

Evidence and Innovation for Scaling Inclusive Digital Finance

Responsible Finance Forum VI

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Acronyms List

B2B	Business to Business
BMZ	German Federal Ministry of Economic Cooperation and Development
BTCA	Better Than Cash Alliance
BOP	Bottom of the Pyramid
CFPB	Consumer Financial Protection Bureau
CGAP	Consultative Group to Assist the Poor
DFS	Digital Financial Services
FinTech	Financial Technology
FSP	Financial Service Provider
G2P	Government to Person
GIZ	Deutsche Gesellschaft fuer Internationale Zusammenarbeit GmbH
ATM	Automatic Teller Machine
IFC	International Finance Corporation
IPA	Innovation for Poverty Action
IVR	Instant Voice Recognition
KYC	Know Your Customer
MCWG	Microfinance CEO Working Group
MOU	Memorandum of Understanding
MVNO	Mobile Virtual Network Operator
OECD	Organization for Economic Cooperation and Development
OTC	Over the Counter
RDF	Responsible Digital Finance
RFF	Responsible Finance Forum
SBS	Superintendencia de Banca, Seguros y AFP
UBL	United Bank Limited
UID	Unique Identification Number
UK FCA	United Kingdom's Financial Conduct Authority
UNCDF	United Nations Capital Development Fund
USSD	Unstructured Supplementary Service Data
WSBI	World Savings Bank Institute



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This report, like the Forum, is the product of collaboration across RFFVI organizers. The report was produced with the guidance of Lory Camba Opem, Global Lead for Responsible Finance at IFC and by co-authors Jamie Zimmerman, BTCA/CGAP and Maelis Carraro, IFC. The report was made possible with institutional support from BMZ/GIZ and IFC.

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Foreword

Responsible finance is a cornerstone to the Universal Financial Access Goals by 2020 of the World Bank Group and contributes to achievement of the United Nations' Sustainable Development Goals. Responsible finance continues to be a cross-cutting priority of the G20 Global Partnership for Financial Inclusion (GPII), and of the broader financial inclusion initiatives worldwide. Since 2009, the Responsible Finance Forum has been an annual milestone event that brings together the private sector, policymakers, development practitioners, researchers and consumer advocates to share knowledge, emerging good practices, and ongoing initiatives to achieve responsible financial inclusion globally.

The First Annual Responsible Finance Forum was hosted in Berlin by the German Federal Ministry for Economic Cooperation and Development (BMZ/GIZ), and marked its launch among co-founding partners from the Consultative Group to Assist the Poor (CGAP) and the International Finance Corporation (IFC). The Responsible Finance Forum (RFF) became the first joint platform to support the efforts of the global community to share insights and evidence on responsible finance practices.

The community has since expanded, representing over 10,000 unique visitors on the RFF Platform today, and an annual event delivered in collaboration with global partners such as the: Access to Insurance Initiative (A2II), Better than Cash Alliance (BTCA), Bill and Melinda Gates Foundation, Citi Foundation, Federal Financial Supervisory Authority (BaFin), Financial Times, International Association of Insurance Supervisors (IAIS), Innovations for Poverty Action (IPA), International Labour Office (ILO), Mastercard Foundation, Microinsurance Network, Munich Re Foundation, Principles for Responsible Investment (PRI), Netherlands Ministry of Foreign Affairs, SME Finance Forum, United Nations Capital Development Fund (UNCDF) and World Bank Group.

The Sixth Annual Responsible Finance Forum (RFFVI) in 2015 was hosted by the Turkish Presidency, ahead of the G20 Global Partnership for Financial Inclusion meetings. The Forum highlighted evidence and innovation for scaling inclusive digital finance, with sessions delving into financial capability, customer-centric product design, private sector initiatives, industry principles and proportionate consumer protection measures. It deepened the understanding of the risks and strategies for mitigating them that emerged at the RFF V in Perth in 2014, and provided evidence on what we have learned thus far and identified areas for further innovation and research.

This report summarizes the outcomes of the RFFVI and recommends actions to advance responsible financial inclusion. We hope these recommendations, and the related evidence and innovations highlighted throughout the report, inspire new ideas for research, policy and practice, and motivate action not only from among its conference participants, but also the wider financial inclusion community of experts and practitioners.

The Forum encourages new and ongoing partners and members to stay engaged. Visit us at www.responsiblefinanceforum.org.

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I. Introduction

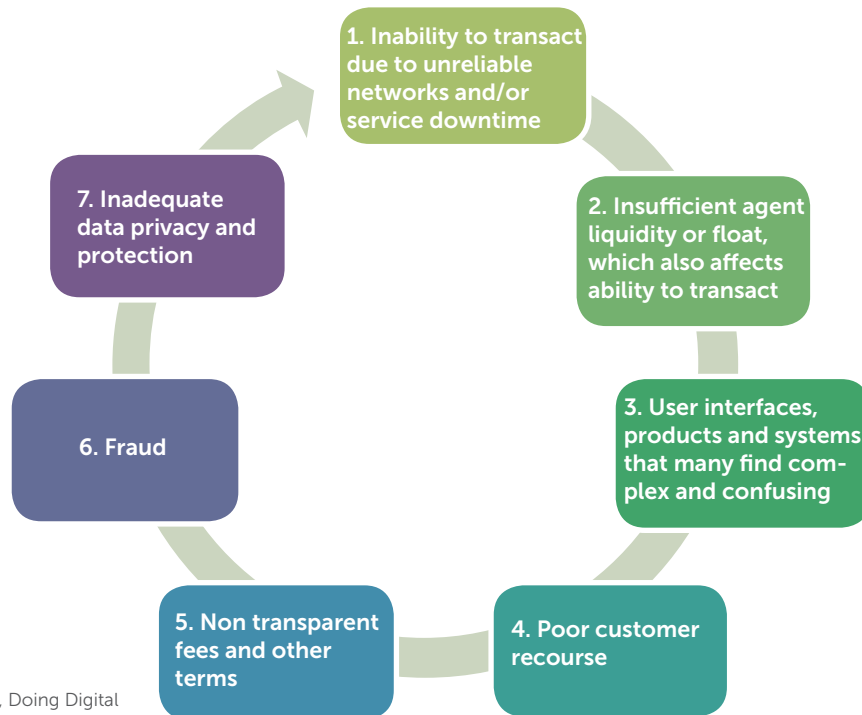
The advent of digital finance has brought with it the opportunity to include the 2 billion adults – 38% of the global population – currently without access to formal financial services⁷, and the many more who are underserved. Increased access to and use of digital financial services for all its benefits, does not come without risks, however, including some unique to their digital nature. These risks are crucial to address if financial services are to enhance consumer well-being and for financial services providers to grow sustainably and viably. In 2015, CGAP identified seven common risks (Figure 1) experienced by digital finance services consumers:⁸

Many of these consumer risks exist or are exacerbated by challenges providers face in the design and delivery of digital financial services, such as:

- ◆ Lack of interoperability in payments which erodes the business case and use case for DFS models;
- ◆ Lack of competition and level playing fields among providers;
- ◆ Cost of complying with know your customer (KYC) requirements and implementing universal IDs, and
- ◆ Absence of clear standards and principles for responsible practice among providers.

