

CONSUMER PROTECTION FOR DIGITAL FINANCIAL SERVICES: A SURVEY OF THE POLICY LANDSCAPE



CONTENTS

BACKGROUND	3
STUDY FINDINGS	4
1. Policy and regulatory environment	5
2. Product development and service delivery	10
3. Consumer awareness, complaints and redress	17
4. Supervision and enforcement	20
5. Cross-cutting issues	21
MAIN RECOMMENDATIONS	23
ANNEX 1. METHODOLOGY	26
ANNEX 2. LIST OF SURVEY PARTICIPANTS (AFI MEMBER INSTITUTIONS)	27
ANNEX 3. LIST OF IN-DEPTH INTERVIEW PARTICIPANTS	28
ANNEX 4. AFI SUPPORT FOR CP4DFS	28
ANNEX 5. REFERENCES	30
ANNEX 6. ABBREVIATIONS AND ACRONYMS	31

ACKNOWLEDGMENTS

This survey report is a joint product of the Digital Financial Services Working Group (DFSWG) and the Consumer Empowerment and Market Conduct Working Group (CEMCWG).

Authors and Contributors:

the AFI Management Unit, led by Adadzewa Otoo (Policy Specialist, E-Money) with support from Ghiyazuddin Mohammad (Senior Policy Manager, Digital Financial Services) and Eliko Boletawa (Head of Policy Programs and Regional Initiatives).

The report benefited from the significant contributions of the members of the joint subgroup on Consumer Protection for DFS: Ehab Nasr (Central Bank of Egypt), Fatoumata Mayaki (Banque Centrale des Etats de l'Afrique de l'Ouest, BCEAO), Erica Williams (Central Bank of Liberia), Marian Yeghiazaryen (Central Bank of Armenia), Daniel Ocakakon (Bank of Uganda), Bruno Sengulane (Banco de Moçambique), Junior Faka (Central Bank of Solomon Islands), Barbara Dreyer (Bank of Namibia), Tevita Gade (Reserve Bank of Fiji), Josephat Mutepfa (Reserve Bank of Zimbabwe) and Ann Valery Victor (Banque de la République d'Haiti), under the leadership of Stephen Ambore (Central Bank of Nigeria).

The following AFI member institutions provided qualitative insights through in depth interviews: Bangladesh Bank, Central Bank of Paraguay, Central Bank of Papua New Guinea, Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO), Bangko Sentral ng Pilipinas, Central Bank of Armenia, Central Bank of Nigeria and Reserve Bank of Fiji.

PHB Consultants, led by Valeria E. Pujia with support from Simon Priollaud and David Kleiman drafted the report.

We would like to thank AFI member institutions, partners and donors for generously contributing to development of this publication.

BACKGROUND

Over the last 10 years, digital financial services (DFS) have grown rapidly,¹ narrowing the financial inclusion gap² and making financial services more cost effective.³ However, the development of this complex sector has been undermined by certain consumer protection (CP) risks. This has led to a range of negative effects, such as mistrust of DFS, overindebtedness and others that threaten to erode important gains in financial inclusion.

This study has found that the greatest concerns of regulators in AFI network are the risks associated with the use of technology, namely, limited awareness of how to use DFS and the high susceptibility to fraud through, for example, password, identity theft and social engineering attacks.

These risks have compelled regulators to rethink their approach to regulating and supervising consumer protection for digital financial services (CP4DFS). Across the AFI network, the response has been varied and ranges from **reforming existing CP regulations** (designed when financial markets were predominantly cash oriented) to **clarifying regulatory requirements, promoting collaboration or harmonization** with relevant regulators (e.g. telecommunications regulator)

and **developing specialized policy guidance for DFS** (CP in e-money/mobile money policy, data privacy and protection, cybersecurity, disclosure and transparency, consumer awareness, etc.).

It is within this context that the AFI Digital Financial Services Working Group (DFSWG) and the Consumer Empowerment and Market Conduct Working Group (CEMCWG) committed to carry out two complementary studies on consumer protection for DFS, which generated:

- (1) This survey report, which examines the state of regulation of CP4DFS in AFI network countries; and
- (2) A policy model that synthesizes and harmonizes lessons, best practices and policies, and provides a theoretical framework for each consumer protection principle.

These are correlated: the survey report provides practical insights through examples and case studies, and guidance for members on how to use the policy model.

1 In low-income countries, digital finance grew by 70 percent between 2014 and 2017 (proxied with the indicator “Made or received digital payments in the past year (% age 15+)”); and by 48 percent in lower-middle-income countries (data from the World Bank 2017 Global Findex).

2 In low-income countries, financial inclusion jumped from 13 to 24 percent between 2011 and 2017 (proxied with the indicator “Financial institution account (% age 15+)”); and from 29 to 56 percent in lower-middle-income countries (data from the World Bank 2017 Global Findex).

3 As demonstrated by these two studies: “Digital Financial Services Go A Long Way: Transaction Costs and Financial Inclusion” (2018) according to which using debit cards reduces the cost of accessing bank accounts and, therefore, reduces indirect transaction costs; “Digital Finance for All: Powering Inclusive Growth in Emerging Economies” (2016) demonstrates that digital finance can reduce the cost of providing financial services by 80 to 90 percent.

OBJECTIVES OF THE SURVEY REPORT

1

TO CONDUCT A COMPREHENSIVE STUDY AND IDENTIFY EXISTING REGULATORY PRACTICES ON CP4DFS IN THE AFI NETWORK.



2

TO CREATE A BASELINE OF EXISTING REGULATIONS ON CP4DFS IN THE AFI NETWORK TO MONITOR PROGRESS.



3

TO PROVIDE A FRAMEWORK TO INFORM ADVOCACY AND CAPACITY BUILDING ON CP4DFS IN THE AFI NETWORK.



STUDY FINDINGS

THIS SURVEY REPORT IS ORGANIZED AROUND THE FOLLOWING FIVE PILLARS, THE SAME USED IN AFI'S "POLICY MODEL ON CONSUMER PROTECTION FOR DIGITAL FINANCIAL SERVICES"⁴ REPORT:



In this report, each of the pillars includes insights on current **regulatory practices for CP4DFS** in the AFI network. Each chapter presents **examples or best practices** and concludes with **key takeaways** on the practical steps regulators can take to strengthen their CP practices. These takeaways are indicative but not exhaustive, and may not be relevant for every country. Instead, regulators should base their interventions on the needs, primary interests and context of their respective country. To address these five pillars and improve CP practices, regulators can refer to the guiding principles and policy recommendations presented in the policy model.

While the key takeaways go into the substance of each principle and suggest potential content and regulations to adopt, the last section offers recommendations on how to implement a strategy that strengthens CP4DFS.

The study used a mixed methods approach that included a **quantitative survey** of 43 AFI member institutions, qualitative information from **10 in-depth interviews** and a wide-ranging **literature review** (see Annex 1 for more details on the methodology).

INFORMATION SOURCES

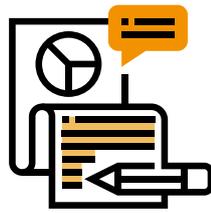
Survey of 43 AFI members

10 in-depth interviews

Literature review

⁴ See: <https://www.afi-global.org/publications/3465/Policy-Model-on-Consumer-Protection-for-Digital-Financial-Services>

1. POLICY AND REGULATORY ENVIRONMENT



LEGAL AND REGULATORY PROVISIONS IN CONSUMER PROTECTION FRAMEWORKS FOR DFS

Currently, the most common practice among AFI members is to regulate CP4DFS within the wider consumer protection framework for financial services, complemented by consumer protection provisions in ancillary DFS-specific regulations. However, few countries have a specific consumer protection framework for DFS.

The rapid expansion of the DFS sector has underscored the need for regulators to address consumer protection issues through different legal and regulatory models. Among AFI members:

63% are regulating CP4DFS within an existing consumer protection framework for financial services, which in general were established when financial markets were predominantly cash oriented;

28% are adding consumer protection provisions to DFS-specific regulatory instruments, such as e-money/mobile money policy; and

9% have designed a specialized consumer protection framework for DFS (Belarus, Russia, Thailand and Timor-Leste).

Although specialized consumer protection frameworks are emerging, in many countries the DFS ecosystem is still developing, and the maturity of the sector is a critical determinant of regulatory reform or specialization. Indeed, some regulators are employing a “wait and see” approach to DFS-specific regulations for the financial sector.

Although some regulations cover consumer protection principles for DFS, central banks believe that certain consumer protection principles are still at risk and need to be safeguarded (see Figure 2). Indeed, the survey of AFI member institutions showed that disclosure and

transparency are areas in which all but one member have at least one provision for CP4DFS, and 10 regulators consider misleading advertising one of their biggest concerns.

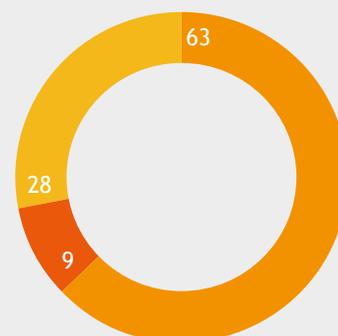


Since the inception of the DFS sector in 2010, the Reserve Bank of Fiji has adopted a liberal approach to allow innovative new entrants and business models.

While monitoring trends and performance, the RBF only intervenes when necessary. Currently, mobile money providers receive conditional approval to operate using a trust agreement with a request to safeguard capital in a regulated financial institution, without the need to be licensed.

