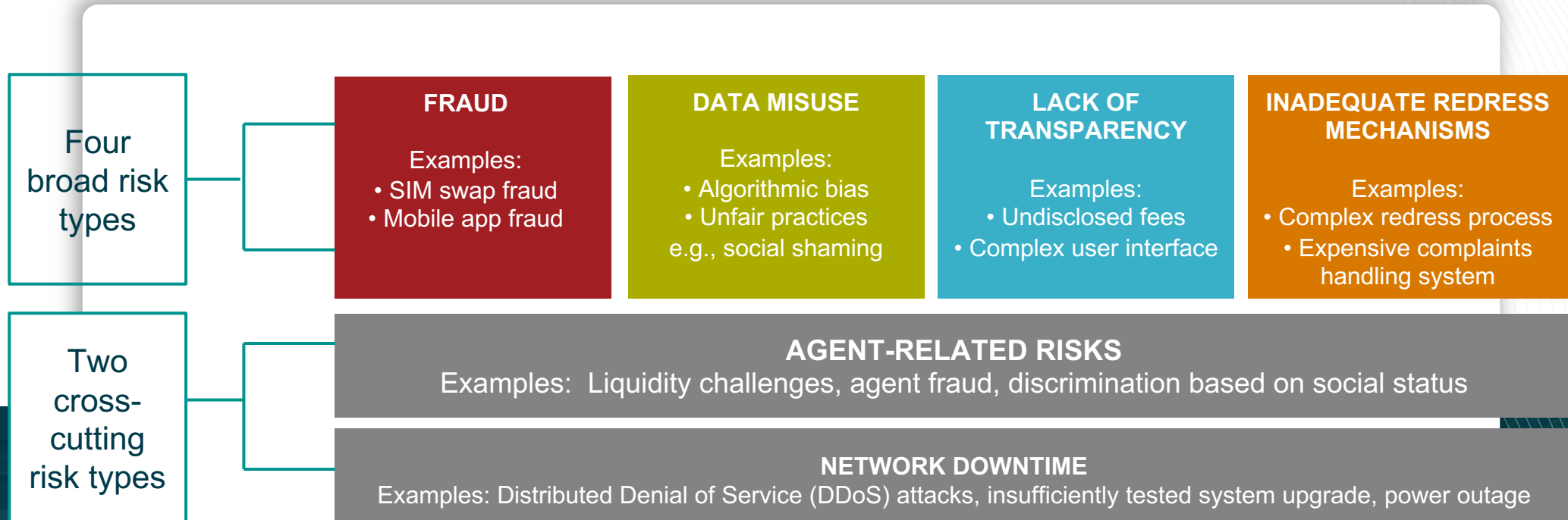
Open Finance
Scoring Systems
Machine Learning
AI



MORE RISK TYPES AND INCIDENCES

Fraud
Data Misuse, Privacy and Security
Lack of Transparency
Exclusion, especially women

Digital financial services are challenging consumers with new risks



Fraud and data misuse are directly linked to **cybersecurity**.
The two cross-cutting risks share some elements with all four broad risk types.

Further info is available in [The Evolution of the Nature and Scale of DFS Consumer Risks, CGAP 2022](#)

The scale of DFS consumer risks increased in most cases since 2015

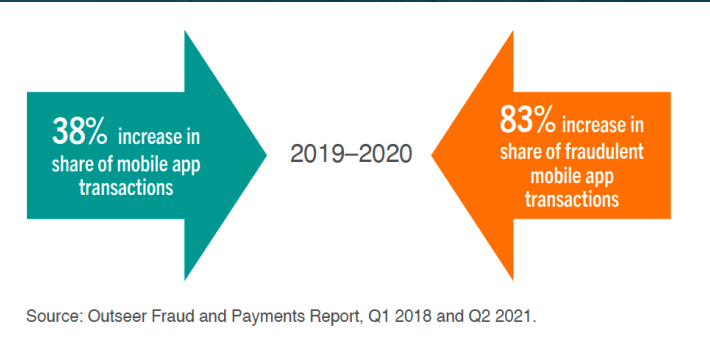
Available evidence since 2015 show an increase in scale for most risks

Risk Type	Global	Regions	Country
Fraud	↑	↑	↑
Data Misuse	↑	↑	↑
Lack of transparency	↑	↑	N/A
Inadequate redress mechanisms	N/A	N/A	↑

Red arrow: Available data show an overall increase in value or volume.

