Ad Hoc Expert Meeting on Financial Consumer Protection

Palais des Nations, Geneva

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Responsible Digital Finance Ecosystem

Presentation

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Consultative Group to Assist the Poor

CGAP

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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?
CGAP has a long history of working on financial inclusion policy

<table>
<thead>
<tr>
<th>Year</th>
<th>Key Programs</th>
<th>Key Papers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>CGAP III</td>
<td>Consensus Guidelines on Microfinance Regulation, Branchless Banking Regulation</td>
</tr>
<tr>
<td>2008</td>
<td>CGAP IV</td>
<td>I-SIP Brief, CP Reg/Sup in LICs</td>
</tr>
<tr>
<td>2013</td>
<td>CGAP V</td>
<td>DFS Regulatory Enablers, DFS Consumer Risks</td>
</tr>
<tr>
<td>2018</td>
<td>CGAP VI</td>
<td>Customer-Centric Regulation, Regulatory Sandbox, MMT</td>
</tr>
<tr>
<td>2023</td>
<td>CGAP VII</td>
<td>Enabling Regulatory Architecture, Responsible Digital Finance Ecosystems, Gender in Inclusive Finance Policy Making (Data and Social Norms), Climate Risk &amp; FI Principles for Open Finance</td>
</tr>
</tbody>
</table>
Digital financial services risk
> Diagnostic
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

Four broad risk types

- **FRAUD**
  - Examples: SIM swap fraud, Mobile app fraud

- **DATA MISUSE**
  - Examples: Algorithmic bias, Unfair practices e.g., social shaming

- **LACK OF TRANSPARENCY**
  - Examples: Undisclosed fees, Complex user interface

- **INADEQUATE REDRESS MECHANISMS**
  - Examples: Complex redress process, Expensive complaints handling system

Two cross-cutting risk types

- **AGENT-RELATED RISKS**
  - Examples: Liquidity challenges, agent fraud, discrimination based on social status

- **NETWORK DOWNTIME**
  - Examples: Distributed Denial of Service (DDoS) attacks, insufficiently tested system upgrade, power outage

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

<table>
<thead>
<tr>
<th>Risk Type</th>
<th>Global</th>
<th>Regions</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fraud</td>
<td>![↑]</td>
<td>![↑]</td>
<td>![↑]</td>
</tr>
<tr>
<td>Data Misuse</td>
<td>![↑]</td>
<td>![↑]</td>
<td>![↑]</td>
</tr>
<tr>
<td>Lack of transparency</td>
<td>![↑]</td>
<td>![↑]</td>
<td>N/A</td>
</tr>
<tr>
<td>Inadequate redress mechanisms</td>
<td>N/A</td>
<td>N/A</td>
<td>![↑]</td>
</tr>
</tbody>
</table>

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*.

Source: CGAP, "The Evolution of the Nature and Scale of DFS Consumer Risks."
Globally, mobile app fraud is rising faster than mobile app usage

- 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.

Source: Adapted from the Outseer Fraud and Payments Report, Q2 2021, and RSA Quarterly Fraud Reports, Q1 2018 and Q3 2020.
Globally, the increase in data breaches is surpassing increase in 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

Source: Data adapted from Risk Based Security 2020 Year End Report (global number of records exposed) and Statista (global data created).
In Côte d’Ivoire and Senegal, more than 85% of users experienced at least one challenge in the use of DFS.

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

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

Source: Consumer Risks and Digital Financial Services: A Côte d’Ivoire Study, September 2022 (CGAP)
DIGITAL FINANCE CONSUMER RISKS: Senegal National Study, June 2023 (CGAP)
Exposure to risks associated with the use of DFS

<table>
<thead>
<tr>
<th>Risk</th>
<th>Senegal</th>
<th>Côte d’Ivoire</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor network</td>
<td>44%</td>
<td>61%</td>
</tr>
<tr>
<td>Not informed of the cost of the service</td>
<td>33%</td>
<td>55%</td>
</tr>
<tr>
<td>Received a scam or fraudulent message</td>
<td>28%</td>
<td>44%</td>
</tr>
<tr>
<td>Did not get a receipt</td>
<td>17%</td>
<td>30%</td>
</tr>
<tr>
<td>Difficulty in understanding the offer</td>
<td>12%</td>
<td>20%</td>
</tr>
</tbody>
</table>