As digital financial services reach more consumers around the world, providers and policymakers alike are increasingly aware that solving these challenges and mitigating consumer risks is critical if digital finance innovations are to successfully achieve universal financial access and ultimately broader financial inclusion.

Figure 1: Seven Consumers Risks in Digital Finance



Source: CGAP Focus Note, Doing Digital Finance Right, 2015.



Recent Solutions to Mitigate Risks for Customers⁹

- ◆ **Reducing key stroke errors:** Safaricom recently launched an additional functionality “Hakikisha” on the M-Pesa Menu in Kenya, which will enable subscribers to confirm a recipient’s name before completing an M-Pesa transaction. Hakikisha, which means “to ascertain, confirm, or verify” in Swahili, has been introduced to ensure customers no longer lose money as a result of erroneously entering the wrong numbers when transferring funds.¹⁰
- ◆ **Data Handling and Protection:** F-Road in China uses a SIM overlay card, in which a thin SIM is placed on top of the customer’s regular SIM, so that financial activity is tied to the overlay card while phone activity is tied to the regular SIM. The data sent through the overlay card are encrypted, so only the FSP has access to the data.
- ◆ **Improve Customer Self-Protection Against Fraud:** Banco WWB in Colombia mandates that agents and sales officers provide product security tips to customers upon opening an account or registering for mobile money.¹¹
- ◆ **PIN alternatives:** In Colombia, Daviplata creates a temporary PIN sent by SMS for G2P recipients that can be used at an ATM or agent within a short time window. Novopay India is a mobile payment company that uses the Aadhaar biometric scanner to allow people to conduct banking transactions from neighborhood shops.¹²

This report reflects the importance of private and public sector collaboration, and summarizes the state of play in advancing responsible financial inclusion globally across four critical market players and actors: – industry, policy, consumers and donors or development partners, as shown below in Figure 2.

The report highlights insights and lessons drawn from the latest rigorous evidence on financial services for and financial capability of low-income consumers. It then summarizes the various recommended action items proposed by and

for each of the four pillars of responsible finance. Throughout, the report presents concrete examples from across the world of current innovation, potential solutions and ideas for research, policy and practice. While these recommendations reflect participants’ priorities for action to achieve responsible finance in today’s digital world, the landscape of digital finance is constantly and quickly evolving. The report thus concludes with several other important “horizon” issues that participants agreed would warrant increased attention for the next Forum.

Figure 2: Private-Public Sector Collaboration is Critical to Success





II. Financial Well-Being in a Digital World: Lessons from the Latest Evidence

Responsible finance policies and practices should be grounded in evidence on what does and does not work. Evidence on the impacts of traditional financial services can and should inform the design and implementation of three core components of ensuring financial well-being of low-income and vulnerable consumers — consumer protection, financial education, and product design — in an increasingly digital world.

Consumer Protection

Consumers need information on what products and services are available and how to use them to their benefit. They also need effective recourse mechanisms that help build trust and confidence in financial institutions by providing consumers with a channel for resolving complaints when things go wrong. Yet, creating transparent and understandable disclosures, and effective complaints and dispute resolution for low-income consumer, who transacts using digital channels,

can be challenging. The digital environment also creates new complexities around roles and responsibilities for mitigating risks or resolving customer issues.

Recent evidence suggests behavioral biases¹³ that limit consumers' memories and attention, the design and delivery of information (e.g. number of choices, amount of info about each choice, framing, cues, etc.) affect consumer choices in significant and systematic ways. Recent mystery shopping and related diagnostic efforts in several countries suggest that the quantity and quality of information that is provided to low-income clients about financial products is insufficient, even when rules about transparency are in place. Better alignment of interests between providers and clients are critical to successfully implement disclosure and transparency policies. For recourse, the key is simplicity and accessibility: generally, the poor and excluded are the least likely to complain, yet they are the most vulnerable to many risks.

Evidence Spotlight: Simplicity and Salience are Key to Effective Recourse

The UK's Financial Conduct Authority (FCA) experimented with content-based messages and the effectiveness of reminders in order to enhance use of recourse and complaints systems. Working with a firm that was writing 200,000 customers about a failing in their sales process, the UK FCA team leveraged insights from behavioral economics to design and rigorously test different potential improvements to the firm's letter. By simplifying the message consumers received, the response rate increased more than ten-fold from 1.6% to 12%. Taking advertising out of the letter doubled the response rate. Reminders from the firm were also very effective.¹⁴

Takeaway: The mobile-based environment of digital financial services offers a unique opportunity to further improve recourse and complaints systems by deploying simple and timely messages, as well as reminders, to customers.

Similar lessons apply to designing disclosures: give customers simple, key information that allows them to make informed decisions, as well as to understand their rights and responsibilities. Clients need to know what questions to ask and what their options are; comparison-shopping is important, and customers should be encouraged and incentivized to do so. Providers are developing new approaches, such as social media and other channels, to digital disclosures and recourse. For example, Commercial Bank of Africa—via the completely-digital loan product, m-Shwari—has opened product

information and customer communication channels via Facebook, Twitter, 24 hour help line, SMS campaigns, website and posters. Regulators, meanwhile must also ensure consumers are protected via clear and consistent rules on effective disclosure and recourse systems and enforcing compliance. Some regulators, like the Russian Ministry of Finance are experimenting with different approaches for different segments of the population, from public awareness campaigns to distributing leaflets to consumers that help them shop around with confidence at different financial service providers.¹⁵



Evidence Spotlight: Reduce Complexity to Improve Disclosure

In Mexico, providing consumers with fewer product options with less information about each option helped them make decisions that served them better. Researchers from CGAP and the World Bank worked with the Mexican consumer financial protection agency to test how to improve disclosure. They redesigned the standard leaflet providing information about savings and credit products in several ways: created a summary sheet that listed 10 product options with simple information about each; one that listed 5 product options with simple information about each; and one that listed 5 options with complex information about each. Customers choose the best credit product 67.3% of the time when presented with just 5 options with simple information about each vs. 38.7% of the time for the standard more complicated leaflet.¹⁶

Takeaway: policymakers should push for simpler, standardized disclosures of product information, and come up with other ways of helping consumers compare products and services more easily. This may be even more important—perhaps more difficult to achieve—in a digital context, which may involve small screen interfaces, and limited or no human interaction.