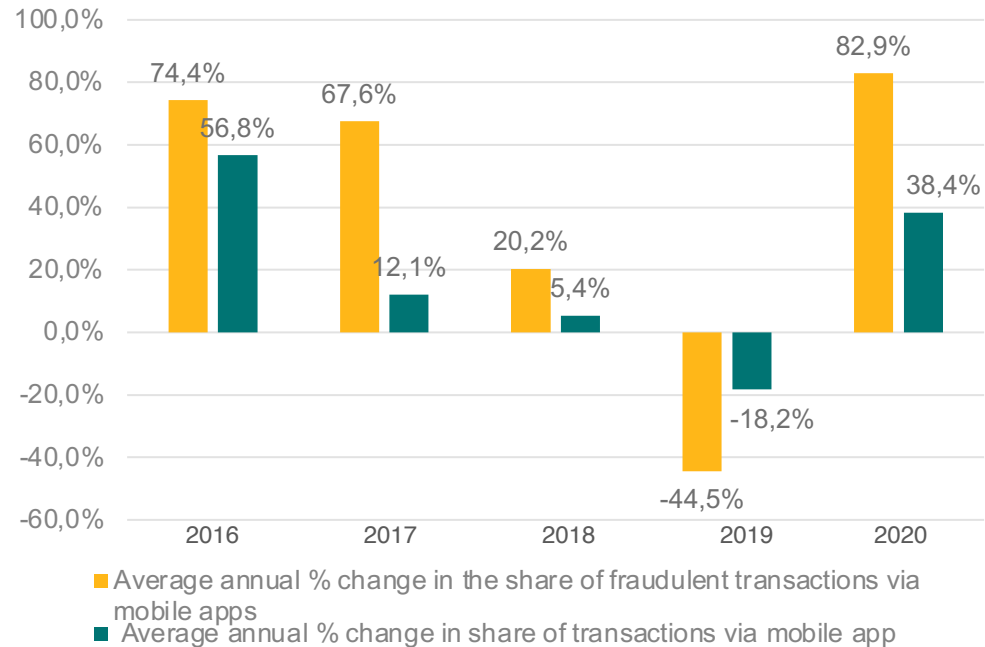
Orange arrow: Literature suggests an increase in value or volume without supporting data.

N/A: Reliable information and data are not available or sufficient to determine increase or decrease of the risk.



Further info is available in [The Evolution of the Nature and Scale of DFS Consumer Risks, CGAP 2022](#)

