DIGITAL CREDIT REGULATION IN TANZANIA

CASE STUDY

CONTENTS

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A casual street scene with two women in the historic Stone Town, Zanzibar, Tanzania. (Photo by action sports/Shutterstock)

EXECUTIVE SUMMARY

Mobile technology is central to digital financial transformation. The Digital Financial Services (DFS) sector is contributing significantly to the realization of countries' objectives on financial inclusion through the development of digital savings and credit services. The advent of digital credit, however, asks questions of regulators as well as the financial and non-financial institutions that are driving the advancement of digital finance.

This case study highlights some key factors that can contribute to the development of responsible digital credit guidelines for regulators and DFS providers, based primarily on the Tanzanian digital credit experience. These key factors have been summarized into nine topics.

The African Financial Inclusion Policy Initiative (AfPI) has worked on a policy framework[1] to help members address the challenges of regulating digital credit markets in Africa. The policy framework has been used as a base for the analysis of the case study's conclusions.

1 https://www.afi-global.org/publications/3216/Policy-Framework-for-Responsible-Digital-Credit

TANZANIA'S NINE DIGITAL CREDIT EXPERIENCE TOPICS

CHAPTER I. INTRODUCTION

The financial services ecosystem is constantly evolving. The past decade has seen the development of new technologies used as a means of payment and the introduction of new non-bank financial services providers, such as FinTechs, or new technology companies that seek to improve and automate the delivery and use of financial services.

The offer of financial services over mobile phones, backed by mobile money, appears to be one of the main digital transformations in the banking and financial services sector. In fact, the sector has witnessed a shift from first-generation to second-generation financial products. This evolution was led by mobile network operators (MNOs), leveraging their vast client base and agent networks, originally used for mobile top-ups, to offer mobile money. MNOs and banks then pooled their resources to offer second-generation financial products. Depending on the country, MNOs and bank have collaborated to offer electronic money (e-money) licenses and/or the ability to deliver financial services via agents to consumers. These have since been developed into second-generation DFS products, which include the delivery of small loans and savings accounts. In Tanzania, the Microfinance (Non-Deposit Taking Microfinance Service Providers) Regulations 2019 defines a digital microfinance lender as "a microfinance service provider carrying out lending activities, from loan application, approval, disbursement and repayment through digital channels". With this definition, the Tanzanian regulation indicates that digital credit comprises any loan that is applied for, approved, disbursed and repaid through digital channels.

Hence, digital financial inclusion has been facilitated by the interconnection between providers such as banks, microfinance institutions, mobile operators, FinTechs and other third-party providers. Partnerships have indeed proved important to the development of a DFS ecosystem. Different countries have adopted different legal and regulatory approaches to DFS to suit their own contexts, particularly when it comes to digital credit.

BOX 1 - DEFINITION OF DIGITAL CREDIT

Digital credits are loans delivered and repaid by digital means. They are characterized by:

- The **instantaneity** of the process based on near-instant credit decisions and digital disbursement;
- The **automation** of loan application, disbursement, and repayment;
- The **remote** management of loan application, disbursement and repayment

Tanzania has experienced significant growth in the use of e-money over the last decade. Around 43 percent of the Tanzanian population actively used mobile services in 2019, according to the Bank of Tanzania's (BOT) Mobile Transactions Data 2019. Digital technologies play an important role in the country's second Five Year Development Plan (FYDP II). Moreover, the development of digital credit services in Tanzania has played a significant role in the evolution of financial inclusion, which increased to 65 percent in 2017.[2] Furthermore, Tanzanians were offered digital savings accounts, which have expanded their options for managing and storing funds.

In terms of interoperability of different types of accounts, since 2014, consumers have been able to transfer money between their accounts held with different e-money providers and other financial system players. The process has benefitted from the involvement of many partners. Processes have been defined with the help of the industry and the supervision of BOT.

The Tanzanian experience with DFS thus far shows the importance of addressing the challenges in regulating and supervising digital credit in Africa. It is important to analyze and understand to what extent the regulation has driven the economic empowerment of the population, but also to identify the points for potential regulatory improvement. The analysis of the different approaches used by BOT in digital credit regulation serves as a useful repository of learning outcomes.