FIGURE 1: LEGAL AND REGULATORY MODELS TO ADDRESS CP4DFS (TOTAL RESPONDENTS = 43), %

CP FRAMEWORK for financial services
 CP FRAMEWORK for DFS
 CP PROVISIONS for DFS

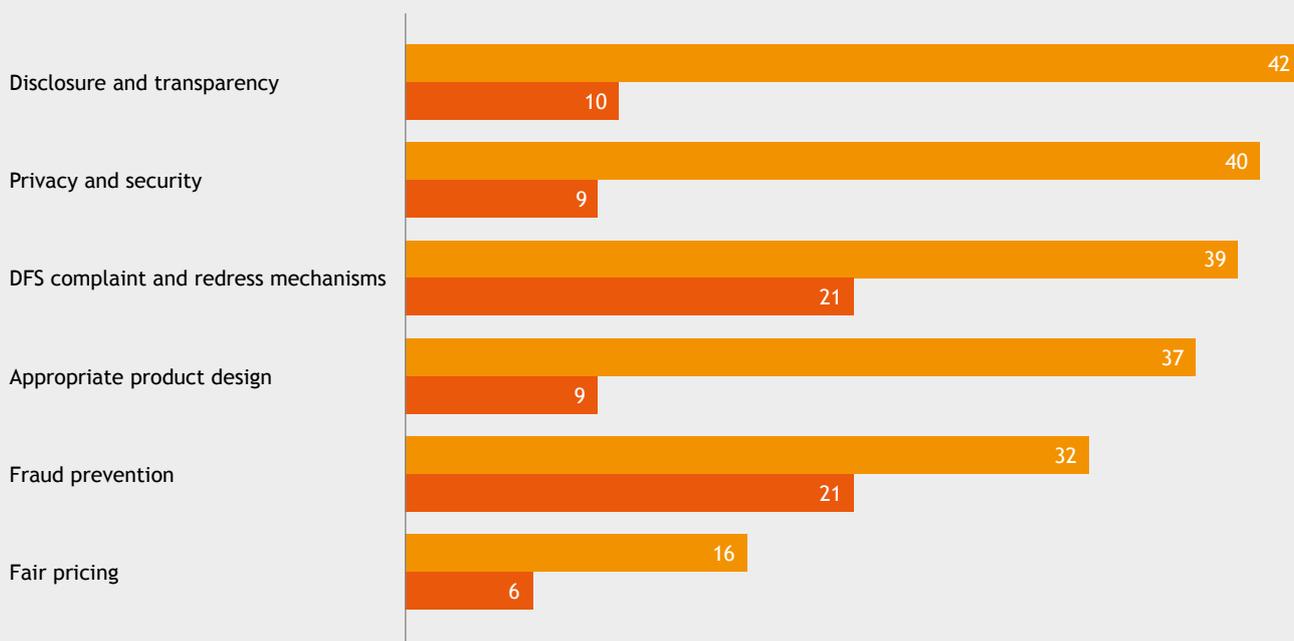


Privacy and security, complaint resolution and product development are other areas of regulatory focus (regulated by 40, 39 and 37 countries, respectively), but some regulators are not satisfied with their current provisions and believe there are some related risks still to be addressed. For instance, with consumer rights for complaints and redress, regulators ask DFS providers to develop their own system (this has been done in 60 percent of the countries) and/or use an external dispute resolution mechanism (this has been done in 37 percent of the countries). However, these mechanisms might not be used effectively for a variety of reasons, from customers not being aware of them to the mechanisms not meeting their needs, so they remain an issue for the country.

Figure 2 shows that major steps still need to be taken to improve CP4DFS. However, unique country contexts mean that these provisions are not always uniformly applicable to all DFS providers. They may apply to only some DFS providers (e.g. regulated institutions), to only certain products or services (e.g. digital credit, payments, insurance) or they may not be effective.

FIGURE 2: RELATIONSHIP BETWEEN HAVING PROVISIONS FOR A SPECIFIC CONSUMER PROTECTION PRINCIPLE (TOTAL RESPONDENTS = 43) AND CONSIDERING THE TOP ONE OF THE TOP FIVE CONCERNS FOR THE COUNTRY

■ Countries with at least one provision ■ Countries with at least one provision in place for which the principle is a top concern



GOVERNANCE FRAMEWORK

AFI members use different governance models for CP4DFS

The DFS sector is complex with diverse products and services – digital credit, savings, money transfer, insurance and others – that may be regulated by different authorities, such as prudential/market conduct or telecommunications regulators. As a result, oversight of consumer protection may not fall under the authority of a single body, making it difficult to identify who has the legal mandate for regulation, supervision and enforcement.

This can pose risks of regulatory arbitrage, over-regulation and regulatory loopholes, all of which are detrimental to the effective governance of consumer protection issues in the DFS industry.

- > For the majority of AFI members (53 percent, see Figure 3), most CP4DFS oversight is conducted by a **unit/department of the financial sector regulator**, or by a dedicated market conduct unit (China, Fiji, Gambia and Morocco). In many countries, such as Armenia, Paraguay and Zimbabwe, there is also a national independent consumer protection authority/ombudsman that serves as the authority for all markets, including the financial sector.
- > Another common practice among AFI members (23 percent of countries) is having a dedicated **consumer protection authority for the financial sector**.
- > Papua New Guinea and Zambia are **currently developing** a dedicated consumer protection authority.

As the DFS sector has evolved, regulators are paying much more attention to consumer protection issues and responded with reforms to governance systems. Countries such as Ghana (but also Zambia and Papua New Guinea, as detailed below) have created a Fintech and Innovation Unit to regulate fintech activity, while Nigeria has launched an interagency initiative on cybersecurity to enable collaboration, coordination and information sharing.

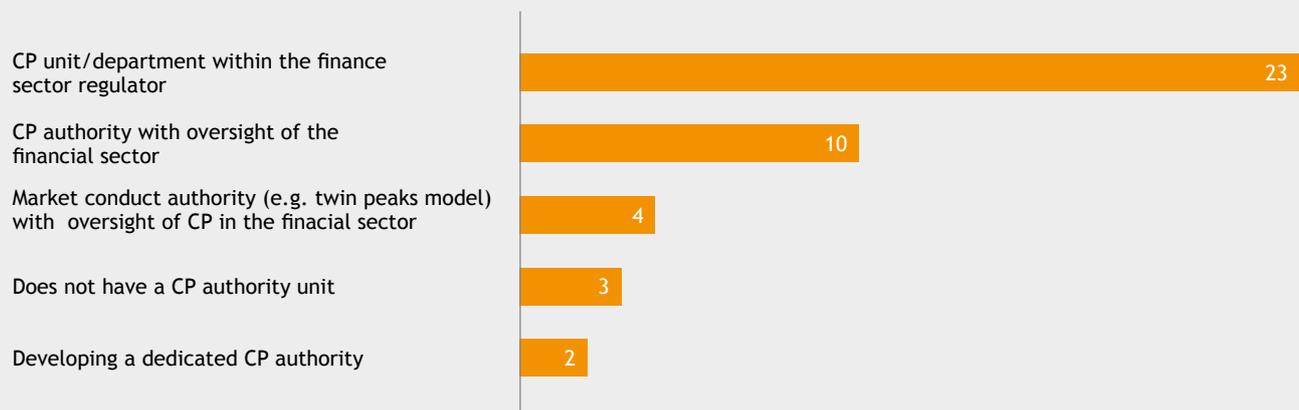


Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO) is the common issuing institution of the Member States of the West African Monetary Union (WAMU): Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo.

Currently, consumer protection is treated as a matter of regional jurisdiction through several provisions and prudential rules in DFS regulation (e.g. e-money, banking, microfinance, payments and e-commerce legislation). However, the network lacks a common authority for consumer protection practices, and only Senegal and Côte d'Ivoire have a consumer protection office (observatoire), which is a national ombudsman primarily responsible for dealing with complaints.

While the BCEAO recognizes the importance of having a dedicated authority in charge of consumer protection for financial services (and DFS), the cost and implementation challenges have slowed this process.

FIGURE 3: TYPES OF GOVERNANCE (LEADERSHIP AND LEGAL MANDATE FOR REGULATION, SUPERVISION, AND ENFORCEMENT) FOR CONSUMER PROTECTION WITHIN AFI NETWORK (42 RESPONDENTS)





Bank of Zambia

In **Zambia**, a country diagnostic on financial consumer protection conducted in 2012 found that the financial consumer protection framework, with oversight from the Payment Division, Non-Bank Financial Institutions and Bank Supervision Departments, was characterized by overlapping jurisdictions. Therefore, within the Bank of Zambia Strategic Plan (2016-2019) and the National Financial Inclusion Strategy (2017-2022), the Bank of Zambia has approved the creation of a specialized consumer protection and market conduct unit that will also oversee DFS issues.



In 2018, **Papua New Guinea** underwent a country diagnostic assessment to identify the main strengths and gaps in consumer protection practices. One of the recommendations was to establish a dedicated financial sector market conduct authority, which is currently underway. Another recommendation was to develop a consumer protection framework. Initially intended for the financial sector, it was designed to also integrate DFS even though mobile banking is still not widespread in the country. A participatory process with provincial and regional industry stakeholders has encouraged the Central Bank of Papua New Guinea to develop a framework that takes a product-based rather than an institutional approach. This has allowed unregulated financial institutions to also be included and, therefore, the development of specific considerations for fintech and CP4DFS.

To encourage coordination and collaboration among regulators in the DFS sector, regulators are building on the established practice of **financial sector committees/boards** to either incorporate or establish collaborations with relevant new regulators in the DFS sector, such as telecommunications and data protection regulators.



When oversight of DFS providers falls under different regulators, interagency collaboration is important.