Globally, mobile app fraud is rising faster than mobile app usage

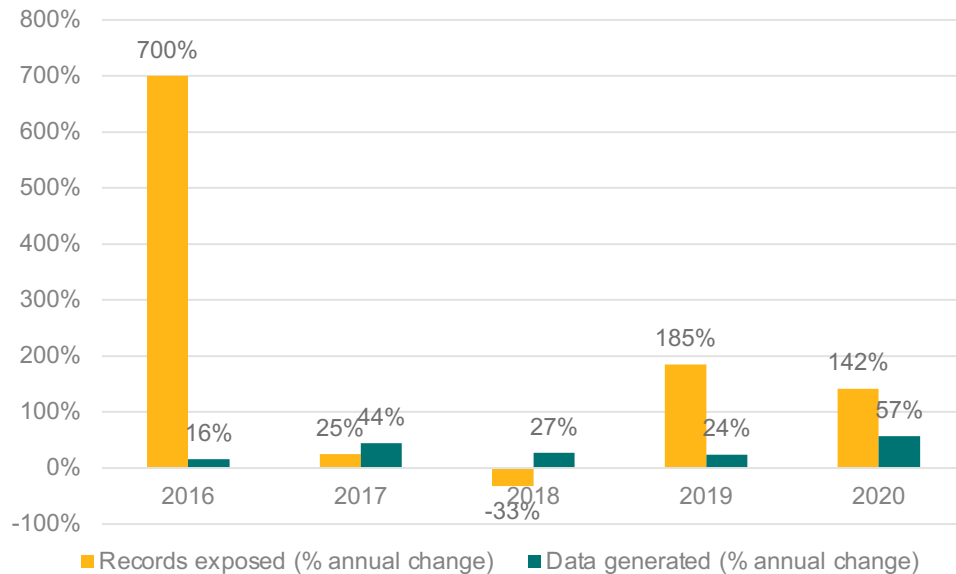


Source: Adapted from the Outseer Fraud and Payments Report, Q2 2021, and RSA Quarterly Fraud Reports, Q1 2018 and Q3 2020.

- 2016/2020 – share of fraudulent transactions via apps **+104%** vs share of transactions carried out via apps **+34%**.
- In India and Kenya, fraudulent apps have exposed digital credit customers to abusive lenders.

Percentage change in share of fraudulent mobile app transactions and share of mobile app transactions (globally)

Globally, the increase in data breaches is surpassing increase in data created

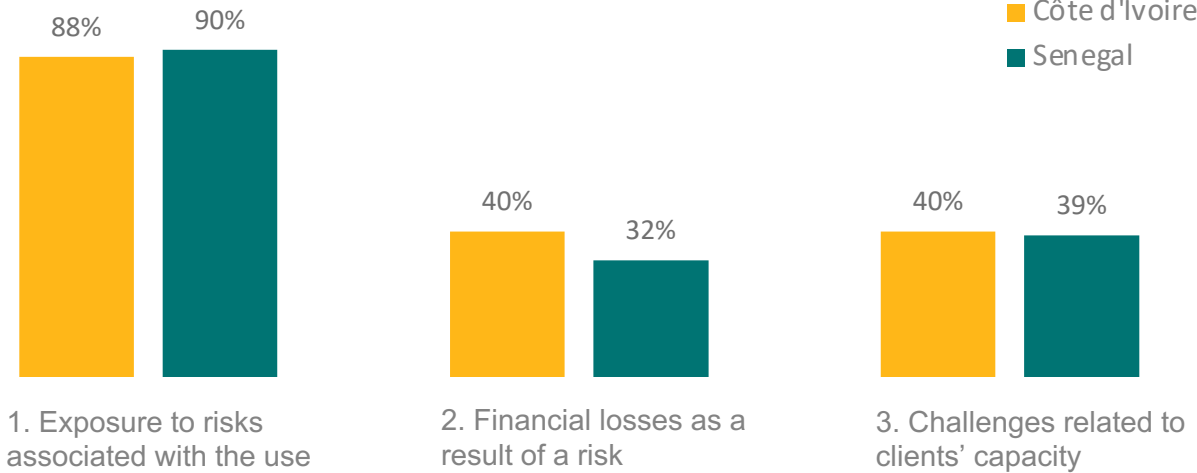


Source: Data adapted from [Risk Based Security 2020 Year End Report](#) (global number of records exposed) and [Statista](#) (global data created).

- 2017/2020 – the average annual increase in number of records exposed globally (80%) was much higher than the annual increase in volume of data created (38%).
- The average time to identify and contain a data breach increased from 257 days (2017) to 287 days (2021).

Global data created and records exposed, annual percentage changes, 2016–2020

In Côte d'Ivoire and Senegal, more than 85% of users experienced at least one challenge in the use of DFS



1. Exposure to risks associated with the use of DFS

- Received a scam or fraudulent message
- Not informed of the cost of the service
- Poor network
- Did not get a receipt
- Difficulty in understanding the offer

2. Financial losses as a result of a risk

- Lost money as a result of a subscription or response to a fraudulent message
- Paid more than expected
- Lost money due to a transaction that did not go as planned
- Payment debited but not received by the supplier