2 Bank of Tanzania

CHAPTER II. CASE STUDY

A. ANALYSIS OF TANZANIA'S DFS ECOSYSTEM

1. OVERVIEW

The first e-money services in Tanzania were launched in 2008. They were Z-Pesa (now, Ezy Pesa) and M-Pesa, by the consortium of Zantel, and Vodacom/Bank of Africa, respectively. Tanzania was one of the first countries in Africa to launch e-money products.

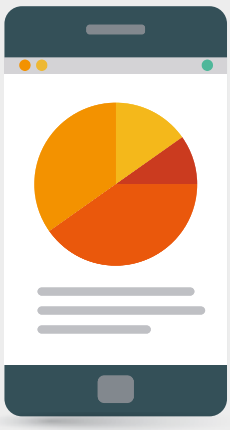
Consumers now use a range of DFS that are available from **formal providers** such as banks, community banks, development banks, microfinance institutions (MFI), MNOs, savings and credit cooperative organizations (SACCOs), as well as from **informal providers** such as village community banks (VICOBA). Tanzania's DFS ecosystem is dynamic, with partnerships being formed across sectors. MFIs and other e-money issuers rely on agents to reach customers who would otherwise be underserved by traditional financial institutions such as banks, or be excluded entirely.

The DFS sector has been boosted by partnerships between different actors.

Tanzania's DFS sector has evolved innovative developments that can be attributed to the competitive nature of the industry. Together with market-led innovation, the regulatory environment has aimed to promote financial inclusion.

FIGURE 1: DATA ON TANZANIAN FINANCIAL ECOSYSTEM

96%	Increase in subscription rate for mobile money services between January 2009 and November 2019
5	Digital Financial Products
54	Financial Service Providers



Source: Bank of Tanzania

FIGURE 3: EVOLUTION OF DIGITAL FINANCIAL INNOVATIONS IN TANZANIA

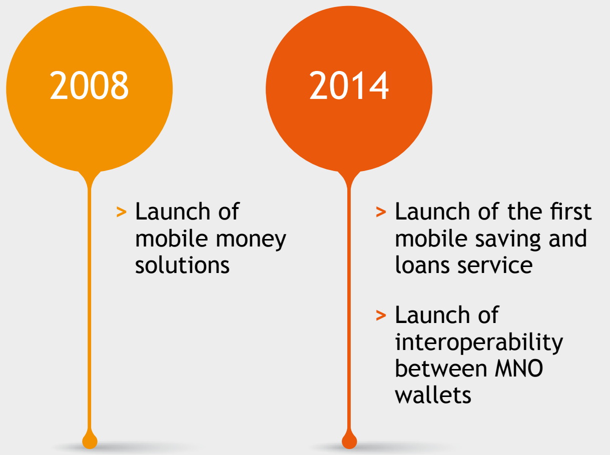


FIGURE 2: EXAMPLES OF PARTNERSHIPS AMONG ACTORS

Vodacom and Tuijenge

Vodacom and CARE

Airtel and Tanzanian Postal Bank

Zantel and National Insurance Corporation

2. DIGITAL CREDIT EVOLUTION IN TANZANIA

The major actors in the digital credit landscape in Tanzania are Vodacom Tanzania, Commercial Bank of Africa, Airtel and Tigo. The digital credit services offered by the providers are disbursed to borrowers as e-money via the customer's mobile money wallet.

In 2019, there were over 13,222,255 digital credit loans disbursed, which represent USD146,947,592.[3]

3 Bank of Tanzania

FIGURE 4: DIGITAL CREDIT EVOLUTION (INTERNAL PRODUCTION BASED ON DESK RESEARCH)

2014 — M-Pawa

Vodacom Tanzania and the Commercial Bank of Africa (CBA)