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

Financial losses as a result of a risk

<table>
<thead>
<tr>
<th>Loss Type</th>
<th>Senegal</th>
<th>Côte d’Ivoire</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lost money due to a transaction that did not go as planned</td>
<td>15%</td>
<td>19%</td>
</tr>
<tr>
<td>Paid more than expected</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>Lost money as a result of scams or fraud</td>
<td>8%</td>
<td>14%</td>
</tr>
<tr>
<td>Payment debited but not received by the supplier</td>
<td>4%</td>
<td>12%</td>
</tr>
</tbody>
</table>

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

Challenges related to clients’ capacity

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Senegal</th>
<th>Côte d’Ivoire</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sent money by mistaking the recipient’s number</td>
<td>34%</td>
<td>27%</td>
</tr>
<tr>
<td>Difficulty navigating the menu</td>
<td>11%</td>
<td>20%</td>
</tr>
</tbody>
</table>

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

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

20% of users

30% of users

28% of users

61% of users

12% of users

17% of users

44% of users

12% of users

20% of users

27% of users

11% of users

34% of users

14% of users

12% of users

12% of users
Our response

> A responsible ecosystem
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.
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.
CGAP VII Responsible Digital Finance Ecosystem Project 2023-2027

**Conceptual Framework**
- Who does what in the E?
- What are the building blocks?
- How do we implement it?

**Guidance and Tools**
- DFS Ecosystem Assessment
- Consumer survey
- Market assessment
- Roadmap
- Measuring progress

**Pilot-test G&Ts**
- Pilot test guidance and tools in at least two countries
- Baseline assessments and surveys
- Crowd in support for roadmap implementation

**Share Lessons**
- Measure success
- Finalize methodology based on pilots
- Share lessons learned
- Crowd in support for replication
Existing resources
> CGAP’s market monitoring toolkit
CGAP Market Monitoring Toolkit

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

* Implementation guidance and cases that refer to the use of Suptech

**Analysis of regulatory reports***

**Analysis of complaints data***

**Phone surveys**

**Social media monitoring***

**Analysis of consumer contracts***

**Mystery shopping**

**Industry engagement**

**Thematic reviews**

**Consumer advisory panels**

**Mexico***

**Tanzania**

**Kenya**

**Ireland***

**Portugal***

**Russia**

**Market conduct supervisors**
- Assess where you are
- Consider how monitoring fits supervisory activities
- Set a strong foundation for market monitoring
- Select an efficient mix of tools

**Other stakeholders**
- Consumer advocacy groups, general consumer protection authorities, competition authorities, financial providers, industry associations, research organizations, donors and investors

**Market monitoring FAQ**

**Suptech FAQ**

**What standard setters say**

**Other resources**

* More info available in [www.cgap.org/MarketMonitoring](http://www.cgap.org/MarketMonitoring)
Several tools can be used, based on objectives…

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

Identify objectives this tool can help with
Select a vendor that can help implement
Select social media platforms
Run a pilot to determine parameters to track
Create NLP code for determined parameters
Use and improve the tool

• Examples of the type of data that can be generated for market monitoring
Analyzing social media to understand digital credit borrowers in India

<table>
<thead>
<tr>
<th>Source</th>
<th>Misuses of data: Aggressive debt collection</th>
<th>Misuses of data: Aggressive marketing</th>
<th>Misuses of data: Inaccurate data</th>
<th>Inadequate redress mechanisms: Complaints too costly</th>
<th>Inadequate redress mechanisms: Unresponsive complaints procedure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Twitter</td>
<td>45%</td>
<td>38%</td>
<td>45%</td>
<td>31%</td>
<td>13%</td>
</tr>
<tr>
<td>Google Play</td>
<td>15%</td>
<td>17%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

- **Twitter**
  - Fraud: Identity/information stealing: 14%
  - Fraud: Fake app/scam: 23%
  - Lack of transparency: Hidden terms: 0%
  - Misuses of data: Aggressive debt collection: 45%
  - Misuses of data: Aggressive marketing: 31%
  - Misuses of data: Inaccurate data: 37%
  - Inadequate redress mechanisms: Complaints too costly: 13%
  - Inadequate redress mechanisms: Unresponsive complaints procedure: 26%

- **Google Play**
  - Fraud: Identity/information stealing: 6%
  - Fraud: Fake app/scam: 28%
  - Lack of transparency: Hidden terms: 8%
  - Misuses of data: Aggressive debt collection: 15%
  - Misuses of data: Aggressive marketing: 38%
  - Misuses of data: Inaccurate data: 16%
  - Inadequate redress mechanisms: Complaints too costly: 29%
  - Inadequate redress mechanisms: Unresponsive complaints procedure: 13%

% of complaints | % of complaints that are urgent
Thank you should be FREE

To learn more, please visit cgap.org

Connect with us on these social channels:

facebook twitter linkedin