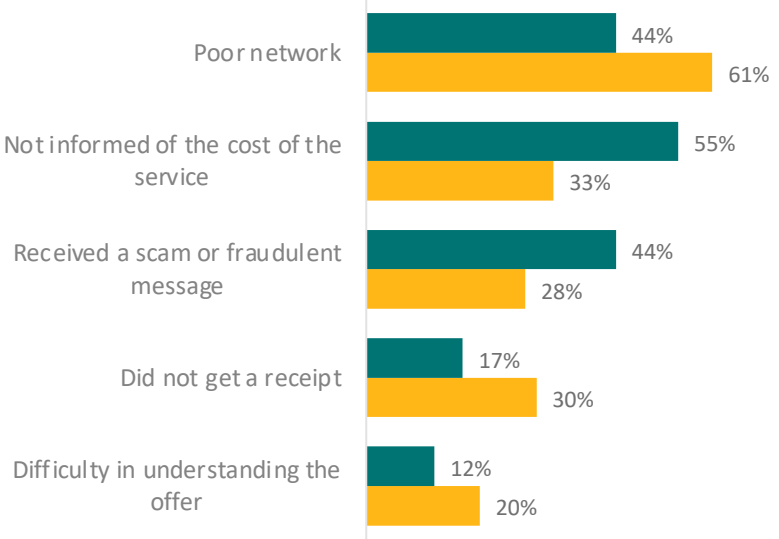
3. Challenges related to clients' capacity

- Difficulty navigating the menu
- Sent money by mistaking the recipient's number

In 2022 and 2023, CGAP conducted nationally representative phone surveys of DFS customers in Côte d'Ivoire and Senegal

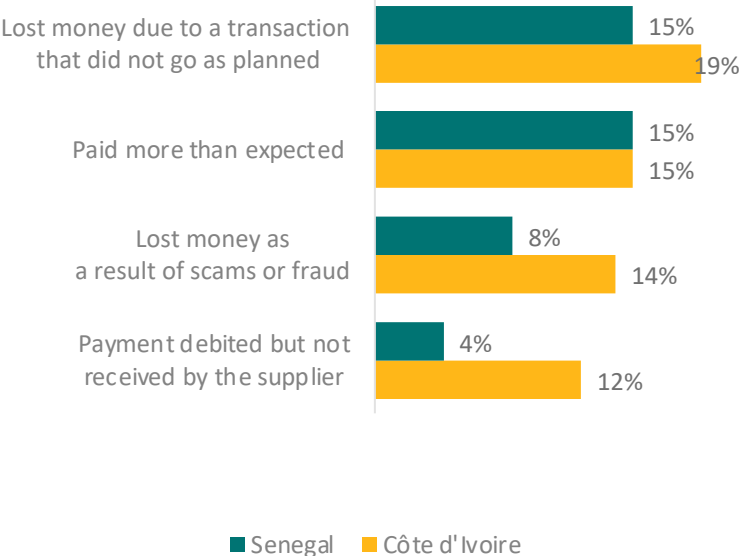
Risks to which DFS users in Côte d'Ivoire and Senegal were exposed in the 12 months prior to the survey

Exposure to risks associated with the use of DFS



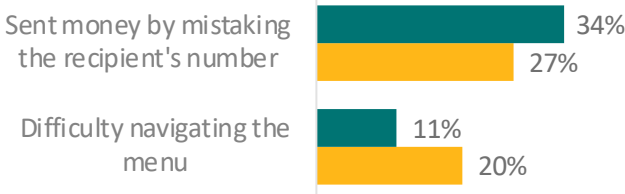
% of users exposed to each risk at least once in the past 12 months

Financial losses as a result of a risk



% of users who lost money as a result of a risk in the past 12 months

Challenges related to clients' capacity



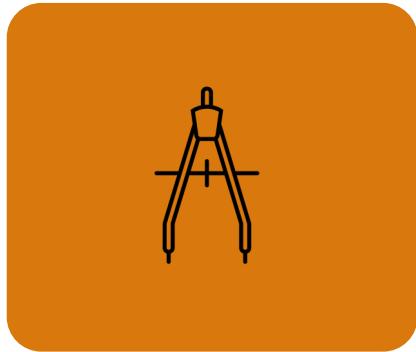
% of users who faced challenges related to their capacities in the past 12 months