> Digital savings loans

> 4.8 million accounts and USD17.9 million disbursed after two years

2015 — Timiza Wakala

Airtel Tanzania and Jumo

> Gradually statrted helping Airtel agents with loans for float money

> 20,000 Airtel Money agents

> More than USD155 million disbursed to customers and agents as of June 2020

2016 — Tigo Nivushe

Tigo

> Possibility to build a credit history

> The better the customer credit history, the higher the loan amount

FIGURE 5: CREDIT SERVICES FEATURES

M-Pawa

>Savings and loans

> 30-day loan

> No onterest rate but facilitation fees of 9% of the loan amount

> Loan amount: Between USD 0.43 and USD 216

Timiza Wakala

> Loans

> Choose to repay in 7, 14, 21 or 28 days

> Loan amount, Initiation and service fees are told to the customer

Tigo Nivushe

> Loans

> Choose to repay in 7, 14 or 21 days

> The fee is different for each customer

> Loan amount from USD 0.43

3. EVOLUTION OF DFS REGULATION IN TANZANIA

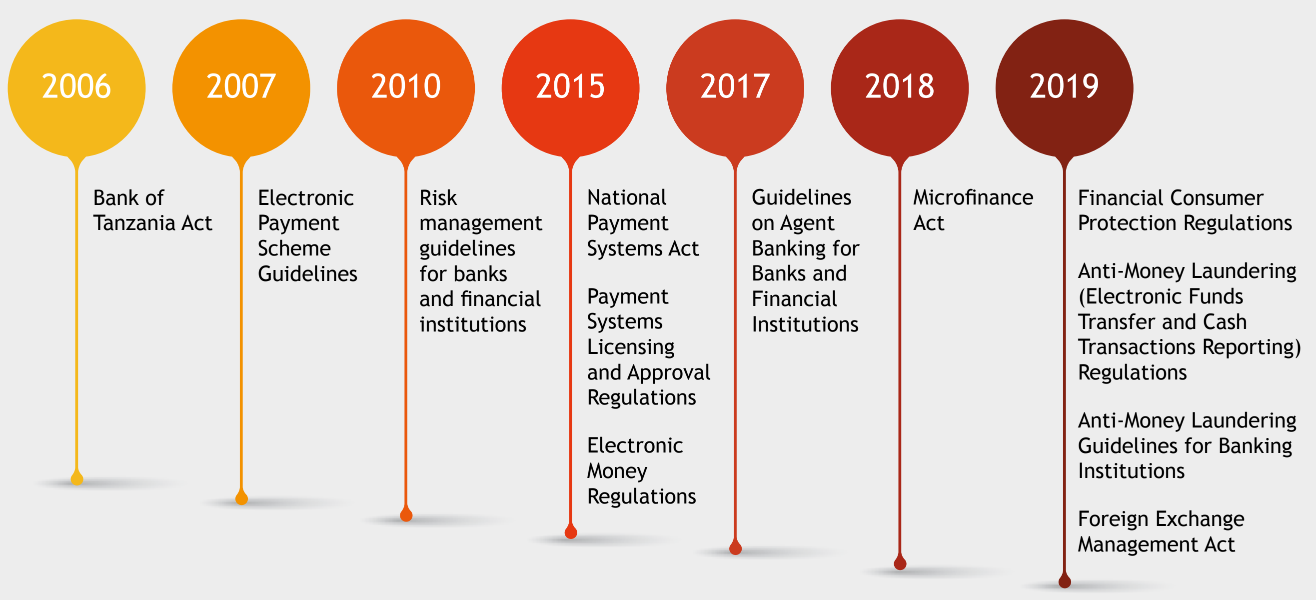
BOT has adopted a progressive regulatory approach that is strengthened by a cooperative relationship with the private sector. To provide access to financial services for unserved and underserved communities, BOT works closely with banks and non-banks to facilitate innovation by providing legal frameworks for DFS. The overall approach adopted by BOT has been described as a "test and learn" approach; it first learned from the market and then began to draft national payments system laws, giving the private sector the confidence and a conducive environment to invest in innovative financial services.