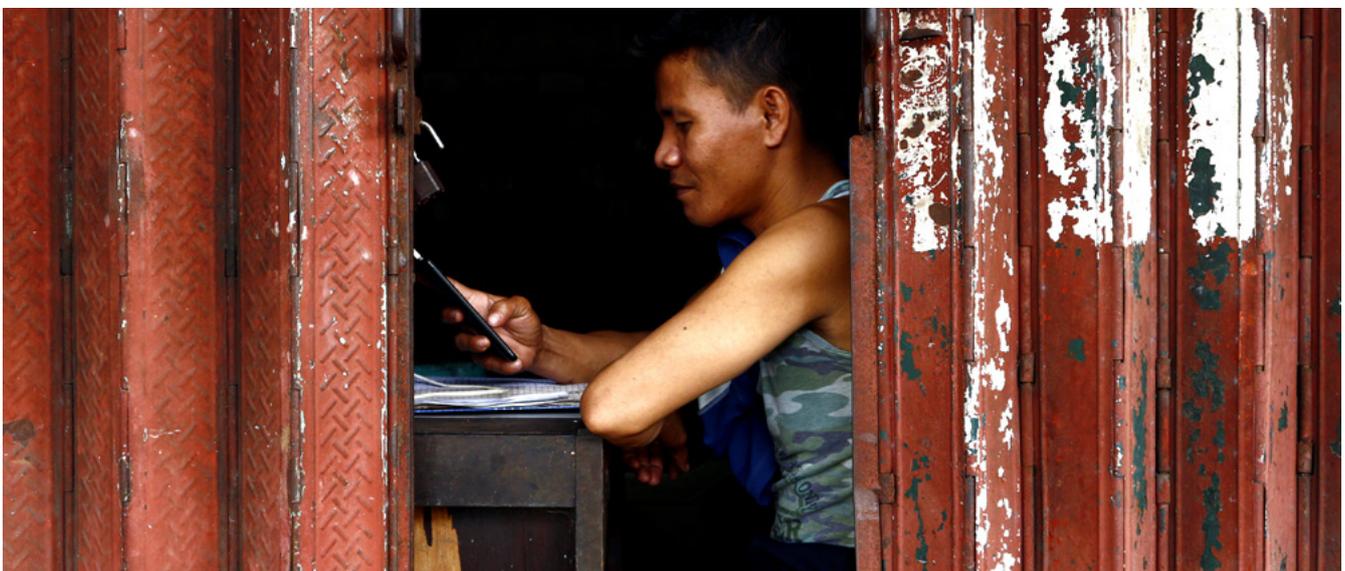
This was the case for **Bank of Ghana**, which signed a Memorandum of Understanding with the National Communication Authority (the telecommunications regulator) to better coordinate and regulate mobile money issues, including consumer awareness and consumer protection initiatives to strengthen consumer confidence.

It also established the Payment System Committee, which is responsible for collaboration and information sharing for the DFS sector.



In 2004 in the **Philippines**, a Financial Sector Forum was launched by the country's four financial regulators: Bangko Sentral ng Pilipinas and the regulators for insurance companies, securities and investment houses and deposit insurance.

Their main goal was to ensure information sharing and coordination on issues of joint relevance, including consumer protection and education.



MSME uses smartphone while inside a warehouse. Philippines. (Photo by junpinzon/iStock)

LEGAL AND REGULATORY FRAMEWORK FOR REGULATING MARKET COMPETITIVENESS

Regulation on competition in the DFS sector is not very widespread

Regulation on **DFS competition is still at an early stage** across the AFI network. According to the survey, only three countries (Ghana, Honduras and Mongolia) have some regulatory provisions (although not comprehensive) that apply to competition in the DFS market. It is more common to regulate competition within an existing framework, either with an **established competition authority** (40 percent of countries) that covers all business sectors (including DFS) or just the financial sector, or with relevant competition provisions in other related regulations (33 percent of countries), such as regulation on maximum market share or the prohibition of anti-competitive market practices.

When countries are at an early stage of DFS sector development, regulators may decide not to intervene in regulating competition to enable infrastructure expansion, business case consolidation and innovation. This is the case in **Fiji** and other small Pacific island states where regulators are promoting development in the sector by not imposing restrictions on possible monopoly practices – as long as market players provide value-added and quality services to consumers.

Regulators in other countries may decide not to regulate DFS providers because they are considered too small and unlikely to create systemic risks and affect the financial stability of the country.



In **Kenya**, when the DFS sector was in the first phase of development, regulators offered a “no objection” that allowed operators to innovate and pilot their services without the confines of strict regulation.

At that time, Safaricom launched the M-Pesa mobile payment service with exclusivity arrangements within its network of agents, which allowed it to establish a dominant market position.

Seven years later, the Competition Authority of Kenya, among other important interventions, canceled the exclusivity clause. This allowed agents to operate with other telecom operators, facilitating the entrance of other players and reducing operational costs considerably.

KEY TAKEAWAY POLICY AND REGULATORY ENVIRONMENT

There is a need for:

- 1 A clear and specific legal and regulatory framework on CP4DFS to help authorities develop subsequent interventions to address existing and potential risks;
- 2 A well-defined legal mandate to provide clarity on governance (definition of roles, responsibilities and scope of oversight), and an interagency approach to the CP4DFS framework to ensure harmonization and cooperation between different oversight authorities; Specific measures to foster healthy competition and prevent monopolistic and anti-competitive behaviors.



2. PRODUCT DEVELOPMENT AND SERVICE DELIVERY



PRIVACY AND PROTECTION OF CONSUMER DATA

Many countries do not have a comprehensive privacy and protection framework or an authority with a legal mandate specific to DFS. Most countries adopt provisions on privacy and consumer data protection from the financial sector.

In the digital financial era, DFS providers own a great deal of sensitive data and information that could be used to harm clients through privacy violation, fraudulent use of client data or identity theft. Data breaches can erode trust in the entire DFS ecosystem, damage the reputation of DFS providers and diminish consumer choice and confidence.

Regulators are aware of these risks and, according to the survey, they consider fraud and breach of privacy among their top five concerns. Sixty-five percent of regulators (28 countries) include fraud in their top-five list and 23 percent (11 countries) also include breach of privacy. Across the AFI network, regulators are using different methods to address data protection and privacy:

42% (18 countries) have established a specialized authority or agency with a legal mandate for data protection; and

93% (40 countries) have at least one regulatory and enforcement provision on consumer data protection, privacy and use.

More specifically, most countries have:

- > Risk mitigation measures imposed by the regulator to protect the security, integrity and confidentiality of customer information, such as:
 - (i) restricted access to consumer data;
 - (ii) consent to use/process data;
 - (iii) fair and transparent use/processing of data (77 percent of countries);

- > Provisions for DFS providers to obtain customer consent before sharing their data with third-party entities (67 percent of countries); and
- > Requirements/standards on the storage (including encryption) and disposal of customer data (50 percent of countries).

In terms of privacy, the provisions listed above have likely been issued for the traditional financial system and extended to the DFS sector without necessarily tailoring them to the innovative digital solutions they are, in fact, used for.

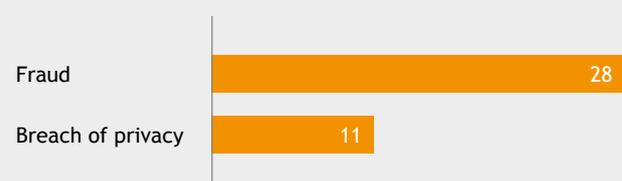
CYBERSECURITY

Countries have still not developed a comprehensive cybersecurity framework to guide DFS providers, and instead ask providers to develop their own cybersecurity policies and processes

In the survey, 65 percent of AFI members identified fraud (e.g. social engineering attacks) as one of their greatest CP4DFS concerns. However, in many countries, **legislation is not adequate for the level of development of the DFS sector**. Only a third had a comprehensive cybersecurity framework for DFS providers that covers, among other things:

- > End-to-end security (including encryption) between customers and the internal systems of DFS providers;
- > Security of USSD/SMS-enabled financial transactions;
- > Proportionate transaction authentication;
- > Use of one-time passwords and tokens;
- > Alerts (real time) on all transactions on accounts (successful/failed transaction); and
- > An industry-wide Cybersecurity Operations Centre and Computer Emergency Response Team.

FIGURE 4: NUMBER OF AFI MEMBERS THAT RANK PRIVACY AND FRAUD AS ONE OF THEIR TOP FIVE CONCERNS (TOTAL RESPONDENTS = 43)





In **Samoa**, the Ministry of Communication, Information and Technology has launched the Samoa National Cybersecurity Strategy 2016-2021, which sets out the main areas of development for cybersecurity in the country for general computers and telecommunications technology, and it also applies to the financial system.



In **Malaysia** in 2006, Bank Negara Malaysia produced the National Cyber Security Policy and identified the financial sector and financial digital technologies as one of the riskier sectors to be monitored. Accordingly, a few years later in 2011, the Bank launched the National Cyber Crisis Management Plan, which sets out practical processes and procedures to oversee the digital ecosystem.

More often, however, regulators shift responsibility for cybersecurity to providers. In 51 percent of countries surveyed, regulators require providers to undertake customer awareness interventions for relevant aspects of cybersecurity risks and mitigation steps.



In **Nigeria**, the rapid increase of e-payment channels has encouraged the financial sector to launch an interagency initiative, the Nigeria Electronic Fraud Forum, in which all relevant stakeholders actively participate (Central Bank of Nigeria, digital industry practitioners and bank representatives).

The main objective of the Forum is to “enable information exchange and knowledge sharing on fraud issues amongst key stakeholders, with the objective of ensuring a collaborative and proactive approach to tackling/mitigating fraud and limiting occurrences and losses”.

In 2015, as a result of the collaborative efforts of the Forum, the Central Bank of Nigeria required all DFS providers set up a 24-hour anti-fraud desk, with a minimum of 10 dedicated phone lines, to assist clients with problems such as theft or scams, and to raise consumer awareness. This self-regulating platform aims to reduce the level of fraud in the country.

DIAGRAM 1: SIX KEY BUILDING BLOCKS FOR NATIONAL-LEVEL CYBER SECURITY COORDINATION

NATIONAL-LEVEL CYBER SECURITY COORDINATION IS VITAL TO MANAGE CYBER SECURITY IN A COHESIVE, COHERENT AND COMPREHENSIVE MANNER.



Source: Bank Negara Malaysia

FAIR TREATMENT OF CUSTOMERS AND BUSINESS CONDUCT

To ensure fair treatment and responsible business conduct, some regulatory measures have been adopted, such as (i) setting fair pricing; (ii) promoting non-discriminatory principles; (iii) encouraging third-party monitoring and due diligence activities; and (iv) applying a business code of conduct.

Fair and respectful treatment of customers and proper business conduct is fundamental to promoting the access and use of DFS. Regulators can play an important role by promoting high ethical standards and building a trusted and reliable ecosystem based on respect, fair conduct and adequate safeguards to detect and correct irresponsible and unfair practices by DFS providers.