Our response
> A responsible ecosystem

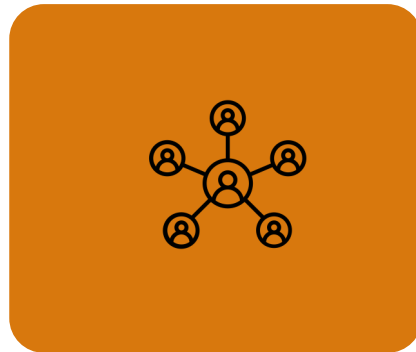
Nicolas Réméné, 2020 C4D

Innovations are challenging financial authorities in novel ways



FINANCIAL SECTOR REGULATORY PERIMETER

What to regulate, when and how?
How do we prioritize scarce resources?
How do supervisors address technological risks?



RELATIONSHIPS AMONG DIFFERENT AUTHORITIES

How can regulators (financial and non-financial) collaborate? Nationally and internationally?



BALANCING POLICY OBJECTIVES

How do we consider I-SIP and other policy objectives?
Do innovations impact various policy objectives in the same way?

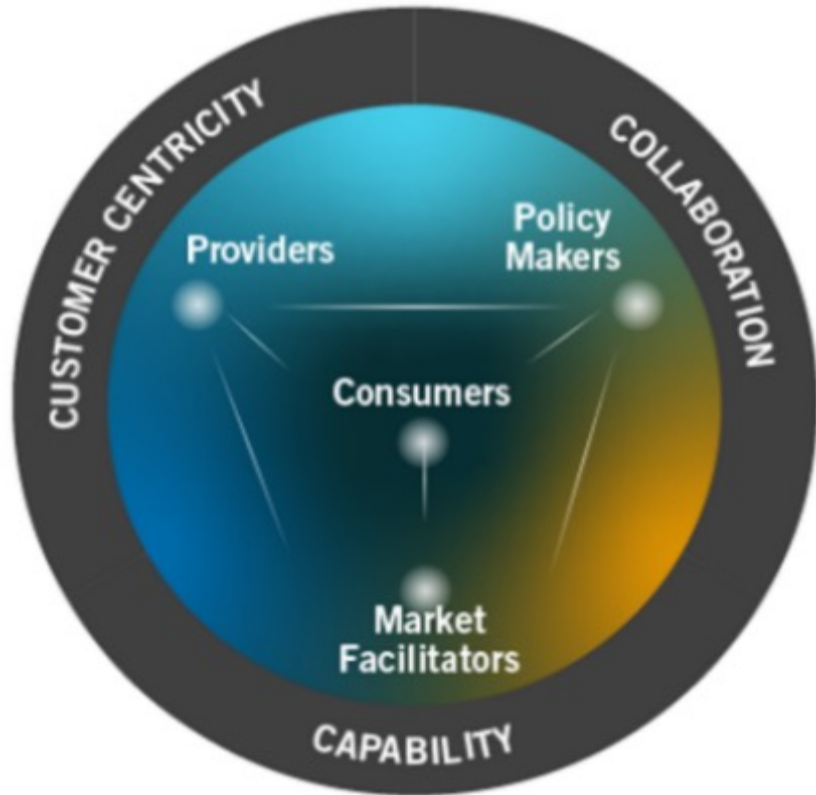


ENSURING CONSUMER PROTECTION

What is a more holistic and inclusive approach to responsible ecosystems?
How do we achieve positive customer outcomes?
How do we achieve gender equity in financial inclusion?

CGAP VII policy work focuses on addressing these challenges, contributing to a foundational outcome - Promoting responsibility in financial ecosystems and enabling financial sector policies and regulations

Our vision is one of a responsible DFS ecosystem



Three building blocks (3Cs):

- **Customer-centricity** better protects consumers by putting them at the core of any initiative.
- Key actors have the **capability** to contribute to a responsible ecosystem.
- **Collaboration** involves structured and constructive relationships between actors in the ecosystem.