The Tanzanian legal system is based on the English common law. The major steps towards digital transformation in regulation have been marked by:

- **The Bank of Tanzania Act 2006,** stipulates in Section 6 that BOT will "conduct oversight functions on the payment, clearing and settlement systems in any bank, financial institution or infrastructure service provider or company". The non-exclusion of non-financial institutions in BOT's oversight of payments providers gives broad powers to the Central Bank to directly supervise mobile money providers.
- **In 2007, BOT through the 2007 Electronic Payment Systems Guideline** created new rules for electronic payment schemes. The guideline specifically allowed for Specifically allowed for non-bank financial institutions to offer electronic payment schemes and money transfers. Although it did not accommodate mobile money, it opened the doors for Mobile Network Operators (MNOs) to offer money transfer and payment services. Since the law did not address licensing of MNOs, operators were required by the Bank of Tanzania to apply for "Letters of No Objection" in conjunction with a bank in order to conduct payment services legally.[4]
- **The National Payment Systems Act 2015, the Payment Systems Licensing and Approval Regulations and the Electronic Money Regulations** of Tanzania introduced, among others, a non-bank-based electronic money regulatory model allowing banks and non-banks to operate while giving BOT formal oversight of mobile money services.
- In 2017, BOT issued **Guidelines on Agent Banking for Banks and Financial Institutions**. The guidelines apply to agent banking as a delivery channel for offering cost-effective banking services, and to provide a framework for conducting agent-banking business.
- In 2018, BOT issued regulations for various categories of microfinance service providers identified under the **Microfinance Act**, which also covers DFS products.
- In order to limit the risks, the **Financial Consumer Protection Regulations**[5] articulate the provisions to be followed by every financial services provider. The **Anti-Money Laundering Regulations**[6] further define the applicable rules for electronic funds transfer and cash transactions reporting.

4 Person-to-Government Payments: Lessons from Tanzania's digitization efforts - BTCA
5 Bank of Tanzania (Financial Consumer Protection) Regulations, 2019
6 Anti-Money Laundering (Electronic Funds Transfer and Cash Transactions Reporting) Regulations, 2019

FIGURE 6: EVOLUTION OF DIGITAL FINANCE REGULATION IN TANZANIA



B. DIGITAL CREDIT REGULATION

An analysis of how central banks have approached digital credit regulation reveals two paths. On the one hand, some regulators have chosen to **define a formal regulation** for digital loan services for each type of financial organization. This is the approach of the West African Countries Central Bank (WAEMU), which categorizes any digital credit service as a banking product. Financial services providers are required to ask for approval before launching a DFS product. The position of the Central Bank is to first study in detail the DFS product before allowing the providers to develop and bring them to market. This method allows the regulator to ensure that the product meets strictly defined standards to protect consumers and ensure the stability of the financial ecosystem.

BOX 2 - REGULATORY APPROACH OF DIGITAL CREDIT PROVIDERS OF THE WEST AFRICAN ECONOMIC AND MONETARY UNION (WAEMU)

Capital requirements and authorization fees

- Initial minimum capital for mobile money issuers: USD490,000
- Each fee should include the interest rate calculation which should not exceed the effective rate

Interest rate

- Interest cap rate for banks: 15 percent
- Interest cap rate for MFI: 24 percent

On the other hand, BOT preferred a **"test and learn" approach** which allows providers to first bring their DFS products to market and then analyzing the outcomes in order to make risk-based, market-driven decisions. The objective is to **provide room for innovation and experimentation** to support products that increase access to financial services for underserved consumers. There are two key regulatory enablers for the success of DFS in Tanzania: a conducive regulatory environment and flexibility in innovation.

BOT has chosen to support a DFS ecosystem by encouraging innovation. Over time and based on market evolution and dynamics, BOT has since **shifted to a "mandate and monitor" approach**. By partnering with the Tanzania Communications Regulatory Authority (TCRA), BOT has developed a regulatory framework that supports innovation and oversees non-bank DFS providers. Currently, the provision of digital credit products is governed by the same regulatory framework that applies to all financial services providers.

Following the liberalization of the Tanzanian economy, the interest rate for loans is determined by market-led demand and supply. However, BOT has a mandate to monitor interest rates levied on financial products. This oversight is done via banks reports on interest rates through customized schedules in the Banking Supervision Information System (BSIS) that indicates the nominal and weighted average interest rate for both normal and microfinance loans.

Femal using digital technology. Stone Town, Zanzibar, Tanzania. (Photo by: intek1/iStock)

The interest rates are analyzed by the Economic Research Department; outliers are identified, reasons established, and any regulatory follow-up is done. In some cases, banks are requested to submit interest rates of their products both in local and foreign currency for analysis.