In the ranking of the top 3 DFS related risk concern (out of 15), regulators ranked excessive pricing at 4 out of 15, with over indebtedness at 8 out of 15 and misconduct of DFS staff/third parties at 10 out of 15.

To mitigate the risk of excessive pricing, surveyed AFI member institutions have adopted measures such as maximum limits of transaction costs, account management costs etc. This is complemented by fair and transparent disclosure of pricing for various DFS related transactions.

In general, business conduct and ethics are difficult for regulators to address. Which ethical standards and behavioral norms should be conveyed? Are they universal? To what extent is a regulator entitled to intervene? How does the regulator supervise and enforce these principles effectively?

To promote high ethical standards and build a trusted and reliable ecosystem based on respect, fair conduct

and adequate safeguards to detect and correct corruption, regulators primarily use three measures:

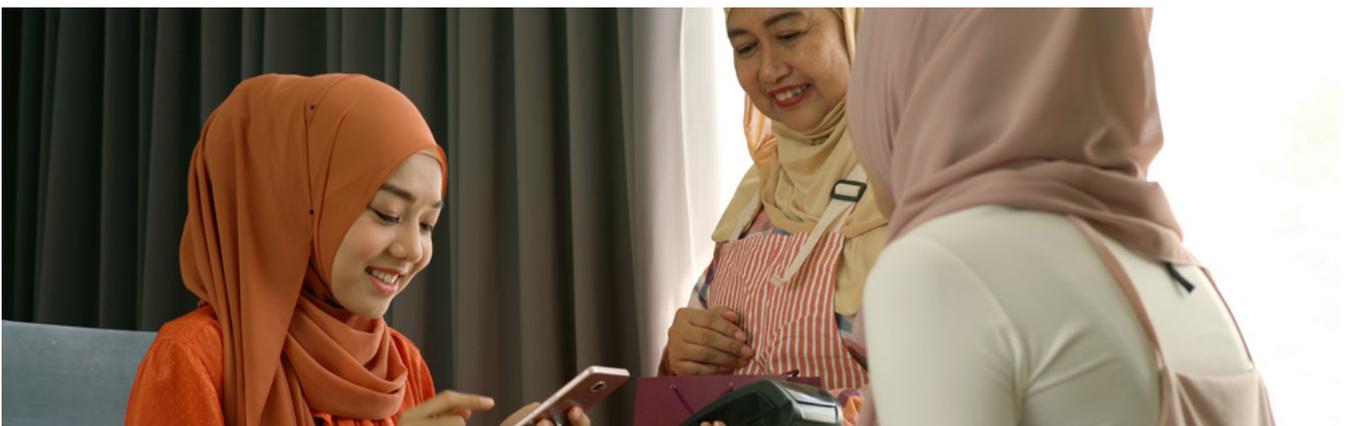
- > Promoting non-discriminatory principles;
- > Mandating prudent outsourcing conditions; and
- > Adopting a business code of conduct (developed by the DFS provider or through an industry consultation process).

Half of AFI members promote non-discriminatory principles by asking DFS providers to avoid procedures/systems/algorithms based, for instance, on gender, religion, geographical location, race/ethnicity, age and disability (such as by signing a Code of Ethics).

In other cases, regulators promote the creation of trusted partnerships between DFS providers and agents/third parties. The implicit principle is not to shift responsibility from DFS providers to outsourced entities, but rather to keep DFS providers accountable for their actions. Regulators have therefore imposed some regulations on agent due diligence and supervision with the following requirements and guidelines, among others:

- > Minimum set of requirements for due diligence with third parties/agents (50 percent of countries);
- > Monitoring, supervision and reporting of third parties and agents to the regulator (42 percent);
- > Provision of information on conflicts of interest with third parties and agents (23 percent); and
- > Access to and use of customer data by third parties and agents (21 percent).

A third of AFI members have established and enforced an industry code of conduct for fair treatment of clients. For example, Superintendencia de Banca, Seguros y AFP (SBS) del Peru launched an initiative with banking and insurance associations to elaborate an industry-wide code of conduct. Similarly, in Tunisia, the banking industry association has developed a code of ethics to be used by the sector.



Digital payment. Thailand. (Photo by Color4260/Shutterstock)

DIGITAL CREDIT PRACTICES OF AFI MEMBERS

Over the years, traditional banking and microfinance credit systems have been heavily regulated, in part due to a succession of financial crises.

This has not been the case for **digital credit**, likely because the DFS sector is still at an early stage of development in many countries, or because it is dominated by fintechs, which typically fall outside the oversight of regulators in many jurisdictions.

The AFI survey showed that only one country, **Thailand**, has a specific regulation for digital credit, and 10 countries have regulatory oversight of non-bank digital credit providers, especially for fintechs.

Digital credit is not entirely unregulated, however, and many countries have issued some provisions within the framework of their traditional credit system (see the list below).

Some provisions are simply those relevant to cash-based credit extended to DFS providers while others have been enriched with details on digital credit. However, the emerging digital credit market highlights the need for additional rigorous provisions on client treatment and business conduct. Table 1 details the measures that have been implemented across the AFI network.

TABLE 1: MAIN PROVISIONS FOR DIGITAL CREDIT AMONG AFI MEMBERS (TOTAL RESPONDENTS = 23)

PREVENTION OF OVERINDEBTEDNESS	COUNTRIES
Financial service providers (FSPs) to use and submit credit data to the credit reference system/bureau	11
Credit reference system/bureau to facilitate real-time information sharing	6
Maximum level of indebtedness (i.E. Credit exposure)	2
Periodic demand-side surveys to assess levels of overindebtedness in the market	3
TRANSPARENCY AND DISCLOSURE	COUNTRIES
Present effective interest rate or total cost in absolute value in loan contracts	15
Provide clients with key relevant information (loan tenure, effective interest rates, fees and charges, recovery process, sharing of consumer data, penalties, borrower obligations and other information in loan contracts, etc.)	16
Guidelines on the use of fair, transparent and clear criteria for providers in the access and use of alternative data (e.g. utility bill payments data, mobile phone usage data)	7
FSPs to incorporate live calculators on their apps or websites	2
FAIR TREATMENT	COUNTRIES
Prohibition of flat interest rates	3
Formula for interest calculation (such as a compound rate-accruing mechanism)	6
Mandatory cap on cost of credit	3
Cooling off period for consumers	9
Standard processes and rules to evaluate collateral	7
Rules on responsible debt collection and blacklisting of indebted clients	10

PRODUCT DEVELOPMENT

Regulators have a certain degree of control over the features of DFS products and services that can be offered and, in some cases, can encourage the development of innovative products through a regulatory sandbox.

The DFS sector is witnessing a proliferation of new products and services, as well as sophisticated technology platforms and delivery channels that are expanding the reach of providers to remote and rural areas.

Customer-centric products are not among the top concerns of regulators, but 23 percent of AFI members still consider product suitability an important topic to address. However, there is still a risk that DFS providers may take advantage of client inexperience and ability, or that product development is not based on clients' behavioral insights and attention to the needs of vulnerable segments (such as women, youth or forcibly displaced persons).

65%

AFI regulators are addressing these risks, in most cases (65 percent) by approving DFS features and mandating minimum standards for consumer protection (such as adopting clients' behavioral insights during product development).

26%

While it is less common (26 percent), some regulators require DFS providers to conduct pilots or phased rollouts before launching a new product (or feature).

Considering the high level of sophistication and innovation of some DFS products, a third of regulators in the surveyed countries have adopted **regulatory sandboxes or innovation hubs** to develop and test new products or features, and to incorporate consumer protection standards.



COMISIÓN NACIONAL
BANCARIA Y DE VALORES

The FinTech Law, issued on 9 March 2018, provides the legal basis for the creation of a regulatory sandbox in Mexico.

Through the regulatory sandbox, a temporary authorization may be granted to allow regulated and non-regulated entities to test innovative business models (based on a technological innovation) in the financial sector.

The main difference between a sandbox of regulated entities and non-regulated entities is that the former is authorized when exceptions to what is contained in the secondary provisions are required, while for the latter, authorization is granted to carry out activities permitted by financial laws.

Since the regulatory sandbox applies to all financial activities (banking, securities, insurance, securities and pension funds, among others) the FinTech Law mandates that financial regulators issue secondary rules for their regulatory sandbox. On 19 March 2019, Comisión Nacional Bancaria y de Valores de México (CNBV) issued secondary rules that included additional criteria for participants, additional information requirements for the sandbox application and a description of the report content that sandbox participants must send to the CNBV periodically during the testing period.

For temporary authorizations granted directly by a supervisory commission, prior board approval is required. For exceptions to authorizations, concessions or licenses granted by the Ministry of Finance, the procedures foreseen in the financial laws must be observed. In any case, the supervisory commission in charge of supervising the corresponding or preponderant financial activity carried out by the sandbox participant will be the responsible supervising authority; and, in cases where a sandbox application requires the joint authorization of various financial authorities, there must be close coordination and communication between them.

RISK MANAGEMENT FRAMEWORK

A third of regulators have adopted a risk management framework or requested DFS providers to develop internal risk management frameworks

Risk management is critical to a consumer protection framework for all DFS players – regulators, suppliers/providers and consumers. The main objective for these players is to identify, classify, measure, prevent, mitigate the transfer or address the risks associated with DFS.

Beyond establishing an overarching risk management framework to guide the regulation and supervision of the DFS market within a jurisdiction, regulators also play a critical role in entrenching risk management frameworks on both the supply and consumer sides.

A third of regulators surveyed have established a market conduct risk measurement framework to identify, assess and prioritize risks at the sector level, and a few have defined some institutional level requirements/guidelines, including mandates for DFS providers to have internal risk control mechanisms, such as:

- 42%** Guidelines for the development and governance of risk frameworks for DFS providers (42 percent);
- 16%** Fit and proper guidelines for relevant staff within FSP/DFSPs (16 percent); and
- 7%** Mandates for DFS providers to institute business continuity mechanisms (7 percent).



SME selling dried seafood and peas at the Mercado Municipal in Teotitlan del Valle, Oaxaca, Mexico. (Photo by NNehring/iStock)

Furthermore, many regulators have defined DFS-specific regulatory provisions (e.g. in e-money and mobile money policies) to mitigate risks from loss or misuse of client funds by e-money issuers (Figure 5).