Monitoring collective progress and measuring success through customer outcomes will tie the 3Cs together.

Risk prevention

Risk
identification

Risk mitigation

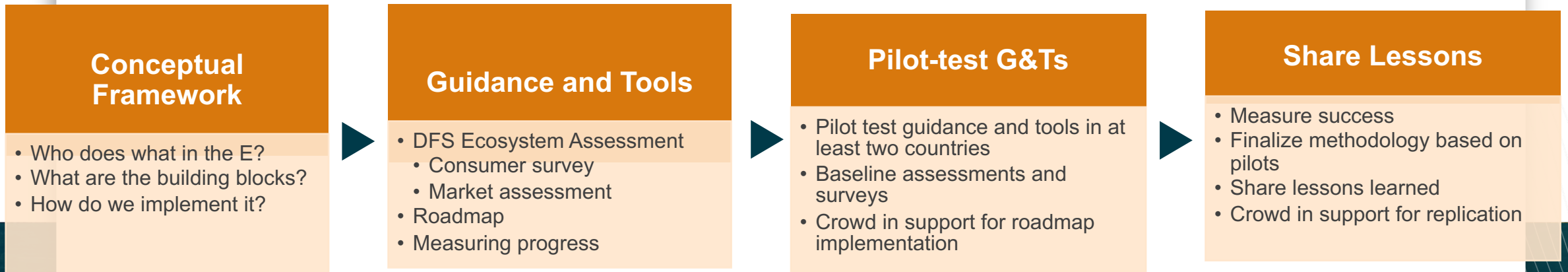
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A responsible digital finance ecosystem approach takes a **holistic and less piecemeal approach** to protecting consumers. It means that all **key actors** in the digital finance ecosystem—consumers, providers, policy makers, market facilitators—interact in a way that **protects and ensures positive outcomes** for customers using financial services, **especially women and vulnerable consumers**.

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CGAP VII Responsible Digital Finance Ecosystem Project 2023-2027

PROJECT PHASES:



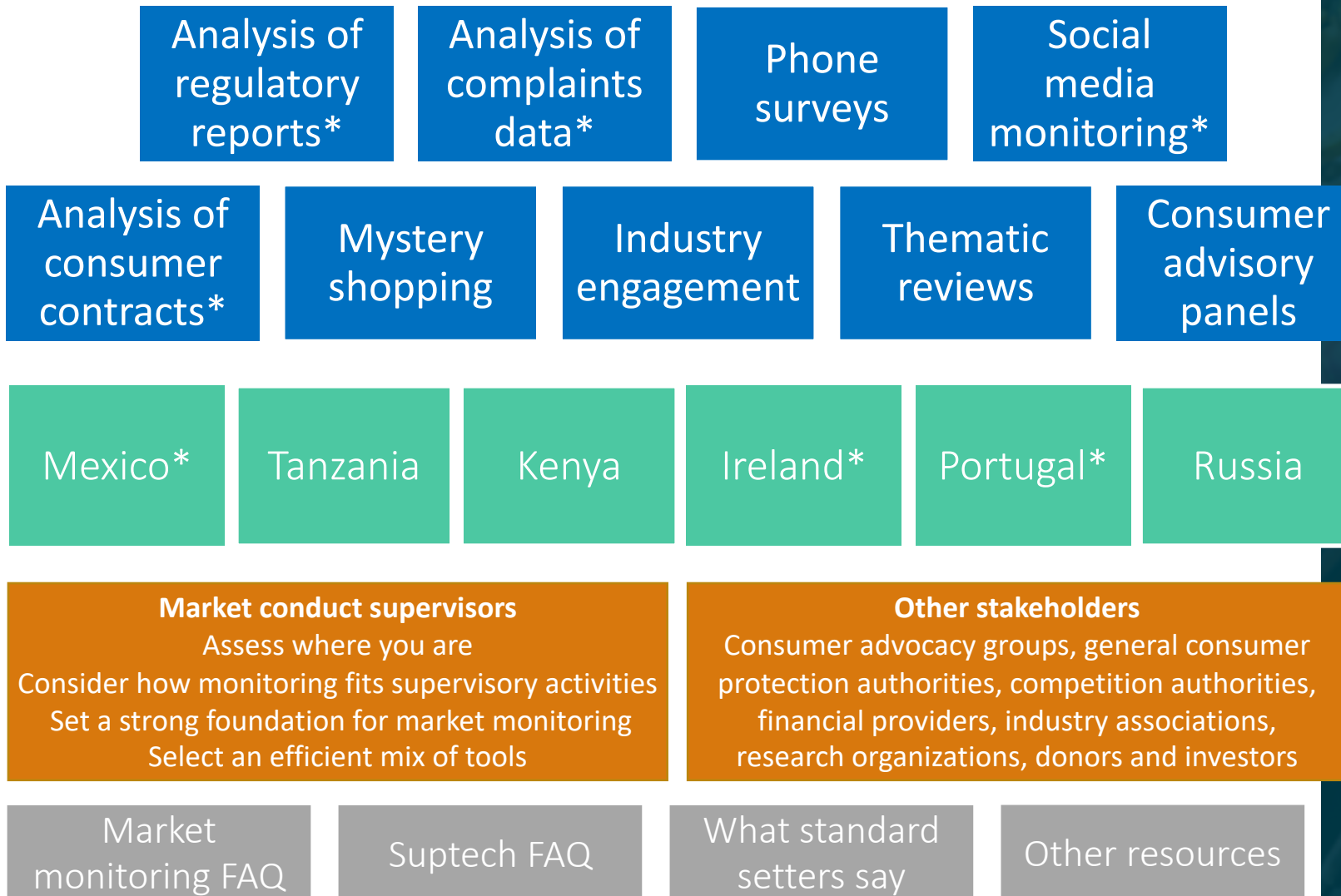


Existing resources

> CGAP's market monitoring toolkit

Nicolas Réméné, 2020 C4D

CGAP Market Monitoring Toolkit



- Introduction
- Market Monitoring Tools – implementation guidance
- Country Cases
- Taking Action
- Further Resources

Several tools can be used, based on objectives...

Supervisory objective	Analysis of regulatory reports	Analysis of complaints data	Social media monitoring	Analysis of consumer contracts	Mystery shopping	Industry engagement	Thematic reviews	Phone surveys	Consumer advisory panels
Monitor indicators of consumer risk	✓	✓	✓					✓	
Monitor over-indebtedness	✓	✓	✓			✓	✓	✓	
Monitor sales and marketing practices		✓		✓	✓	✓	✓		✓
Monitor products in the market	✓		✓	✓	✓	✓	✓	✓	✓
Monitor consumer complaints	✓	✓	✓	✓			✓	✓	✓
Monitor risks by gender	✓	✓		✓	✓		✓	✓	✓
Monitor consumer sentiment toward FSPs			✓		✓			✓	✓
Monitor emerging consumer issues			✓	✓	✓	✓	✓	✓	✓

Consumer advisory panels – New implementation guidance

- Guidance on the setup of consumer advisory panels that engage with supervisors to discuss and share information on policy actions and emerging consumer risks
 - Insights from pilot with South Africa's Financial Sector Conduct Authority

1 LAY THE FOUNDATION

- Sound legal basis
- Clear purpose and objectives
- Culture and tone from the top
- Relationship building
- Peer support
- Understand the stakeholder landscape

2 BUILD THE ENGAGEMENT MODEL AND TEAM

- Define roles and responsibilities
- Estimate resource requirements
- Recruit effective members
- Manage priorities and logistics

3 INTEGRATE AND EVOLVE

- Integrate into the FCP toolkit
- Help build participant capacity
- Track and report activities and outcomes
- Evolve with the financial sector and consumer risks