The role of BOT has been to ensure adequate disclosure of how interest rates are calculated in order to enable the consumer of financial services make an informed decision. Banks and financial institutions are required to publish this information at least quarterly, in at least one Kiswahili newspaper and one English newspaper of wide circulation in Tanzania, excluding weekends and public holidays. The information must include the base or prime lending rate, and rate of return, including the maximum spread above the base or prime lending rate for all loan and investment products.[7]

Computer Assisted Audit Techniques (CAeT) is a tool used by BOT for onsite examination, during which it analyzes interest rates for various loan products, including DFS-related ones.

The Microfinance (Non-Deposit Taking Microfinance) Regulations 2019 that govern the provision of digital credit, emphasizes the disclosure of interest rate details in loan agreements. Key items to be disclosed include nominal or stated annual interest rate, all other fees charged, effective annual interest rate (including all fees charged), loan repayment schedule (including the number of installments), total amount of each installment (by indicating principal, interest and fees components separately), due date of each payment, sum of all payments until the loan is fully paid, interest rate computation method, late payment penalty, debt recovery fee, charges and expenses, and notice of security interest for collateral used to secure the loan.

Given the nature of digital loans, it may be difficult for lenders to comply with all the laws mentioned in this case study, thus undermining consumer rights. This calls for the development of digital lending guidelines by the industry that address issues related to DFS products.

NON-BANK E-MONEY ISSUANCE

The Electronic Money Regulations 2015 include specialized licensing for non-banks. In order to issue electronic money, a non-bank or a non-financial institution must establish a separate legal entity for the purpose. The non-bank e-money issuer is required to open and maintain a trust account in a bank or financial institution. (Banks or financial institutions are required to open and maintain a “special account” which is an account opened to deposit funds received from consumers in exchange for electronic money issued at equivalent value by the bank.)

USE OF AGENTS

Banks and non-bank e-money issuers are allowed to use agents to provide financial services on their behalf. While the Electronic Money Regulations addresses the use of agents by e-money issuers, banking agents come under the Guidelines on Agent Banking for Banks and Financial Institutions 2017.

RISK-BASED CUSTOMER DUE DILIGENCE

Know your customer (KYC) and customer due diligence (CDD) are developed in the Electronic Money Regulations in four “tiers”:

- The customer is electronically registered (Tier I),
- The customer is electronically and physically registered and his documents are stored in the mobile money customer account registry applying KYC/CDD controls (Tier II),
- The SME is electronically and physically registered and its documents are stored in the mobile money customer account registry applying KYC/CDD controls (Tier III),
- The individual or the SME is registered as a retail agent with full KYC/CDD (Tier IV).

The regulations elaborate on the identification documents required and the daily maximum transaction limits.

Digital credit is governed by the general AML/CFT regulatory framework. There are no specific AML/CFT rules or guidelines for digital credit services.

CONSUMER PROTECTION

BOT has faced emerging challenges related to the provision of digital credit products. Most consumers of such products are low-income earners, and furthermore, digital credit products are non-collateralized. This puts the onus on providers to ensure repayment.

Part XI of the Electronic Money Regulations requires mobile money issuers to “display and disclose charges and fees for their services to customers and any changes thereof” and “inform consumers of their referral rights on unresolved complaints”.[8]

Furthermore, the Financial Consumer Protection Regulations go into detail on the responsibility of the board of directors and senior management for consumer protection.[9]

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7 Regulation 11, Banking and Financial Institutions (Disclosures) Regulations 2014

8 (1) An electronic money issuer shall display and disclose charges and fees for its services to its customers and any changes thereof. (2) An electronic money issuer shall notify its customers the fees and charges before imposing such fees or charges.” The Electronic Money Regulations, 2015 https://www.bot.go.tz/Publications/Acts,%20Regulations,%20Circulars,%20Guidelines/Regulations/en/2020030903230324.pdf

9 The Financial Consumer Protection Regulations, 2019 – Part II Gouvernance by Financial Service Providers

They also provide financial services providers with guidelines on internal control systems and the policies and procedures.