These include, but are not limited to, minimum capital requirements for DFS providers (50 percent of respondents) or policy directives to ensure client funds are safeguarded, such as provisions for:

50% Liquidity risk, such as holding funds equal to e-money liabilities in separate accounts in regulated financial institutions (50 percent);

37% Insolvency risk, such as holding funds to repay clients in a trust or similar fiduciary instrument (37 percent); and

23% Bank insolvency risk, such as provisions for direct or pass-through deposit insurance of e-money funds (23 percent).

FIGURE 5: NO. OF COUNTRIES THAT HAVE UNDERTAKEN PROVISIONS TO PROTECT CUSTOMER FUNDS (TOTAL RESPONDENTS = 43)



KEY TAKEAWAY PRODUCT DEVELOPMENT AND SERVICE DELIVERY

There is a need for:

- 1 Regulations on data protection to strengthen DFS systems and infrastructure and secure data against unauthorized access, and data privacy to ensure appropriate management of consumer data, including by third parties.
- 2 Regulations on cybersecurity that are proportionate and risk-based, to protect the integrity and security of operating and delivery systems of DFS providers and devices used by consumers. The regulations would have three main objectives: (i) safeguarding customer assets/funds; (ii) protecting consumer data with rules for data privacy and cybersecurity; (iii) and ensuring the operational stability of providers and the general financial market; establishment of a national cyber awareness and warning body and encouragement of cooperation between relevant stakeholders on cybersecurity.
- 3 Regulations on client treatment and business conduct to promote high ethical standards and build a trusted and reliable ecosystem based on respect and fairness.
- 4 Regulations on product development to promote the development of affordable products that are appropriate to clients' needs and capabilities, do not cause them harm and create value for them (such as promoting a customer-centric approach to the development of DFS). Create an environment that balances the promotion of innovation and technology with the promotion of access to finance and suitable products for the target market, generally low-income customers. For example, incorporating product suitability indicators in a regulatory sandbox to test new products.
- 5 Regulations on risk management frameworks to ensure DFS providers create a risk-based environment with internal control mechanisms.



3. CONSUMER AWARENESS, COMPLAINTS AND REDRESS



DIGITAL FINANCIAL LITERACY AND CAPABILITY⁵

Although low awareness and sensitization are among the biggest CP4DFS concerns of regulators, digital financial literacy and capability is still not a core objective

79% of regulators surveyed indicated that low awareness and sensitization on DFS are among their top-five concerns about CP4DFS.

Some regulators have begun using digital channels, such as e-learning portals, for their digital financial literacy interventions. The National Bank of Belarus and Bank of Russia, among others, have websites that provide basic DFS literacy, such as how to open, use and manage a digital account, and how to protect against theft/fraud and safeguard a PIN. The Central Bank of Nigeria has launched an e-learning portal to help deploy financial literacy trainers, and it is using social media to raise awareness of financial education. It is also addressing DFS by teaching people how to use digital services, such as ATMs or digital money transfers, and to be aware of possible fraud and scams.

In a related survey of AFI members on digital financial literacy, about 37 percent of respondents indicated they have provisions/policies or interventions for digital financial literacy.



In the Philippines, the BSP has developed a composite strategy to implement financial education programs (including digital financial literacy) that target several vulnerable segments. Key elements of the strategy include:

- > Identifying key segments of the population in clear need of financial education and digital financial literacy;
- > Identifying partners to deliver programs with sustainably and at scale;
- > Leveraging public and private sector participation to maximize resources; and
- > Establishing a robust monitoring and evaluation system to measure outputs, outcomes and impact.

Other countries, such as El Salvador, Malawi, Uganda and Member States of the BCEAO have added or are developing digital financial education modules to national school curricula.



As part of the Rwanda Payment System Strategy 2018-2024, which aims to transform Rwanda into a cashless economy, the National Bank of Rwanda has launched a countrywide sensitization campaign to raise awareness about the benefits of using digital payment facilities, among other important initiatives.

Other countries, such as Bangladesh, are promoting public-private collaborations to raise consumer awareness of DFS.



In Bangladesh, as part of a government initiative, the garment sector is demonstrating major interest in the digitization of wage payments with an ambitious target to pay 90 percent of garment workers digitally by 2021.

To ensure workers are comfortable with the idea of a digital wage, garment associations, together with DFS providers, are working to launch awareness campaigns and educational videos on how to open and manage an account.

These include safety standards, such as: (i) not disclosing PINs and passwords; (ii) how to be properly informed about DFS (understanding all charges and benefits); and (iii) complaint redress mechanisms.

However, some regulators appear to consider the use of digital channels for financial education (such as apps, tablets and social media) as synonymous with digital financial education/literacy, as a critique revealed a very limited focus on DFS-related topics.

Moving forward, awareness and policy guidance need to be enhanced to support regulators in incorporating digital financial literacy interventions in National Financial Education and National Financial Inclusion Strategies.

⁵ Digital financial literacy is a multi-dimensional concept that includes knowledge of digital financial products and services, awareness of digital financial risks, knowledge of digital financial risk management and knowledge of consumer rights and redress procedures. Digital financial capability is the knowledge and application of attitudes, knowledge, skills and self-efficacy to make effective and safe decisions about using DFS that are relevant to one's needs.

DISCLOSURE AND TRANSPARENCY

23 percent of respondents consider misleading marketing of products among their top five concerns

Communicating in a clear, complete and concise way may be difficult for DFS providers for several reasons, including the appropriateness of the communication channel. For example, there is limited space on feature phones to read extensive information clearly, the number of characters and languages supported by mobile phones is limited and some devices are not compatible with channels where users can seek further information (e.g. a link to a website from a non-internet supported feature phone). Timely communication and allowing adequate time for clients to review the terms and conditions of a product can also be a challenge with some products.

Disclosure and transparency is a principle for which a high proportion of regulators have provisions for DFS:

91%

of regulators request that DFS providers publish clear information about costs, terms and conditions (major benefits, risks, terms, liabilities and obligations) on their websites, marketing materials and agents' points of sale (POS).

77%

of countries, DFS providers must ensure that promotional and marketing materials are accurate, honest, understandable, not misleading and in a language that customers can understand (e.g. taking into account low literacy levels and the needs of vulnerable groups).

67%

of regulators require DFS providers to inform clients about their rights, such as the right to complain or rights related to the privacy of their data.

72%

of regulators require DFS providers to seek client consent to share their data with third parties (e.g. central bank, credit bureau) and 56 percent require DFS providers to inform clients how their personal data will be used.

The Reserve Bank of Malawi requires DFS providers to provide consumers with key facts statements to compare product terms and enable them to make informed decisions.



CENTRAL BANK OF ARMENIA

In Armenia, the Central Bank has developed a Code of Conduct on disclosure and transparency principles to guide DFS providers in their communication with customers. The Code asks providers to follow these steps:

- (i) Provide oral communication before signing contracts/agreements;
- (ii) Use multiple communication channels; and
- (iii) Provide detailed information on the main content shared with clients (terms, conditions, prices, clause in case of any changes in conditions) at the time the contract/agreement is signed.

COMPLAINTS AND REDRESS RESOLUTION

Many regulators have established an independent external dispute resolution mechanism or mandated DFS providers to develop their own internal complaints and redress resolution mechanisms. However, putting an effective system in place is still considered a major challenge for regulators.

Complaint resolution mechanisms are vital for clients to make their voices heard and defend themselves against any disservice or harmful action.

The lack of effective complaint and redress mechanisms was a concern for 50 percent of regulators surveyed. Therefore, it is a principle for which a high proportion of regulators have at least one provision in place (90 percent of regulators). However, having an effective mechanism that benefits clients is recognized as a challenge, and is often confused with a mechanism to collect feedback, queries or ask information about products/services.

AN EFFECTIVE COMPLAINTS AND REDRESS SYSTEM

Multiple channels (appropriate to the clientele);

Clients are informed about their right to complain

Actions are timely and taken seriously; and

Complaints are used to improve products and services.

There are two complementary ways to allow customers to register complaints:

1. **The primary way** is for regulators to require DFS providers to institute an internal dispute resolution (IDR) mechanism for customers (50 percent of regulators) and define a minimum service level that DFS providers should respect, such as:
 - > Minimum time frame to acknowledge receipt of complaints;
 - > Minimum time frame for redressing a complaints (typically 30 days); and
 - > Periodic reporting of complaints and related redress actions.
2. **The secondary way** is establishing an independent external dispute resolution (EDR) mechanism (typically used for appeals) (65 percent of regulators) or an alternate dispute resolution (ADR) mechanism with an independent ombudsman.



In **Bangladesh**, the customer complaints and grievances redress mechanism is managed through a two-step approach.

(i) **First**, Bangladesh Bank mandates all DFS providers to establish an IDR mechanism. In the “Regulatory Guidelines for Mobile Financial Services in Bangladesh” (2015) promptly and readily are two key words used to explain how the mechanism should work.

The processes and procedures in place should be applied promptly used, and the mechanisms in place should be readily accessible through multiple channels. These channels can include a website and other appropriate information media, such as a 24-hour/7 day-a-week call center.

(ii) **Secondly**, the Bank’s Financial Integrity and Customer Services Department has developed an EDR mechanism and oversight section on the performance of DFS providers in redressing customer complaints. The EDR mechanism consists of several channels:

- (1) a web-based complaint submission form;
- (2) a call center;
- (3) an email address;
- (4) a fax number; and, recently
- (5) an Android mobile app.

Therefore, the department can handle the problem directly, ask DFS providers to take responsibility for it or send it to the Payment System Department (for very technical complaints).

In general, regulators require DFS providers to use multiple channels for customer complaints. In the Philippines, the BSP uses numerous channels (postal mail, e-mail, fax, consumer assistance desk) and has established a chatbot to provide real-time responses to customer concerns that is accessible via the BSP website, social media platforms and SMS. The Central Bank of Nigeria, among others, has an easy-to-complete online form for complaints. Using multiple channels is only effective when they are suitable for the clientele. For instance, in Paraguay, the regulator has enabled an office to receive complaints via email, but also in person, which is considered appropriate to the country’s cultural and social norms.