- Also: how to do a consumer stakeholder landscaping exercise

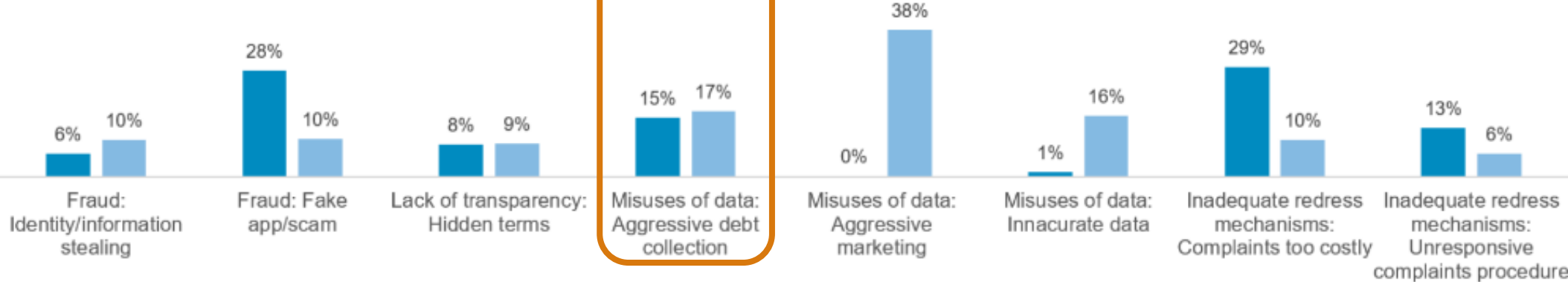
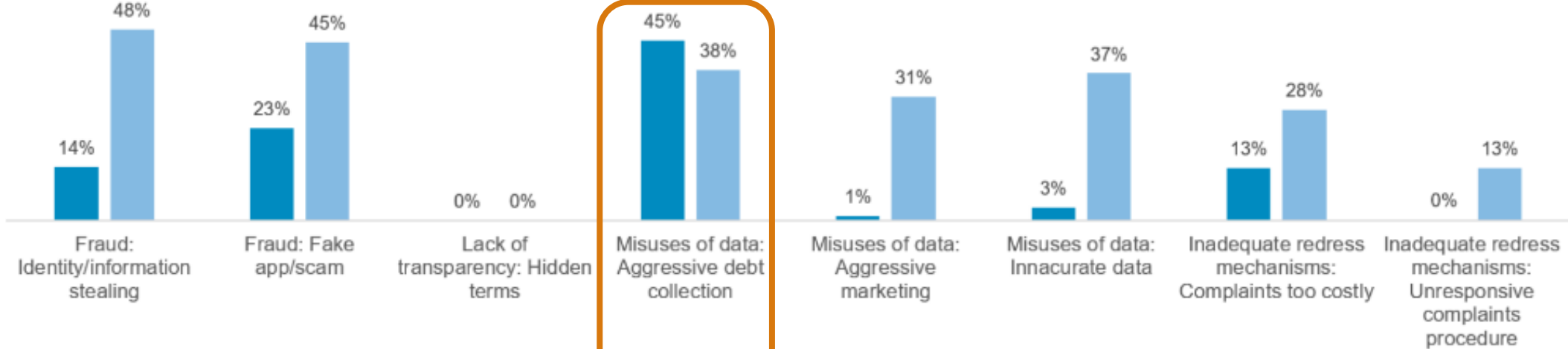
Social media monitoring – 2023 Update

- Guidance on the use of artificial intelligence (natural language processing) to analyze consumer posts on social media and assess consumer risks
 - Based on pilot test with Reserve Bank of India Innovation Hub
 - Used for monitoring risks of consumers using digital lending apps
 - Step-by-step guidance, with reflections on opportunities and challenges



- Examples of the type of data that can be generated for market monitoring

Analyzing social media to understand digital credit borrowers in India



■ % of complaints ■ % of complaints that are urgent

CGAP Members



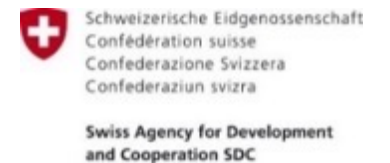
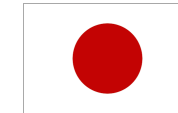
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