PREVENTION OF OVER-INDEBTEDNESS

Although there are no specific guidelines on over-indebtedness prevention, FSPs are required to gather customer information from various sources prior to the provision of a loan. Flexibility of fund recovery upon the failure to repay a loan should be covered in the agreement between the borrower and the lending institution. The Financial Consumer Protection Regulations prohibit abusive debt recovery practices.

RESPONSIBLE PRICING

Tanzanian regulations do not define an interest rate cap for digital loans. The justification for the interest rate-setting is however assessed by BOT.

INTEREST RATE

The interest rate for digital credit is regulated though the Microfinance (Non-Deposit Microfinance Service Providers) Regulations, 2019, which emphasises the disclosure of interest rates in loan agreements. Key items to be disclosed include the nominal or stated annual interest rate, all other fees charged, the effective annual interest rate that includes all fees charged, and the loan repayment schedule (including number of installments, interest and fees components itemised separately).

BOT has defined an acceptable maximum interest rate of 4 percent per month. Prior to this, most lenders charged an average rate of 10 percent per month. FSPs justified those rates by the fact that digital loans are non-collateralized.

BOX 3 - HOW THE COVID-19 PANDEMIC HAS AFFECTED CREDIT SCORING FOR DFS IN TANZANIA

DFS providers use alternative data to score borrowers, such as mobile money data, mobile phone data, previous digital credit loans and traditional financial history. Other behavioral data, such as accessing particular websites or using particular services can give further insight.

According to Felipe Valdes, CEO of Tiaxa, the change in consumer behavior is reflected by the data. “COVID-19 has completely changed people’s behavior. The existing scoring model was not able to predict the impact of the pandemic and especially how people would react to it. Many people are defaulting, and lenders do not have enough human resources to engage with them and handle the situation properly. Our company is helping them by analyzing the data and providing FSPs with risk forecasts. The company will then be able to direct their efforts towards customer retention.”

The establishment of credit scoring helps:

- Streamline the loan process
- Improve the efficiency of loan officers
- Increase the consistency of the evaluation process
- Reduce the time spent on collections
- Reduce human bias in the lending decision
- Allow the financial institution to modify the credit policy according to the risk classification
- Better quantify expected losses for different categories of borrower risk.

Valdes adds: “Most African central banks are forward thinking. From our experience, they most often provide FSPs with no-objection letters aimed to support the launch of digital credit projects and to drive innovation”.

Female SME harvesting sea weed on a sea plantation. Jambiani, Zanzibar, Tanzania. (Photo by: MariusLtu/iStock)

CHAPTER III. ANALYSIS OF RESPONSIBLE DIGITAL CREDIT DEVELOPMENT APPROACH

The analysis of different regulatory approaches is very rich in lessons learned, especially in the case of Tanzania. The African Financial Inclusion Policy Initiative (AfPI) has developed a policy framework that gathers information on regulatory and supervisory best practices in Africa and from around the world to develop a responsible digital credit ecosystem.[10]

Based on this report, market knowledge and the Tanzanian experience, a list of key points for developing a digital credit ecosystem can be suggested. BOT has not issued specific regulatory documents for digital credit products. Such services are governed in general by the **Banking and Financial Institutions Act 2006**, the **Microfinance Act 2018**, and their related regulations and **guidelines**.

1. CREDIT RISK ASSESSMENT

In designing digital credit products, it is important to consider the question of who is responsible for granting the loan, regardless of whether the FSP decides to use its own algorithm or one from a credit scoring provider (CSP).

BOT requires FSPs to assess a customer's credit worthiness for any financial product or service. The assessment should be based on the customer's character, capacity, capital, collateral, condition, and ability to fulfill terms and conditions associated with the financial product or service.

In West Africa, the BCEAO stipulates that the decision to grant a loan is the sole responsibility of the financial institution. If this institution has a customer service point or agent, the responsibility of the CSP would simply be to analyse the data related to the customer's credit rating.

It is also essential to address the issue of the collection and use of data from credit reference bureaus. A good approach for regulators would be to solicit feedback from FSPs on the type of data that must be collected from credit reference bureaus, the frequency of collection, and how that data is used.