KEY TAKEAWAY CONSUMER AWARENESS, COMPLAINTS AND REDRESS

There is a need for:

- 1 Interventions to launch and promote digital financial literacy and capability campaigns to enable consumers to make informed and efficient financial decisions.
- 2 Regulations on disclosure and transparency to ensure consumers understand and trust the DFS environment. DFS providers should communicate effectively with customers to help them make informed decisions, understand their rights and increase their awareness.
- 3 Regulations on IDR, complaint and redress resolutions to ensure DFS providers have an effective complaints mechanism in place to receive, resolve and report complaints; allow consumers to register complaints, assert their rights and ensure that negative trends are detected and mitigated; and establish EDR and/or ADR mechanisms.



4. SUPERVISION AND ENFORCEMENT



SUPERVISORY AND ENFORCEMENT ENVIRONMENT

In general, AFI members continue to use traditional supervisory and enforcement mechanisms for the DFS sector

Along with legal and regulatory frameworks, regulators have yet to update or reform existing supervisory and enforcement frameworks and mechanisms to reflect the unique and growing DFS market.

23%

Only 23 percent of regulators surveyed have regulatory oversight for non-bank digital credit providers, especially fintechs.

Of these, some have set up dedicated units to supervise fintechs. For instance, the Central Bank of Egypt and Bank of Ghana have established a FinTech & Innovation Unit to provide regulatory and supervisory support to the industry.

In terms of supervisory mechanisms, the survey shows that for more than half of AFI members, the regulator supervises implementation and compliance of established policies and frameworks by DFS providers; and 42 percent have fit and proper guidelines for relevant staff of DFS providers.

Supervisory activities covered the product development phase, service delivery channels and others that informed regulatory approval of DFS and products (65 percent of respondents). Other practices include the supervision of pilots or rollouts (26 percent).

Some of the key supervision challenges identified were inadequate financial and human (talent) resources and the lack of a regulatory mandate for new players (fintechs), products and services (e.g. digital credit, cryptocurrency, cloud computing).

With regard to enforcement, regulators continue to rely on existing strategies for the traditional banking and microfinance systems. These include moral suasion, surveillance and presenting recommendations, which are still considered as the most effective ways to address issues with DFS providers.

SUPERVISORY TOOLS AND TECHNIQUES

Despite the high level of innovation in the DFS industry, supervisory authorities have yet to adequately embrace innovative technology solutions

In many cases, supervisory activities have not integrated innovative technology solutions, and AFI members continue to rely on traditional supervisory tools and techniques, such as off-site and on-site examinations, market monitoring and mystery shopping for the DFS sector.



CENTRAL BANK OF ARMENIA

The Central Bank of Armenia relies on a mix of tools borrowed from prudential supervision (manual of procedures, matrix/guidelines on how to assess DFS providers, define their risk profile and rating) and market conduct supervision.

It oversees the market through regular (monthly) monitoring of information disclosure by DFS providers (websites, radio and TV advertisements) and of DFS customer behaviors (mystery shopping or focus groups with customers).

KEY TAKEAWAY SUPERVISION AND ENFORCEMENT

There is a need to:

- 1 Promote interagency cooperation among relevant authorities with supervisory oversight for the DFS sector. This could include, among other initiatives, creating an interagency supervisory forum and information-sharing framework.
- 2 Standardize the supervision of core DFS thematic issues (e.g. data privacy and protection, cybersecurity, KYC) to ensure clarity and minimize the burden of compliance for DFS providers, which might be transferred to consumers through transaction fees.
- 3 Adapt the enforcement mandate and tools for the DFS sector, such as:
 - > Withdrawing products/advertisements from the market, mandating the revision of consumer agreements to ensure they are responsive to CP4DFS; and
 - > Explore extending enforcement beyond non-compliance with a specific regulatory provision for practices deemed to contravene key consumer protection principles.



5. CROSS-CUTTING ISSUES



CONSUMER PROTECTION PRINCIPLES FOR VULNERABLE SEGMENTS

Recognizing that it is important to consider the needs of vulnerable segments, regulators need to take effective measures to protect them

In all countries, there are segments of the population that face clear barriers to accessing and using DFS effectively, including women, youth, rural residents and others. These barriers include low literacy and digital skills, lack of required identification/documentation, data profiling and the absence or inadequate provision of inclusive regulation. For vulnerable groups using DFS, these barriers tend to exacerbate exposure to consumer protection issues. Across the AFI network, members are taking notice. Thirty percent of respondents have launched financial education campaigns that, among other things, target vulnerable customer segments.



The **Reserve Bank of Malawi** has a special focus on financial education for women. Its Financial Capability Strategy is expected to be finalized by the end of 2020, and it is also developing a consumer protection campaign with awareness materials in braille and large print for visually impaired persons.



As mentioned in section C, in the Philippines, the **BSP** has developed a countrywide strategy to implement financial education campaigns. It first identified key target groups and institutionalized public and private sector partnerships to ensure digital financial literacy campaigns are delivered in a sustained manner and at scale.

The target groups include:

- > Fisherfolk;
- > Filipinos working overseas and their families in the Philippines;
- > MSMEs;
- > Beneficiaries of the government's conditional/unconditional cash transfer programs; and
- > Beneficiaries of soldiers and police killed and/or wounded in the course of duty.

However, the survey highlighted the need for continued advocacy to highlight the unique vulnerabilities of these customers and the importance of a targeted approach in broader financial inclusion strategies as well. Only five respondents cited women and other vulnerable groups as one of their top five priorities or issues of concern in the CP4DFS landscape.

There were also few respondents that had introduced targeted consumer protection interventions for vulnerable groups. For instance, only nine countries have some interventions targeting women and youth; and just five countries have interventions targeting forcibly displaced persons and persons living with disabilities.

Indeed, consumer protection regulations across the AFI network tended to be generic with very minimal provisions for vulnerable segments who may require targeted interventions.



With more than 4.5 million internally displaced persons in the Democratic Republic of Congo (DRC) in 2018,⁶ **Banque Centrale du Congo** created an ad-hoc authorization requirement in 2019 that permitted DFS providers to accept refugee identity cards as proof of identity for banking operations instead of the national ID card. In 2020, it launched a biometric ID system that meets KYC requirements.

KEY TAKEAWAY CROSS-CUTTING ISSUES

There is a need to:

- 1 Identify the main vulnerable segments and the barriers they face, and design relevant prudential and market conduct regulations to ensure safe use of DFS;
- 2 Design relevant, demand-driven and evidence-based digital financial literacy and capability interventions;
- 3 Launch advocacy campaigns and facilitate a multi-stakeholder approach to raising awareness and strengthening stakeholder commitments to protect vulnerable segments in the use of DFS.



6 UNHCR: Financial Inclusion of Forcibly Displaced Persons and Host Communities (2019)

MAIN RECOMMENDATIONS

Regardless of the maturity of the DFS sector, all regulators in the AFI network are encouraged to:

- (i) undertake a diagnostic study to identify key DFS-specific risks and gaps in their existing consumer protection regulatory framework;
- (ii) develop a DFS-relevant strategy to prioritize and implement the interventions; and
- (iii) implement the strategy in a timely manner to ensure a proactive approach to consumer protection policies for DFS.

Analysis of the survey findings reveals that regulators in the AFI network need to move beyond the current trend of regulating CP4DFS within the confines of existing consumer protection frameworks and instead pursue a thematic, three-pronged approach.

THREE-STEP APPROACH TO STRENGTHENING CP4DFS PRACTICES:

- 1 Country diagnostic study and periodic studies
- 2 CP4DFS strategy
- 3 Implementation

To strengthen CP4DFS practices, regulators can take the following:

1. Conduct a specialized thematic diagnostic study of CP4DFS to map existing consumer protection provisions and identify the main gaps. On an ongoing basis, the regulator can incorporate CP4DFS issues and indicators in demand- and supply-side surveys.
2. Develop a CP4DFS strategy or incorporate CP4DFS issues in existing national strategies to guide future policy interventions.
3. Strengthen consumer protection policies and practices relevant to the DFS sector.

STEP 1: COUNTRY DIAGNOSTIC STUDY

To develop a country diagnostic study, regulators can take the following steps:

IDENTIFY THE RISKS

Regardless of the maturity of the sector, it is important to identify existing consumer protection risks for DFS. The main areas of investigation can be: identifying the main risks, the danger they pose, how they spread, pain points for clients and main mitigation measures and barriers for vulnerable segments, such as women, youth and forcibly displaced persons. This would help the regulator to know which are the most important risks, barriers and concerns to tackle.

MAP EXISTING CP4DFS PROVISIONS

The regulator can then conduct a study to map existing relevant CP4DFS provisions scattered across various regulations. The five pillars described in this study can be used as a guide to identify areas to investigate.

A comparison of (the main) perceived risks and existing CP4DFS provisions may reveal a discrepancy between what regulators consider the greatest risks and the priorities and mitigation measures in place.

IDENTIFY INSTITUTIONAL CAPACITY, FINANCIAL RESOURCES AND TRAINING NEEDS

The diagnostic should also consider institutional gaps in terms of capacity and financial resources, including whether, whether there are specific training needs that need to be addressed and whether there is sufficient resources to strengthen consumer protection practices.

MAP KEY STAKEHOLDERS

The diagnostic should also map the key stakeholders that can participate in future activities to strengthen consumer protection practices, such as DFS providers and donors, and those interested in financing projects to boost consumer protection principles. The diagnostic should also consider their potential role.

CONDUCT REGULAR DEMAND- AND SUPPLY-SIDE RESEARCH

On a periodic basis, the regulator can incorporate CP4DFS in demand-side and supply-side surveys to monitor change and progress over time.

STEP 2: COUNTRY CP4DFS STRATEGY

Based on the results of the diagnostic study, the regulator can develop a CP4DFS strategy or incorporate CP4DFS issues in the National Financial Inclusion Strategy and National Financial Education Strategy to guide future policy interventions.