Financial Education and Capability

Financial education is important to both inform and protect consumers. Research indicates that traditional classroom-style financial education programs that focus on increasing knowledge of financial concepts, particularly for adult populations but also children and youth, so far have had low demand and minimal impacts on consumer behavior. As a result, the focus is shifting from efforts that improve knowledge to those that can help adults make better decisions, emphasizing simple and concrete messages delivered at “teachable moments”.

Financial institutions are also best placed to identify the “just in time” education opportunities that are critical to expanding financial capability, but they are not always well incentiv-

ized to provide them. Increasingly, policymakers and industry providers are looking at ways to develop interventions that are tailored to the low-income consumer needs and can help build their financial capability. For instance, the OECD, which is exploring workplace financial education models, noted the importance of piloting and developing creative, even multi-channel, ways to effectively reach adults. Digital tools, such as mobile and smart phones and computers, may offer new opportunities for the design and delivery of financial education interventions; however, some participants cautioned that far lower-income financial service customers still lack connectivity and digital literacy. Thus while digital delivery of content and skills has promise as a cost-effective means to help customers make good choices and protect their own interests, more collaboration and testing is needed to develop robust and scalable solutions.

Evidence Spotlight: Challenge and Opportunity of Financial Literacy Globally

One of the most extensive measurements of global financial literacy to date, the McGraw Hill/Gallup Global Financial Literacy Survey interviewed more than 150,000 adults from 144 countries in order to shed light on the global state of financial literacy. The survey found that:

- ◆ Worldwide, only 1-in-3 adults are financially literate.
- ◆ Women, the poor, and lower educated respondents are more likely to suffer from gaps in financial knowledge.
- ◆ Adults who use formal financial services generally have higher financial knowledge, regardless of their income.

This suggests the relationship between financial knowledge and financial services may work in two directions: While higher financial literacy might lead to broader financial inclusion, operating an account or using credit may also deepen consumers’ financial skills.¹⁷

Takeaway: Digital channels offer a massive opportunity for access to formal financial services, but access is not enough to achieve financial literacy gains: usage is also key. Furthermore, these same digital channels can also be leveraged to deliver content and skills that boost financial literacy by providing the most appropriate messages at the effective time.

Innovating Digital Products

Digital channels offer opportunities to reduce the cost and expand the reach of a variety of financial services (including savings, credit, payments and insurance). Yet inactivity and low usage rates in many markets suggests that more innovation is required to ensure digital products and services adequately respond to the needs and behaviors of low-income

consumers. Research conducted by Innovations for Poverty Action (IPA) indicate that we need to use evidence-based design and product testing to challenge our preconceptions about human behavior and innovate toward products that are relevant and fit with client needs and behaviors. MicroSave's consumer research also underscores the need to consider the everyday circumstances, such as unpredictable cash flows or gender dynamics, and trust and confidence levels of poor clients who are introduced to digital products.

Evidence Spotlight: The Power of Product Testing for Improved Design¹⁸

In an IPA-led experiment in Kenya, Family Bank of Kenya gave free ATM cards to a random subset of account holders, some of which were men, some women, and some jointly owned. Researchers expected ATM cards to increase use for all accounts regardless of the owner, since the card decreased transaction costs for withdrawals and allowed 24-hour account access, thereby making the accounts more liquid. Instead, they found that 3 years later, savings rates had increased by 8 percentage points and average daily balances by 74% for the accounts owned by men or jointly owned for which an ATM card had been provided; accounts owned by women were used significantly less when ATM cards were provided. The powerful and surprising lesson here is that is that customers with less bargaining power in their household might want to protect their accounts more from others (e.g. wives from their husbands), and perhaps counter-intuitively making the account more accessible actually made it less attractive to those less powerful customers.

Takeaway: Digital products can offer greater accessibility but we cannot assume that accessibility will equate to usage. Digital products still require targeted design that ensures relevancy and value for the consumer segments they aim to reach.

Credit

The World Bank's Global Findex data reveals that only 11% of people globally borrowed money from a formal financial institution last year. Yet the pace at which digitally-delivered credit models are scaling suggests a large, latent demand. Digital credit promises more inclusive access to low-balance and flexible loans. However, it also raises concerns about ensuring responsible lending and borrowing, including challenges with transparency and disclosures as well as data security and privacy. Digital tools allow for new solutions, such as: radically-simplified terms and conditions, behaviorally-informed pre- and post-sale repayment messaging, improved

authentication. For instance, Ping-An in China uses biometric technology to complete faster and more accurate KYC requirements. In Pakistan, UBL Bank partners with VoiceTrust to deliver voice biometrics solutions for authentication of its retail customers. Voice identification, like fingerprints, reduces the need for customers to remember PINs, passwords, and security questions.¹⁹ In addition, providers, through companies like First Access, are learning to leverage the increased availability of data on customers to assess clients' creditworthiness in a faster and more accurate manner. First Access, for example, combines financial and mobile data to give consumers a credit score, reliably predicting credit risk for borrowers and dramatically reducing the costs of lending in informal markets.

Evidence Spotlight: Flexibility Matters in Digital Credit

In impact studies across seven countries, microcredit's impacts have been modest: While credit did not lead to substantial increases in income, it did allow some entrepreneurs to invest more in their businesses and gave households more freedom in optimizing how they earned/spent money. Adding flexibility could improve credit impacts. For example, in a study of flexible repayment schedules in India, when clients were given a 2-month grace period before repayment started (vs. the usual two weeks) they invested 6% more in their businesses, were twice as likely to start a new business, and after three years, weekly profits were 57.1% higher.

Takeaway: As digital finance reduces costs and better client data reduces risk, providers can go even further by identifying new creditworthy clients (including those without traditional credit histories), adapting products to better fit household income streams.



Payments

Digital payments are currently the most popular digital financial product globally, largely because digital delivery makes it easy, cheap and convenient to transfer money. Research on mobile payments conducted by IPA on m-Pesa in Kenya reveals several other impacts on consumer well-being, including that digital payments: (1) enables enables more transactions to happen thus influencing one's ability to generate wealth, (2) provides consumers with an outlet for 'informal' insurance (ie, better access to transfers from friends and family as a safety net), (3) influences vocational choice (instead of being farmer, people may opt to be small businesses), (4) increases savings, (5) enables new services (e.g. paying for water or electricity with mobile money), (6) safer and cheaper delivery of government and humanitarian benefits.²² For example, M-Kopa Solar leverages mobile money systems like M-PESA to offer affordable "pay-as-you-go" energy for

off-grid customers. Since its launch in October 2012, M-KOPA has connected more than 280,000 homes in Kenya, Tanzania and Uganda to solar power, adding over 500 new homes each day.²³ In another example, World Food Program-Kenya found digital payments were 15% more cost efficient than cash; a number they expect to increase as networks and interoperability improves.²⁴

Despite its early promise, uptake beyond over-the-counter (OTC) cash in and cash out is still relatively limited, due to a variety of challenging including overly-complex products, poor user interfaces, lack of liquidity and/or reliable agent networks, and limited customer choice and access due to lack of interoperability in many markets. Enabling innovation that allows payments to be a gateway to other products and services will require prioritizing simplicity, reliability, and choice in product design and delivery, as well as emphasizing customer experience.