In Tanzania, The Microfinance Act (2018) stipulates that general credit information should include the personal information and credit history of customers. To enable the sharing of credit information, institutions have to submit their customers' credit information to credit reference bureaus. However, non-performing loan information related to digital credit products is not collected since those loans are below reporting thresholds.

2. APPROPRIATE PRODUCT DESIGN

The digital credit product, beyond compliance with regulatory standards, must be designed to meet the population's needs. A customer-centric approach helps to ensure product features that match customers' expectations. One way to place the customer at the center of the product design process is to carry out a prototyping and testing phase with potential consumers, who get to directly experience a products' features, terms and conditions.

Tanzanian regulations do not specifically require test and prototyping phases. However the Bank of Tanzania (**Financial Consumer Protection) Regulations**, 2019, stipulate that a customer must not be subject to conflict of interest. Every FSP should gather, file and record sufficient information to determine suitability of the financial product and service to be offered. The digital credit product should be appropriate to the varying needs, risk profiles and interests of different types of customer.

In addition, customers should be permitted to make partial or total prepayment on a loan, and any penalty for prepayment has to be incorporated in the contract, as stipulated in the Banking and Financial institutions Act, 2006.[11]

10 https://www.afi-global.org/publications/3216/Policy-Framework-for-Responsible-Digital-Credit

11 The Banking and Financial institutions Act, 2006 - Part VII, Section 49 Fair lending and collection practices

3. APPROPRIATE PRODUCT DELIVERY

In terms of FSPs, we can observe three approaches:

> Some FSPs have chosen to first offer their customers digital savings products, and then enable access to digital credit products. In this scenario, savings are a lever to activate the possibility of receiving credit. In some cases, a good savings history would qualify a customer for a higher loan amount.

Example: HaloYako in Tanzania
HaloYako is a DFS product developed by FINCA Microfinance Bank in partnership with Viettel Tanzania. It provides customers with both a digital savings service known as Halo Saving and a digital loan service known as Halo Loan.

> In other cases, the FSPs have decided to offer only a digital savings service. This more cautious approach allows the FSP to analyze the behavior of consumers towards the digital financial service offered.

Example: Jara in Ghana
Jara is a mobile savings account that earns an interest of 12 percent per year. It has been developed by Premium Bank Ghana and can be accessed using the mobile money wallet of any network.

> Yet in other cases, FSPs develop and simultaneously offer a digital credit and savings service. Access to credit is not contingent upon the customer's saving's history. However, it can, in certain cases, lead to a reduction in the amount of credit-related fees.

Example: M-Shwari in Kenya, M-Pawa in Tanzania, MoKash in Uganda, MomoKash in Ivory Coast

4. PREVENTION OF OVER-INDEBTEDNESS

Experience shows that prevention of customer over-indebtedness is a major part of the regulation of digital consumer credit products (and also of non-DFS consumer credit products, in general). The instantaneous and paperless nature of digital credit emphasizes the need to protect the consumer from over-indebtedness. Some recommendations can be made: the use of a credit bureau as a central database for the analysis of customer solvency; the limitation of the maximum number and/or amount of loans per borrower; and, the non-disclosure of loan amount eligibility to customers in order to avoid abusive loan amount requests. Some jurisdictions have made it illegal for FSPs to push pre-qualifications for loans to customers, in order not to create unwanted demand.

BOT encourages every FSP, or its agent, not to employ unfair business practices against their customers to prevent over-indebtedness. These practices include:

> unsolicited loan offers

> automatic increase of credit limits without prior consent by the customer

> continuing to charge maintenance fees on dormant accounts or an account with a balance equivalent to less than the maintenance fee

> unsuitable financial products or services

5. TRANSPARENCY AND DISCLOSURE

The basic element of transparency is to disclose interest rates, all related fees and total costs to customers. FSPs must ensure this information is accessible and visible at their branches and at their agents' workplaces.