The key elements of a CP4DFS strategy include:

DEFINING PILLARS AND PRACTICES TO ADDRESS

The core of the strategy should be the main pillars for addressing consumer protection practices and the accompanying main activities. To identify them, the regulator can use the key takeaways for each of the five pillars in this report, and build a regulatory framework using the relevant CP4DFS provisions scattered across various regulations. The regulator should also identify the most important provisions to address and then prioritize activities. Priorities can be set by evaluating the level of effort required to implement the action, and the expected results/benefits – for the entire sector, for DFS providers and for final beneficiaries. Sometimes, a “quick win” approach that delivers the fastest results will take priority and can be a good way to get motivated. This study (as well as the resources listed in Annex 1) could be used to identify the key areas of analysis and main areas of improvement. The key takeaways from section 4 can also be used as reference.

DEFINING MANAGERIAL ISSUES

The strategy should consider all managerial issues, including which department(s)/unit(s) are responsible for implementation, the financial resources to allocate and the time frame.

CONSULTING KEY ACTORS

The strategy should be developed in consultation with key players, such as DFS providers, relevant associations and networks, donors and investors, to reach broad consensus on next steps and gather their feedback for the implementation phase. Furthermore, CP4DFS strategies and interventions should be benchmarked against recognized policy guidance from relevant agencies.

DEVELOPING A MONITORING AND EVALUATION PLAN

Finally, the strategy should include some indicators or milestones. The regulator should create a monitoring and evaluation plan to allow for regular monitoring and evaluation of progress and adjustment of the plan if necessary.

STEP 3: IMPLEMENTATION

Once the strategy is complete and priorities have been identified, the regulator can start strengthening its own consumer protection policies for the DFS sector. The key takeaways for each pillar in this report will be useful, and can be used in combination with the guiding principles and key policy recommendations from the policy model. Each country should base interventions on its unique needs, primary interests and national context.

The implementation phase is clearly the most challenging because it must address practical problems, barriers and technicalities. For this reason, this study can only provide a methodological approach to improving consumer protection policies, not practical recommendations for doing so.

However, a variety of resources are available, from international best practices to knowledge products, peer reviews and working groups. These resources can help regulators learn from other countries, get inspiration, develop benchmarks, study best practices, understand the main challenges and anticipate solutions when they are implementing their activities.

It is very important to conduct advocacy activities to involve all relevant stakeholders and galvanize players who are perhaps not keen to work on consumer protection topics. Most importantly, where relevant, the regulator can involve external consultants or tap the AFI network for specific training or capacity building. Annex 4 lists the technical support AFI provides to members through knowledge sharing and tailored capacity building and advocacy activities.



Shop trader making digital payment on his credit card. Nigeria. (Photo by vic josh/Shutterstock)

ANNEX 1. METHODOLOGY

This survey report is based on primary and secondary research and analysis of CP4DFS regulations in several countries. A mixed methods approach was applied using quantitative methods and qualitative information.

QUANTITATIVE METHODS

The primary source for this study was a survey of 43 AFI members⁷ who answered an online questionnaire of 24 multiple choice questions. The 43 members, all regulators, represent 43 different countries on four continents:

- > 18 in Africa
- > 15 in Asia
- > 8 in America
- > 2 in Europe

For all questions except one on digital credit, the total number of respondents was 43 (for digital credit it is 23). All figures report the related total number of respondents.

The results from the survey create a baseline that could be used in future comparisons and analysis of the evolution of consumer protection practices.

QUALITATIVE INFORMATION

The survey was complemented by 10 in-depth interviews with regulators and AFI's technical partners.⁸ The interviews enriched the survey results with concrete examples and case studies from countries that could be seen as representative of others in terms of the stage of development of their DFS sector.

For instance, consumer protection practices in Papua New Guinea (an early-stage DFS ecosystem) differ from those in the Philippines and Nigeria (mature ecosystems), which may have more advanced DFS regulatory frameworks.

An extensive literature and policy solutions review⁹ of global and internal AFI knowledge products identified best practices/examples of various national regulatory frameworks and provisions for CP4DFS. The following references are worth mentioning (*from the most recent*):

- > **Consultative Group to Assist the Poor (CGAP):** Consumer Protection Regulation in Low-Access Environments (2020)
- > **Bill & Melinda Gates Foundation (BMGF):** Inclusive Digital Financial Services - A Reference Guide for Regulators (2019)
- > **Center for Financial Inclusion (CFI):** Handbook on Consumer Protection for Inclusive Finance (2019)
- > **International Telecommunication Union (ITU):** Regulation in the Digital Financial Services Ecosystem (2017)
- > **World Bank:** Good Practices for Financial Consumer Protection (2017)
- > **UNSW:** The Regulatory Handbook: The Enabling Regulation for DFS (2015)
- > **Organisation for Economic Co-operation and Development (OECD):** Consumer Policy Guidance on Mobile and Online Payments (2012)
- > **G20:** High-level Principles on Financial Consumer Protection (2011)

Initiatives with a market perspective (actions to be taken by DFS providers to protect consumers) were also used to identify which consumer protection principles should be analyzed. The following references are worth mentioning (in alphabetical order):

- > **Better Than Cash Alliance (BTCA):** Responsible Digital Payments Guidelines (2016)
- > **Consumer Financial Protection Bureau (CFPB):** Consumer Protection Principles (2017)
- > **GSMA:** Code of Conduct for Mobile Money Providers (2017)
- > **Smart Campaign:** Client Protection Principles - Updated with Digital Finance Standards (2017)

⁷ Refer to Annex 1 for a complete list of members that participated in the survey.

⁸ Refer to Annex 2 for a complete list of in-depth interviews.

⁹ Refer to Annex 3 for a complete list of the literature reviewed for this study.

ANNEX 3. LIST OF IN-DEPTH INTERVIEW PARTICIPANTS

INSTITUTION	NAME AND POSITION	DATE OF INTERVIEW (2020)
TECHNICAL PARTNERS		
Bill & Melinda Gates Foundation	Christopher Calabria, Senior Advisor, Financial Services for the Poor	3 April
HomeCredit	Mel Carvill, Member, Board of Directors	23 April
REGULATORS AND POLICYMAKERS (AFI MEMBERS)		
Central Bank of Bangladesh	Shah Haque, DFS Unit	7 April
Central Bank of Paraguay	Christian Tondo, Director, Departamento de Inclusión Financiera Elizabeth Guerrero, Chief, Supervisión Protección al Consumidor Financiero	7 April
Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO)	Gisele Catherine Keny Ndoye, Director of Financial Inclusion Fatoumata Mayaki, Direction de l'Inclusion Financière	8 April
Bangko Sentral ng Pilipinas (Philippines)	Rochelle Tomas, Deputy Director, Consumer Empowerment Group, Center for Learning and Inclusion Advocacy	9 April
Central Bank of Armenia	Sevak Mikayelyan, Coordinator of Market Conduct Regulation and Supervision	9 April
Central Bank of Nigeria	Atanda Oludamola, Consumer Protection Department	17 April
Central Bank of Fiji	Wati M. Seeto, Manager, Financial Inclusion and Market Conduct Financial System Development and Compliance Group	27 April

ANNEX 4. AFI SUPPORT FOR CP4DFS

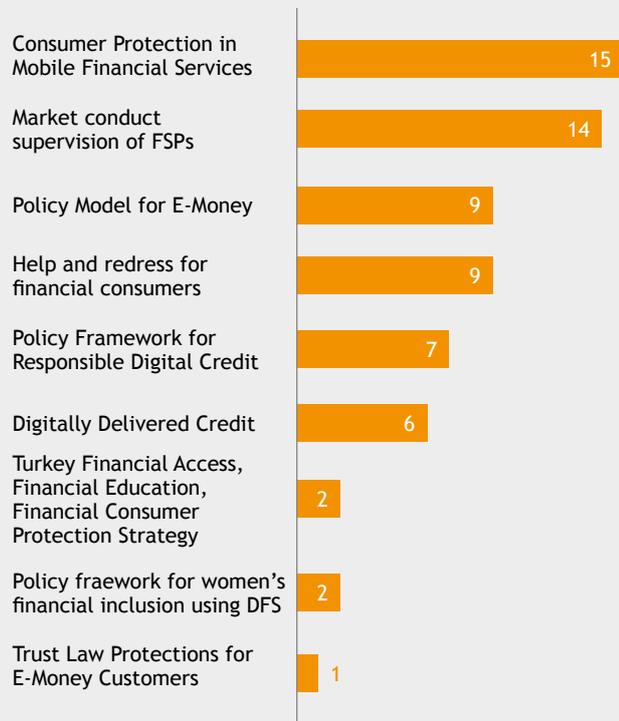
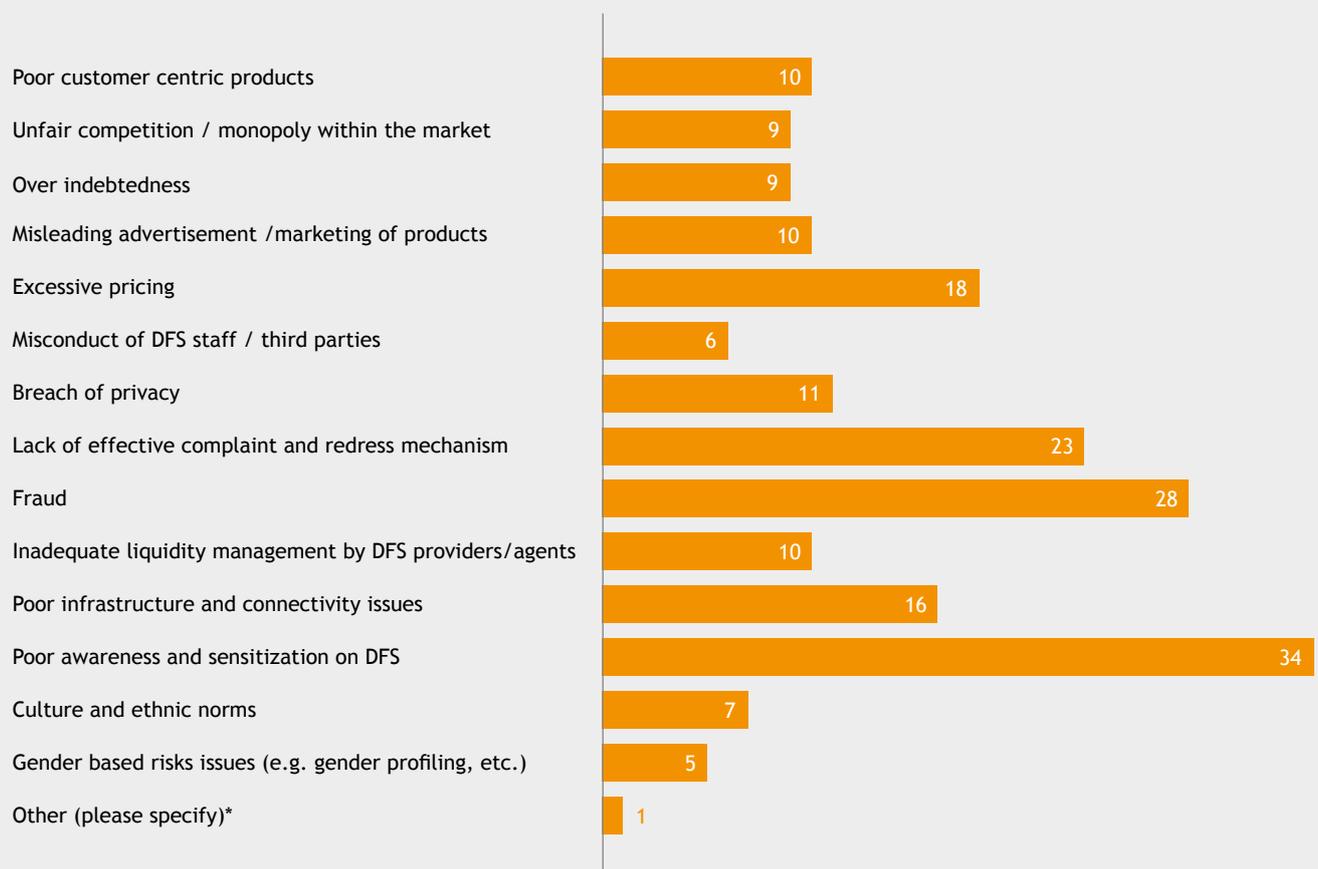
Over the last decade, AFI has been working to support its member network to strengthen DFS and consumer protection by creating ad hoc working groups representing “communities of practice” across the financial inclusion sector on DFS, namely the Digital Financial Services Working Group (DFSWG) and the Consumer Empowerment Market Conduct Working Group (CEMCWG).