Innovation Spotlight: Alipay and Mobile Commerce

China's mobile commerce (m-commerce) sales is expected to increase 91.1% year-on-year and surpass 50 billion USD in 2014. Alibaba's mobile payment app Alipay Wallet along with Tencent's multi-function messaging app WeChat are at the forefront of the mobile payments and e-commerce space in China. AliPay, Alibaba's third-party online payment platform, linked with 108 partner banks in China and players like VISA and Western Union around the world, developed Alipay Wallet - a face-to-face payment function that can generate a bar code that includes a user's Alipay account information. People can use Alipay to pay utilities, medical insurance, credit cards, airtime, microloans, goods and services as well as wealth management services. AliPay Wallet allows subscribers to invest into a money market fund with higher returns than earnings on a deposit account. Initially, Alipay provided a breakthrough payment service called "escrow", which allows consumers to verify whether they are happy with goods before releasing money to the seller. Consumer protection and transparency in vendor ratings are hallmarks of the system, which has built a very loyal group of active (approximately 50%) users.²⁵

Savings

Research has shown that savings products need features that take into consideration behavioral biases and human psychology (e.g., time inconsistency, mental accounting, inattention, inertia). consideration behavioral biases and human psychology (e.g., time inconsistency, mental accounting, inattention, inertia). An evaluation of WSBI Doubling Savings Accounts Program, supported by the Bill & Melinda Gates Foundation, reveals that despite initial uptake, account dormancy is high. The results suggest that product features

that can drive uptake and usage include commitments, reminder messages, automatic savings, and labeled savings accounts, many of which are well suited for digital channels and digital delivery. Yet, some of these features carry inherent risks that warrant more consideration, such as fraud or lack of access to funds due to unreliable networks or system downtime. Collaboration between providers and applied researchers will be important to ensure innovation in product design that not only balances preferences for rigidity versus flexibility of product features that meet different client needs, but also makes savings offerings a more attractive and/or viable business for digital financial services providers.



Evidence Spotlight: How Commitment Products Break Down Behavioral Barriers to Savings

The most impactful products are those designed with a true understanding of what clients really need and that are responsive to human nature. For example, adding a goal, or time-based commitment device has repeatedly been shown to help clients reach their savings goals; in the Philippines: savings increased by 42% after six months and 82% after one year, without crowding out savings that were held outside of the bank.²⁶

Takeaway: Digital finance allows us to create commitment products even more easily. For instance, IPA is currently pairing a digital commitment savings product with reminders to reduce problems of inattention related to future education expenses. The product is designed to encourage individuals to save for future expenses by offering a higher interest rate on savings that are not withdrawn until a certain date. Using a randomized evaluation, the researchers are assessing how this product affects financial decision making as households prepare for the expenses associated with enrolling their children in high school.²⁷

Insurance

Digital insurance is an emerging product area and evidence on the effectiveness of products on offer and their features is relatively limited. Digital insurance could enhance access, bring down costs for the client and the provider, and offer opportunities for better communication that could raise awareness, better inform clients, and ensure client value by improving claims submission and payment. To get there, new products and delivery channels need to be designed to address consumer protection concerns and ensure client value. Bundled insurance and credit products have proven to have higher uptake but also potentially greater client risks. Consumer education is also essential to increase awareness of the benefits of insurance and lead to increased uptake and proper use of the product. For instance, often customers

fail to pay premiums on time; mobile solutions can help in collecting payments on a daily or weekly basis. Cooperation between different regulators (insurance and communication), as well as between regulators and industry is necessary to understand risks to consumers and to strike a balance between enabling innovations and protecting consumers.

Ensuring consumer protection, building financial capability, and designing and delivering appropriate, high-impact digital products and services at scale requires some basics, some of the points that emerged include: (1) simplicity of products and processes, (2) engagement and collaboration among all stakeholders, including between consumers and providers, providers and their B2B partners like agents, industry actors and regulators, and (3) a clear understanding of the drivers of incentives and value for customers as well as service providers when testing product design innovations.

Innovation Spotlight: MicroEnsure Makes Digital Micro-Claims work for the Poor

MicroEnsure partners with Pan Africa Life Assurance Limited and Airtel to offer Airtel customers life, accident and hospitalisation insurance with increasing benefits based on their monthly airtime usage. The product, Airtel Insurance, is packaged to deliver affordable insurance services and encourage insurance culture among Kenyans. The product covers all hospitalization for any medical reason with no exclusions, making it “the most user-friendly hospital insurance coverage in Kenya”. Airtel Customers qualify for this insurance by using airtime worth Sh250 and above each month, with the opportunity to gain incremental insurance benefits with increased monthly airtime usage. Yet, MicroEnsure found that even on free products claims were only 1/3 of what was expected, which means that 2/3 of customers weren’t making claims even when they could. MicroEnsure now sends a monthly SMS to remind customers to submit claims, which has increased customers’ understanding and confidence in the process and has increased the likelihood that they will submit claims.



III. Action Agenda for Responsible Digital Finance Innovation

Collaborative partnerships and coordination –among industry, policy, consumer, and donors or development partners –are essential to achieving responsible financial inclusion. The Forum underscored the value of experimentation and

testing of solutions in order to successfully innovate toward responsible finance at scale. Summarized below are a variety of individual and collaborative actions recommended by participants at the forum.

Who is responsible for what in a fast-changing digital world?

Industry and regulators face different roles, responsibilities, and incentives to mitigate consumer risks and support gains in consumers' financial well-being. Where should industry lead in identifying and mitigating consumer risks? Where will regulation and supervision be necessary to ensure adequate transparency, fair treatment and protection for consumers? How should regulators and industry consult and collaborate in rapidly changing markets, and where do we find successful examples of successful ongoing engagement between regulators and those they supervise, and among supervisors?