BOT recommends that these terms and conditions are accessible by customers through different platforms such as basic phones or IVR, before they can access DFS products. Based on the Tanzanian regulation, FSPs offering credit products must provide their clients with:

> fees and other costs for the credit facility

> total interest payments, charges and fees

> terms and conditions of all tied or bundled financial products or services sold together with the loans

> information regarding late payment and prepayments, including related procedures and costs

In addition, advertisements and marketing of financial products and services must include complete and accurate information in simple, plain and comprehensible language.

6. RESPONSIBLE PRICING

As mentioned above, it is common for regulators to impose an interest rate cap on FSPs in the design of their digital credit products. In addition, some regulators in other regions require all related fees to be included in the interest rate calculation. The implementation of additional fees, such as fees for the provision of mobile money or handling fees, must be included in the calculation of the interest rate. It often becomes difficult for FSPs to respect the interest rate cap and draw up a business plan that is profitable for them.

The Bank of Tanzania (Financial Consumer Protection) Regulations 2019, stipulates that FSPs must offer market-based prices for financial products and services. The agreement provided to customers by FSPs should include the key terms and conditions, and clearly assign the rights and responsibilities of the customer and the FSP. The agreements should also include interest rates, costs, fees and charges. BOT specifies that FSPs should notify their clients of changes to the agreement.

7. PRIVACY OF CLIENT DATA

DFS products entail the need for consumer data protection, which must be supported by specific data protection laws. One recommendation for regulators is to stipulate that all the relevant databases are maintained at the issuing financial entity's headquarters.

BOT requires FSPs to put in place appropriate security and control measures to protect their customers' financial and personal information. They are not allowed to share this information with third parties without the customer's consent. FSPs are free to establish collection and usage of data policies with their customers, including means, purpose and types of data that may be collected and retained. However, the data collected must be handled in compliance with the Anti-Money Laundering Act's data privacy and confidentiality requirements that limit the use of customer data exclusively for the purpose for which data is collected.

Digital education. Tanzania. (Photo by: zeljkosantrac/iStock)

As an additional requirement, Tanzanian FSPs have to establish rules for position-based access to customer data. Policies and procedures for the security of networks and databases should be formulated and implemented.

8. MECHANISMS FOR COMPLAINT RESOLUTION

In Tanzania, every customer has the right to file a complaint against an FSP. All FSPs are required to establish a mechanism for receiving, processing and resolving customer complaints. This mechanism should have multiple channels, including telephone numbers, a help desk, dedicated email addresses and web chat. The mechanism should be free, fair, accessible, transparent and independent. Customers' complaints should be acknowledged, and they must be kept updated throughout the process.

9. SECURITY AND FRAUD PREVENTION

The use of a secret code to verify the identity of a customer for a loan application, disbursement or reimbursement is a common solution for FSPs. However, this practice must be preceded by public awareness and financial education campaigns. It is common, especially in rural areas, for people with a mobile money account to share their PIN with a relative or an agent who helps them to carry out transactions. This puts the security of their data and their accounts at risk.

BOT strongly encourages the development of financial education programs by FSPs. These programs should take into consideration customers' geographical locations, gender, level of education, physical and mental ability, and occupation in order to empower them to manage important aspects of their financial lives, such as budgeting, financial planning, savings, investing, borrowing, retirement planning and self-protection against fraud. According to the relevant regulations, the materials for financial education should be developed in English and Kiswahili languages except where there is need for other languages.

Traditional fishing sailing boat. Zanzibar, Tanzania. (Photo by: intek1/iStock)

ACRONYMS AND ABBREVIATIONS

AfPI	African Financial Inclusion Policy Initiative
AML	Anti-Money Laundering
BOT	Bank of Tanzania
BCEAO	Banque Centrale des Etats de l'Afrique de l'Ouest
CBA	Commercial Bank of Tanzania
CDD	Customer Due Diligence
CEO	Chief Executive Officer
CFT	Combating the Financing of Terrorism
CSP	Credit Scoring Provider
DFS	Digital Financial Services
FSP	Financial Services Provider
KYC	Know Your Customer
MFI	Microfinance Institution
MNO	Mobile Network Operator
PIN	Personal Identification Number
SACCO	Savings and Credit Cooperative Organization
TCRA	Tanzania Communications Regulatory Authority
VICOBA	Village community banks
WAEMU	West Africa Economic and Monetary Union

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