Technical support has been provided primarily through (i) relevant knowledge products (KP); and (ii) tailored capacity building/advocacy activities.

The annual AFI Member Survey shows the effectiveness of these activities, which is measured by the extent to which members use the most relevant AFI knowledge products. Two-thirds of AFI member countries have used at least one of them satisfactorily, either as benchmarks or best practice guides, to reform or develop consumer protection frameworks in their jurisdiction. Some members, such as Banco de Moçambique, Bank of Papua New Guinea and Reserve Bank of Malawi, have used up to five different knowledge products. The “Consumer Protection in Mobile Financial Services” report is one of the most used (15 countries), followed by “Market Conduct Supervision of Financial Service Providers: A Risk-based Supervision Framework”.

Figure 7 shows the number of countries that have used AFI knowledge products on CP4DFS effectively.

Over the years, AFI has offered members a variety of capacity building and advocacy services to help them strengthen their CP4DFS frameworks and provisions. Many AFI members have benefited from these activities, participating in peer exchange activities (working group meetings, peer reviews and peer learning), technical assistance and discussions (forum and dialogue events), among others, as shown by Figure 8.

FIGURE 7: AFI KNOWLEDGE PRODUCTS ON CP4DFS USED BY AFI MEMBERS (TOTAL RESPONDENTS = 43)**FIGURE 8: NO. OF AFI MEMBERS WHO HAVE UTILIZED CP4DFS RELEVANT AFI SERVICES****FIGURE 9: NO. OF AFI MEMBERS WHO CONSIDER THE FOLLOWING RISKS AS BEING OF PRIORITY CONCERN**

ANNEX 5. REFERENCES

AFI KNOWLEDGE PRODUCTS

- > Consumer Protection in Mobile Financial Services (2014)
- > Complaint Handling in Central Bank Frameworks (2020)
- > Creating Enabling Fintech Ecosystems: The Role of Regulators (2020)
- > Cybersecurity for Financial Inclusion: Framework and Risk Guide (2019)
- > Digitally Delivered Credit: Consumer Protection Issues and Policy Responses to New Models of Digital Lending (2017)
- > Driving Change in Financial Inclusion through Innovation in Africa (2017)
- > Experiences in the Implementation of the Principle of Disclosure and Transparency in AFI Member Countries - Series 1: Credit Products (2020)
- > Mobile Financial Services: Basic Terminology
- > Help and Redress for Financial Consumers (2013)
- > Market Conduct Supervision of Financial Service Providers: A Risk-Based Supervision Framework (2016)
- > Policy Model for E-Money (2019)
- > Policy Framework for Responsible Digital Credit (2020)
- > Policy Model on Consumer Protection for Digital Financial Services (ongoing)
- > Strengthening Cooperation Between Financial and Telecom Regulators on DFS Issues: A Case Study of Ghana (2017)
- > Financial Access, Financial Education, Financial Consumer Protection Strategy and Action Plans (Turkey) (2014)
- > Trust Law Protections for E-Money Customers (2013)

OTHER PUBLICATIONS

- > **Bank of Rwanda:** Rwanda Payment System Strategy 2018-2024
- > **Bangladesh Bank:** Regulatory Guidelines for Mobile Financial Services in Bangladesh (2015)
- > **Bill & Melinda Gates Foundation (BMGF):** Inclusive Digital Financial Services - A Reference Guide for Regulators (2019)
- > **Better Than Cash Alliance (BTCA):** Responsible Digital Payments Guidelines (2016)
- > **Cambell Benjamine and Sivanathan Subramaniam:** Enhancing the Financial Sector's Cyber Security in the Digital Economy, Bank Negara Malaysia (2019)
- > **Centro de Estudios Monetarios Latinoamericanos:** Mexico's Strategy to Foster Cybersecurity (2019)
- > **Center for Financial Inclusion (CFI):** Handbook on Consumer Protection for Inclusive Finance (2019)
- > **CFI:** What Is "Financial Capability?"
- > **Consultative Group to Assist the Poor (CGAP):** Consumer Protection Regulation in Low-Access Environments (2020)
- > **CGAP:** COVID-19: How Does Microfinance Weather the Coming Storm? Greta Bull, Timothy Ogden (2020)
- > **Consumer Financial Protection Bureau (CFPB):** Consumer Protection Principles (2017)
- > **Pierre Bachas, Paul Gertler, Sean Higgins, Enrique Seira:** Digital Financial Services Go a Long Way: Transaction Costs and Financial Inclusion (2018)
- > **G20:** High-level Principles on Financial Consumer Protection (2011)
- > **G20/OECD:** Financial Consumer Protection Approaches in the Digital Age (2018)
- > **GSMA:** Code of Conduct for Mobile Money Providers (2017)
- > **International Telecommunication Union (ITU):** Focus Group DFS Main Recommendations (2017)
- > **ITU:** Regulation in the Digital Financial Services Ecosystem (2017)
- > **McKinsey:** Digital Finance for All: Powering Inclusive Growth in Emerging Economies (2016)

- > **Organisation for Economic Co-operation and Development (OECD):** Consumer Policy Guidance on Mobile and Online Payments (2012)
- > **OECD:** Effective Approaches for Financial Consumer Protection in the Digital Age: FCP Principles 1, 2, 3, 4, 6 and 9 (2019)
- > **OECD:** Digitalisation and Financial Literacy (2018)
- > **Social Performance Task Force (SPTF):** Serving Refugee Populations: The Next Financial Inclusion Frontier (2016)
- > **Smart Campaign:** Client Protection Principles - Updated with Digital Finance Standards (2017)
- > **UNSW:** The Regulatory Handbook: The Enabling Regulation for DFS (2015)
- > **World Bank:** Diagnostic Review of Consumer Protection and Financial Literacy - Republic of Zambia (2012)
- > **World Bank:** Good Practices for Financial Consumer Protection (2017)
- > **World Bank, CGAP, International Policy, GIZ, Australian Aid:** G2P Payments in COVID-19 Context: Key Areas of Action and Experiences from Country Emergency Actions (2020)
- > **World Bank:** The Global Findex Database (2017)

ANNEX 6. ABBREVIATIONS AND ACRONYMS

ADR	Alternate Dispute Resolution
AFI	Alliance for Financial Inclusion
BCEAO	Banque Centrale des Etats de l'Afrique de l'Ouest
BMGF	Bill and Melinda Gates Foundation
BSP	Bangko Sentral ng Pilipinas
BTCA	Better Than Cash Alliance
CEMCWG	Consumer Empowerment Market Conduct Working Group
CFI	Center for Financial Inclusion
CFPB	Consumer Financial Protection Bureau
CGAP	Consultative Group to Assist the Poor
CNBV	Comisión Nacional Bancaria y de Valores México
CP	Consumer Protection
CP4DFS	Consumer Protection for Digital Financial Services
DFS	Digital Financial Services
DFSWG	Digital Financial Service Working Group
EDR	External Dispute Resolution
FSP	Financial Service Provider
KP	Knowledge Product
IDR	Internal Dispute Resolution
ITU	International Telecommunication Union
OECD	Organisation for Economic Co-operation and Development
PNG	Papua New Guinea
WB	World Bank

Alliance for Financial Inclusion

AFI, Sasana Kijang, 2, Jalan Dato' Onn, 50480 Kuala Lumpur, Malaysia
t +60 3 2776 9000 e info@afi-global.org www.afi-global.org

 Alliance for Financial Inclusion  AFI.History  @NewsAFI  @afinetwork