Within and across industry and regulation, more clarity and better coordination would help clear the pathway for the private sector to achieve responsible innovation, and regulatory environments that keep pace with it. Airtel expressed that where telcos provide mobile money platform to banks, it is important to agree on responsibilities upfront for mitigating risks such as fraud. For credit card services such as Visa, collaboration within the industry is critical as well as the application of common standards.

1. Industry

We are entering a new phase of digital finance that is moving beyond payments towards expanded product solutions including lending, savings and insurance. New and more complex products and systems also come with potentially new and different risks. Without collaboration and innovation, these new potential risks may lead to trade-offs between speed and security, and ultimately value and cost for clients and providers. There are synergies in addressing such risks at the outset through consumer centric product design or data analytics, where both providers and consumers could benefit. Several specific actions were recommended by and for the Industry Pillar to move toward RDF at scale.

- ◆ **Leverage new technologies and emerging evidence on consumer behavior to better serve low income poor.**

Transaction costs are still high for financial providers to create products affordable to the poorest. Researchers and technologists need to partner with providers to find viable commercial solutions that reduce costs and increase distribution and usage. Ripple Labs, for example, has developed an Internet Protocol (IP) based technology that reduces the costs of cross-border transactions and real-time payments by enabling banks to directly transact with each other without the need for a central counterparty or correspondent. In addition, solutions must be designed with the customer in mind, simplifying processes, improving user interfaces and access, and embedding financial capability into product design. For example, providers can make user-interface improvements by offering menus in local languages, reducing USSD time outs and preventing or addressing the negative consequences of keystroke errors.

Innovation Spotlight: Equity Bank's Digital Finance Transformation

Equity Bank, the largest bank in Kenya, has received a license to operate as mobile virtual network operator (MVNO) and will be using SIM overlay technology to allow additional functionality to operate independently of the SIM itself to provide better digital financial services to end-users. As an MVNO, Equity will run all the services that mobile operators typically offer, but without managing the network infrastructure or owning the radio spectrum over which they run.²⁸ Equity Bank underscored the need to level the playing field between banks and telcos, given that a financial service provider needs to have control of the payment channel in order to offer cheap and affordable payment services to their customers.

- ◆ **Improving agent training, management and monitoring, reinforced with incentives for customer-focused agent conduct, is essential for addressing consumer protection challenges.** These measures can help improve transparency and compliance with rules and procedures; reduce agent fraud and turnover; increase agent productivity; improve data handling; and improve customer choice, empowerment, and recourse when things go wrong. If agent network management is done right, it results in improved trust, uptake and usage as well. Airtel Uganda, for instance, has numerous measures to help agents with liquidity management for better customer service. Airtel facilitates float management by securing aggregators that deliver float to agents, partnerships with 13 banks where agents can access float without waiting in lines, and super agents that the agent can visit to buy float. In Colombia, Bancolombia created a dedicated agent hotline to support them which can also improve customer recourse.
- ◆ **Develop more effective recourse and complaints handling mechanisms.** Solutions include better equipping agents to address customers' problems, having good feedback process to more effectively address and learn from customers' complaints, or establishing better mechanisms for self-care. For example, Safaricom promotes SMS-based self-care, which allows customers to use texts and numbers/codes to immediately check their balance, confirm transactions, etc. Tigo-Ghana aims for full resolution of customer complaints within 24 hours, and the system triggers an emergency procedure for unresolved complaints affecting more than five customers within a 30-minute window.
- ◆ **Ensure that connectivity is widely available and platforms are robust so that the basics of service reliability are met.** As the number one complaint among customers in CGAP's four-country study of consumer risks to DFS, reducing network downtime should be a top priority. This can include such activities as regular network system testing and monitoring and ensuring a reliable platform that can integrate smoothly with other ecosystem players. This requires public-private investment on

infrastructure to improve last-mile connectivity, especially in rural areas.

- ◆ **Build infrastructure for payment ecosystems to enable competition and choice, along with reliability for clients.** Government leadership is critical to help bring the various players to the table and private sector partners must also be ready to engage to build infrastructure that creates a more robust ecosystem. This requires recognizing where shared investments or cooperation can improve the business case for providers as well as the options and reliability for the client.
- ◆ **Use new technology, such as biometrics, to develop appropriate KYC/UID.** Biometric technologies are being used in countries including India, China, South Africa, and the Philippines as the basis for the national identification system, eliminating the need for multiple identification mechanisms and easing compliance with KYC regulations related to account opening. In Malawi, Opportunity Bank accepts fingerprints biometric stored on a smart card in lieu of the driver's license or passport to open a bank account. In China, Ping An uses facial and fingerprint biometric recognition to facilitate the loan origination process and prevent customer losses from loan impersonation.
- ◆ **Embrace public-private partnerships and collaboration to create stronger incentives and use cases.** Visa International relied on public-private partnership models in order to create payment ecosystems in Rwanda and Uganda. "It was successful because they were able to regulate without squeezing out innovation. The key was good communication between the two parties, and our conversation centered on the risk of transactions introduced into the system and regulation." The public-private nexus should include, at a minimum, broad-based industry/regulator consultation, so regulators can better understand new business models and products and the risks they introduce, and how those risks can best be mitigated in a balanced way that promotes value for the customer and the provider.

Innovation Spotlight: Microfinance CEO Working Group and a Model Legal Framework

The Microfinance CEO Working Group is a network of 12 leading MFI networks advocating for better regulation, better product offering and better usage of financial products to protect consumers from harm. MCWG has published a model legal framework to present to regulators, promoting responsible finance and consumer protection. The model creates a legal framework for financial consumer protection based on the Smart Campaign's Client Protection Principles. It is a resource on individual issues for policymakers who are working on new consumer-protection frameworks, and can form a basis for industry codes of conduct.



◆ **Advance industry-led common provider principles and standards to improve the efficiency and safety of digital financial services and empower customers.** While codes, standards, or principles exist amongst some networks and provider groups, they do not cover the full range of providers, new market segments or the new issues that arise with digital financial services. Common principles can help to increase the likelihood that clients will be treated fairly and more consistently.

◆ **Incorporate rigorous product-testing into product design in order to create products that are attractive and beneficial to customers.** Industry now has a trove of data at its disposal which it could leverage to better understand how well a product or service is working; better use of internal administrative data could be made for rigorous research and testing. By testing and experimenting on product designs, we can also better structure incentives, actions and principles for digital financial services providers.

Innovation Spotlight: MicroCred Focuses on Quality Product Design²⁹

In 2013, MicroCred launched a major transformation program supported by a multi-channel distribution network to reach mass-market customers beyond the limits of branches and into rural areas. The multiplicity of distribution channels, accompanied by product development, market intelligence, process automation, and marketing efforts, is critical in supporting the delivery of innovative products. MicroCred identified the following quality targets: simplicity/intuitiveness, availability, robustness, and coherence among channels to be applied as core themes throughout the channel strategy. MicroCred focused on the customer's use of the system and applying knowledge and techniques based on human factors, ergonomics, and usability. Also, MicroCred monitors the quality of service provided to customers, frequently releasing small adaptations based on constant feedback loops.

2. Policy

Policymakers and regulators need to understand the incidence and consequences of risks in order to build the most innovation- and consumer-friendly regulatory environments for DFS. They also need enough flexibility to allow for innovation, which will rely in part on effective engagement with and monitoring of new actors and innovators in the market. Specific actions recommended by and for the Policy Pillar include:

◆ **Enable cross-regulatory coordination, knowledge sharing and dialogue.** As responsibility for regulation of digital finance spans the jurisdiction of multiple authorities (for example, telco and competition authorities as well as one or more financial supervisors and potentially other entities such as consumer protection agencies), coordination among regulatory policy makers is critical to ensure adequate protection of consumers and fair competition as well as more traditional financial policy objectives such as financial stability and integrity. To achieve this, regulators agreed that strong leadership with a mandate for such coordination is necessary. Focus and leadership on

these issues is present and growing within the agenda of the Alliance for Financial Inclusion (AFI). At the individual market level, one approach is to select a lead supervisor with strong capacity, skills and resources to lead on intra-regulatory coordination within a market. This supervisor should focus on safety, practices and transparency with effective oversight. The Consumer Financial Protection Bureau has taken on this role for the United States.

◆ **Adopt the proportionality principle³⁰.** Proportionality refers to the act of balancing risks and benefits against the costs of regulation and supervision. Consumer protection regulation and supervision need to be designed with sensitivity to potential unintended negative effects on access, using the principle of proportionality to tailor the regulation and supervision to the specific risks observed in the market. Various approaches—such as test and learn, gradual implementation and tiering of regulatory and supervisory treatment based on the nature, scale, and complexity of the activities in question—have been used successfully in countries pursuing a financial inclusion agenda and warrant consideration and controlled experimentation more broadly.



Enabling Innovation and Consumer Protection: Creating a Conducive Regulatory Framework

Through the Alliance for Financial Inclusion as well as country-level initiatives, many countries are increasingly focused on designing and implementing appropriate regulatory framework for responsible digital finance. This included adapting existing frameworks to account for delivery of services through digital channels and the new risks accompanying entry of new actors and services. Among the insights that came out of the discussions are the following: ensuring transparency; educating consumers about risks and their rights and responsibilities; and keeping pace with innovation. Practices from around the world include:

- ◆ **Tanzania:** Tanzania's central bank is in the process of forming a dedicated committee for industry and regulators, as well as a 'Financial Stability Forum' that will include market conduct inspection and enforcement.
- ◆ **Ghana:** New e-money regulations passed in Ghana include comprehensive consumer protections in areas such as disclosure, agent conduct, data handling, and provider recourse mechanisms; along with the growing body of country-level regulation and supervision measures aimed at protecting DFS consumers is receiving increased attention by the global financial standard setting bodies.³¹
- ◆ **Peru:** Peru has decided to enhance financial consumer protection functions within financial regulators while coordinating with the general consumer protection regulators. The Superintendencia de Banca, Seguros y AFP (SBS) and the consumer protection and competition agency, INDECOPI, signed an MOU covering cooperation between the two institutions in relation to the exercise of their respective powers and functions.³²

- ◆ **Enhance transparency.** As digital financial access expands, more and better transparency is needed. For consumers, regulators need to ensure that consumer can understand the risks, terms and conditions and costs of digitally delivered financial products. This includes mandating simplification and use of local languages for disclosures, and ensuring the right information is delivered at the right time via the right channel.
- ◆ **Boost consumer awareness of risks, rights and responsibilities.** Beyond transparency and effective disclosure of terms and conditions, consumers need to know their rights and responsibilities when engaging with DFS providers. Regulators should turn attention to drawing from lessons in behavioral science research to prioritize identifying teachable moments as they plan their financial education programs and other targeted awareness efforts. If these teachable moments occur during client interactions with agents, then agents need more incentives than are currently offered before we can expect them to effectively play this role; many are themselves tiny retailers without the necessary knowledge or skills and with many demands on their time.
- ◆ **Encourage and provide leadership for digital ecosystems, building competitive markets and a level playing field among all players in the digital financial services space.** Participants conveyed a strong interest in how market-level competition and consumer protection issues are linked, including how to create a more level playing field across and healthy competition among DFS business models.
- ◆ **Embrace innovation-friendly approaches to encourage "suitable" DFS products.** Rather than prescribing product features, regulators should focus on setting clear expectations, incentives and ongoing industry engagement to achieve greater simplicity, transparency, customer communication and risk mitigation.
- ◆ **Regulators should also take advantage of new digital tools.** By building or enabling mechanisms for mobile-based recourse, monitoring and supervision, "reg-tech" innovations like e-arbitration and the application of data analytics to supervision (e.g., more efficient and effective use of data from complaints mechanisms and other reporting requirements) offer potentially significant breakthroughs for all stakeholders with consumer protection mandates and limited capacity to carry it out across their market.



Innovation Spotlight: Create Innovation Units within Regulatory Bodies

Regulators need to get up to speed on new business models, market trends and the associated risks and coordinate better among themselves. Several participants advocated for the new model of “innovation units” within regulators to help with this function, such as the Financial Conduct Authority of the United Kingdom, which keeps up with the innovations, like a “Market Intelligence Group”, and the CFPB in the US has created its Catalyst program to experiment with and test innovative approaches to consumer protection, which if successful can be adapted and adopted into regulation.

Enable data-driven regulatory decision-making. Regulators can use better data and digital tools to ensure public transparency on industry performance, and better use of complaints data, provider reporting and market data. CONDUSEF (Mexico), for example, publishes ratings on customer experience of financial institutions. With good data collection and analytics on financial institutions and on consumer issues, regulators can create a variety of publicly available rating systems, such as by complaints, compliance history, etc. Of course, with increased availability and usage of data comes increased responsibility to understand and mitigate risks to data privacy and security.

3. Consumers

A recurring theme throughout the forum was the need to build better evidence on customer needs and behaviors. Flawed assumptions still underlie efforts to design and deliver DFS products and policies. For example, financial education and capability measures assume how people want to be taught and providers assume people will demand products and services and use them in the ways intended. Consumer protection measures assume people will actively shop around for products and providers, move from over-the-counter services to wallets, not take on more debt than they can handle, and complain when things go wrong. Actions recommended include:

- ◆ **Put customers at the center. Involve consumers in research and design of financial products, foster co-creation and co-design of financial products that work for consumers.** This includes understanding customer wants, needs and behaviors, including via better segmentation of BOP consumers based on needs and capacities, in order to inform design of digital financial services and financial capability (including financial education) measures that lead to greater financial well-being.
- ◆ **Improve the product interface.** User interface is a critical component of how consumers understand products. Simplicity is key: efforts should focus on simple consumer communication in the local language and easy-to-use products. Recent consumer research on digital credit has revealed that many clients are surprised by characteristics of their loan, which leads to mistrust. Consumers need to understand where to find information and policymakers and providers need better information on how customers respond to different interfaces in order to identify the best channels to reach consumers with the most effective information³³.
- ◆ **Identify and make publicly available a minimum set of questions that all digital finance customers have a right to get answers to.** Knowing what questions they can and should ask would help customers when shopping around or assessing products they use.

Innovation Spotlight: Reducing Beneficiary Risk through Monitoring and Communications

After uncovering that agents and merchants frequently charge unauthorized fees or treat recipients unfairly, World Food Program (WFP) in Kenya designed posters with pictures illustrating payment procedures and self-protection rules that will be displayed prominently in agents’ and merchants’ shops. They also renegotiated with the partner bank to reduce the POS transaction fees and is now integrating regular mystery shopping in all of its digital transfer programs in the country.³⁴

- ◆ **Create simple and effective redress mechanisms. Integrate social-media rating systems to obtain real time consumer feedback.** This requires engaging and learning from best practices at companies that know how to get

consumer information (i.e., ipaidabribe.com, amazon, trip advisor, Uber etc.). Consider involving consumer representatives in designing the redress mechanisms.



Innovation Spotlight: Harness the “Trust Economy” to Encourage Responsible Behavior

Many participants wondered how digital tools could better enable customers to influence providers’ service quality and complaints handling. Some providers, like Musoni Kenya leverage mobile technology to distribute fast, inexpensive customer surveys. Others advocate a bolder approach: harness the “reputation/trust economy” – Uber or Yelp-style ratings for DFS providers including agents – to incentivize good behavior.” Others were more cautionary, warning that it could be hard for consumers, particularly those with little to no formal financial services exposure, to know whether or not an agent or other FSP representative is providing a particularly bad or good service. Or, that such a system could also run the risk of confusing customers: while a customer might like an agent, agent might also have mis-sold them a service or conducted a transaction incorrectly.

4. Donors and Development Partners

Donors and development partners can provide a bridge between the other stakeholder groups, and have a key role to play in influencing the global agenda, investing in bold ideas, filling existing knowledge, policy or practice gaps, and boosting capacity and awareness on important topics. Some development partners, such as NGOs and bilateral and multilateral donors, also use digital finance for their own programs and interventions, such as aid payments to disaster victims or salary payments to remote employees or partners. Yet the development community faces its own constraints as priorities, driven by often-unexpected global circumstances (refugee crises, Ebola outbreaks), shift. In resource constrained environments, collaboration and sharing becomes ever more critical. Specific actions recommended include:

- ◆ **Bring in the consumer voice.** Donors have an important role to play in partnering with and building the capacity of consumer associations, as well as to ensure that consumers are well considered and represented in efforts to improve consumer protection, financial literacy or digital products and services. CGAP, in 2014, commissioned in-depth consumer research in four countries to better understand the experiences and perspectives of low-income digital finance in developing countries.³⁴
- ◆ **Support innovative research and experimentation.** Donors should continue to support building the evidence base for understanding the incidences and consequences of consumer risks to digital financial services, as well as for investing in and measuring effectiveness of solutions. For example, Citi Foundation supported the Citi IPA Financial Capability Research Fund, managed by Innovation for Poverty Action, which incubates, develops, and rigorously evaluates products and programs that improve the ability of the poor to make informed financial decisions and adopt healthy financial behaviors.
- ◆ **Engage broader development community in linking responsible finance and financial inclusion to other objectives.** Other sectors are starting to leverage digital finance and mobile tools for their own interventions in health, sanitation, water, energy and aid distribution. As they create new interventions that leverage payment systems and other mobile tools, ensuring responsible design and awareness of consumer risks and needs becomes critical outside of the traditional set of responsible finance stakeholders.
- ◆ **Support development of regulator capacity.** Donors can also help regulators connect with emerging technology-based regulatory and supervision approaches that can help them monitor markets with limited staff resources. USAID, for instance, has developed an innovation challenge prize to develop more effective approaches for regulating and supervising DFS. This effort aims to inspire new practices and ideas among actors wanting to enhance the use of technology for regulation, monitoring and supervision.
- ◆ **Consider ways of supporting harnessing big data and data analytics tools.** Governments and policy makers may have limited resources or capacity to develop advanced data collection and analytical tools that could be used for “smart supervision.”
- ◆ **Work toward donor alignment on the vision for digital financial services.** Just as industry and regulators are developing their own codes, standards and principles to achieve responsible digital finance, donors and development partners may also benefit from the development of guidance on investment and practice as the focus on and use of digital finance grows in the sector.



IV. Responsible Digital Finance Issues on the Horizon

The digital finance services (DFS) landscape—from private and public sector stakeholders, to practices, policies, products and channels—is constantly and quickly evolving. While the action agenda outlined above reflects participants’ priorities and recommendations for immediate action, the forum also engaged in a thought-provoking discussion of the pressing issues that will shape inclusive and responsible digital finance in the future, both immediate and more distant horizon.

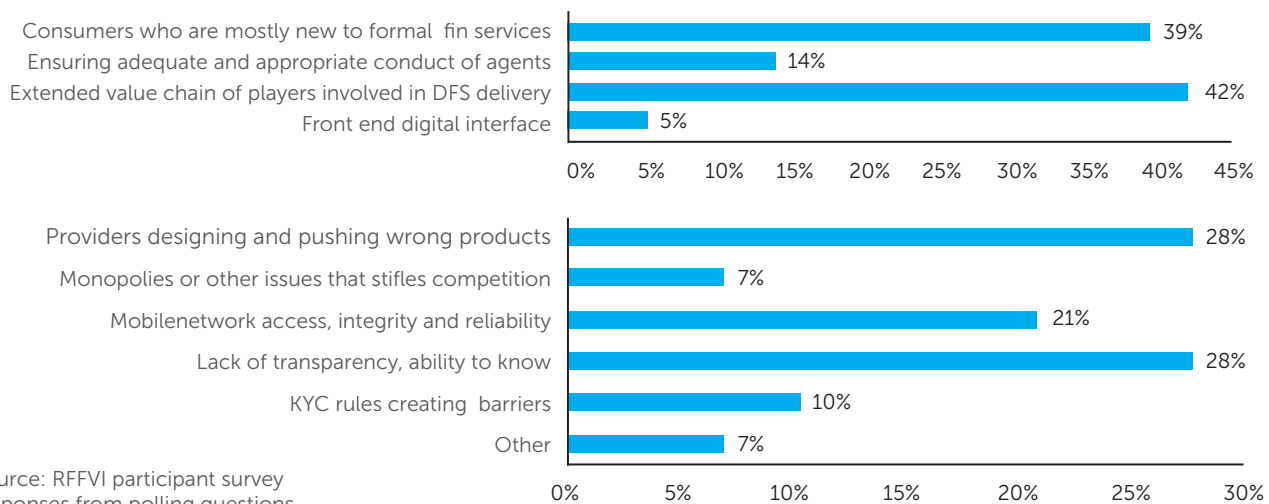
Participants at the Forum were asked to identify the digital financial services models that need the most attention now and the challenges they face in achieving responsible digital finance. Figure 3 shows that value chain issues and consumers’ financial illiteracy are the largest barriers to uptake, while lack of transparency and poor product design were identified as the biggest challenges overall. Several additional issues emerged:

- ◆ **Concrete shift from focus on product design to consumer use.** As the lines between products blur over time, DFS product and policy development might need to shift its focus from specific products to consumer use cases. For instance, with respect to digital transactional platforms such as “mobile money,” we tend to be overly focused singularly on their payment instrument functionality, often missing the inexpensive value storage component that can be so transformative for poor people and may play an increasingly important role. In other cases, digital financial services will likely never be a one size fits

all bundle of products and delivery channels. As MasterCard experienced in Turkey, mobile phone based DFS was not as attractive to customers as expected, leading MasterCard to redirect its strategy to other channels.

- ◆ **Agent network training and management.** Agent network management models will need to evolve so agents are more than “just human ATMs” but fully capable representatives that can enhance customer experience, confidence, activity, value and cross-sale of more advanced services.
- ◆ **Emergence of merchants.** Merchants are increasingly playing an important role in developing acceptance networks and building out the digital finance ecosystem. They need to know how joining the system will benefit them, something that providers aiming to build and organize the network must communicate. However, we need to ensure the benefits to the merchants are there: We are still not seeing third-party agent organizations whose priority is to professionalize agents and have them selling multiple products. For example, Visa tried to do this in Rwanda with its mVisa product, but it created a secondary acceptance network instead of working with all industry players to ensure interoperability and cohesion across networks. Centralized management of the acceptance network may be key, but getting players to agree on standards and share responsibility for a merchant network is a challenge.

Figure 3: Most Important Digital Finance Issues



Source: RFFVI participant survey responses from polling questions.



Innovation Spotlight: Emerging Lessons for Data Usage for Responsible Digital Finance

Data analytics can enable smarter, faster and customized decisions in design and delivery of digital financial services. Yet, there are still issues around quality of data and data protection for consumers. Omidyar Network is exploring such questions: Do consumers actually know someone is using their data? Do/should consumers have the ability to control their own data and choose when and what to share? And how can regulation keep pace with the changing landscape of Big Data?

At the Finance Services Board of South Africa, they are concerned with unclear and incomplete regulatory guidance, particularly related to data privacy, noting that while there are different regulatory frameworks that address parts of the problem, there is a sense of urgency here in developing a more comprehensive regulation. First Access shared three lessons for ensuring smart and responsible usage of data for DFS:

- ◆ Focus on data quality – good automated decisions require clean, valid data.
- ◆ If you ask for data, you also need to make sure you inform and protect consumers.
- ◆ Be cognizant of friction you introduce into a new product when asking for new data (e.g. don't ask for a ton of identity verification for tiny transactions).

◆ **Research for responsible digital finance innovation:**

Rigorous research on digital products, solutions and services is relatively nascent. More collaboration and partnerships between researchers, particularly industry and policymakers, would help to more quickly unpack key questions that can inform the scale up of effective and impactful solutions in the future. Such questions include:

- ◆ What are the most critical design and delivery elements that provide the most value to clients and what is the impact on consumer trust, confidence and, ultimately uptake and usage?
- ◆ How do we enable low-income clients to make the best possible (or at least safe and acceptable) decisions? By increasing their trust and confidence, by providing them with clearer / simpler / more actionable information, by nudging them toward better decisions, etc., could they make better decisions?

- ◆ What are the most effective user interfaces on both feature phones and smart phones, and other delivery channels for understanding and using DFS?

- ◆ What is the business case for providers to mitigate customer risks? For example, are there small, low-cost tweaks that can have a really big impact? Can we show that customer risk mitigation makes business sense?

- ◆ How can we capitalize on digital attributes for more effective customer engagement and self-protection solutions (e.g., whether making content of digital disclosures more bite-sized and getting the order of USSD screens and timing of follow-up SMS's better sequenced improves consumers' shopping behavior and product use)?



V. Conclusions and Beyond the Horizon

Strategic partnerships will need to be rigorously developed to better comprehend the effect of the digital revolution across the globe, while appreciating regional nuances. Looking beyond the horizon, three areas also emerged during RFFVI:

- ◆ First the **emergence of business model disrupters** offering innovative technology based solutions present an unparalleled opportunity to drive down the costs of service and reach the poor or unserved customers. Fintech and other financial services innovators – such as Square, Ripple, and Ant Financial – are increasingly apt at providing an extremely low cost commercial model that allows financial institutions to go beyond their traditional customer and serve the low income poor. At the same time, regulators and financial institutions face uncharted risks and need to re-think risk management frameworks across the digital financial services ecosystem, this is critical reinforce customer trust as a fundamental necessity.
- ◆ Second, **the big data era presents new opportunities** to create better and/or more tailored customer products and services while also addressing the transparency, fair treatment and recourse problems discussed in this report. Yet, there are risks of misuse of data in areas such as profiling,

privacy, data security or commercialization of customer data without their knowledge or consent and consumers needs to be protected appropriately. Pragmatic solutions are needed given the ubiquity of big data opportunities and challenges.

- ◆ Third, **inclusive and responsible finance requires reliable and affordable connectivity for all.** While mobile financial services offer the opportunity to reach the last mile, many remain digitally excluded altogether and connectivity remains weak in much of the developing world. In addition, the issue of digital exclusion is coming to the fore. What are the implications of digital products and digital identities to those that remain excluded from them? Such issues need to be considered and analyzed.

Next year, the Forum shall continue to look beyond the horizon, and with a focus on Asia's dynamic digital landscape. Through effective collaboration and coordination, leading private and public players can better understand both challenges and opportunities that foster inclusive financial systems and protect consumers of digitally delivered financial products and services.



Endnotes and References

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