



ADB, MANILA
HEMA BANSAL
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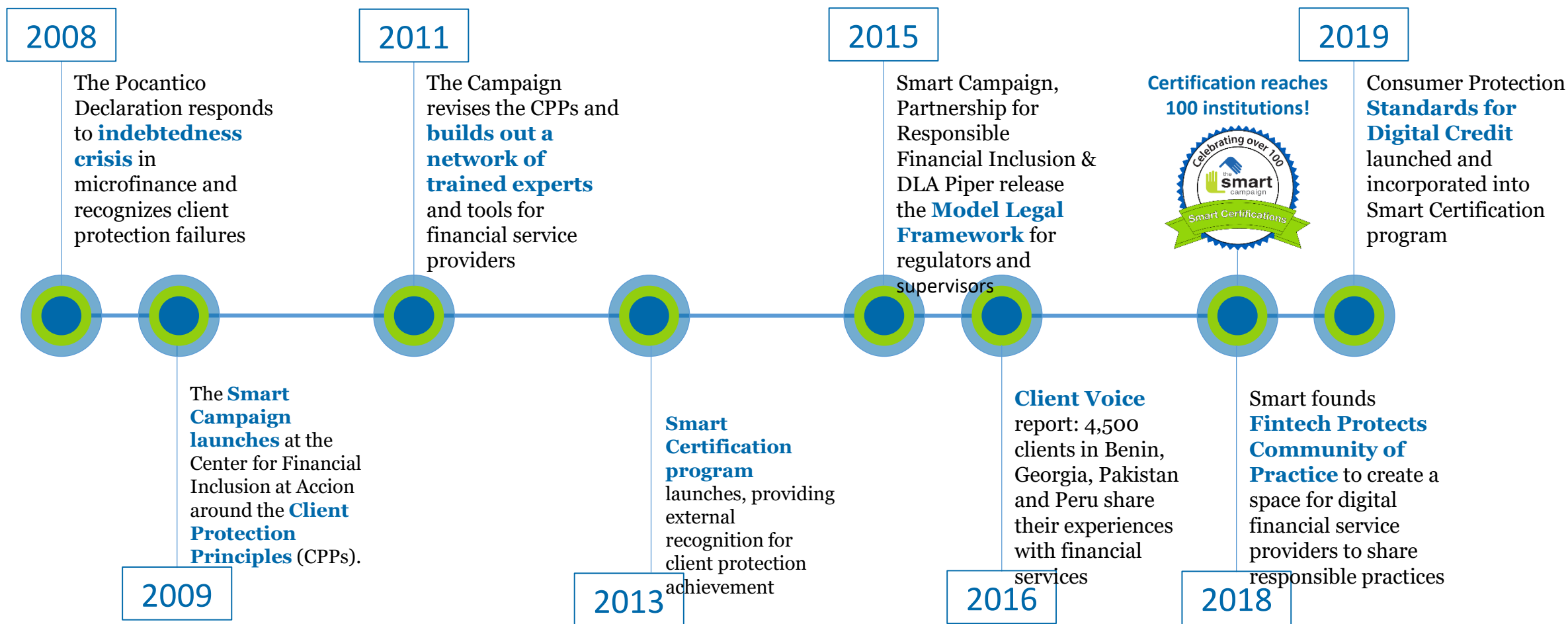
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ACCION

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Ten Years of the Smart Campaign





Global Success Stories

+ **Creating a Global Coalition for Consumer Protection**

We built a coalition for change by creating a common language and global framework to measure and evaluate financial consumer protection from the industry perspective.

+ **Improving Market-Level Supervision & Engagement**

We empowered regulators, supervisors and networks to understand and improve consumer protection at the national level.

+ **Leading Standards Development for Digital Financial Service Providers**

We convened the first coalition of digital financial service providers to share best practices and are leading the process to develop standards for responsible digital finance.

Objective of the Session

- Responsible standards for digital credit design and delivery
- Adapting responsible digital credit standards at the national and regional levels
- Strategies for embedding responsible finance in digital financial services at the country level.

**Pedagogy: Presentation, Interactive exercises,
Discussions**

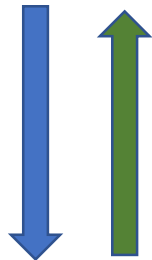
Digital Credit Approaches

Direct to Individual

Individual or
MSME/SME



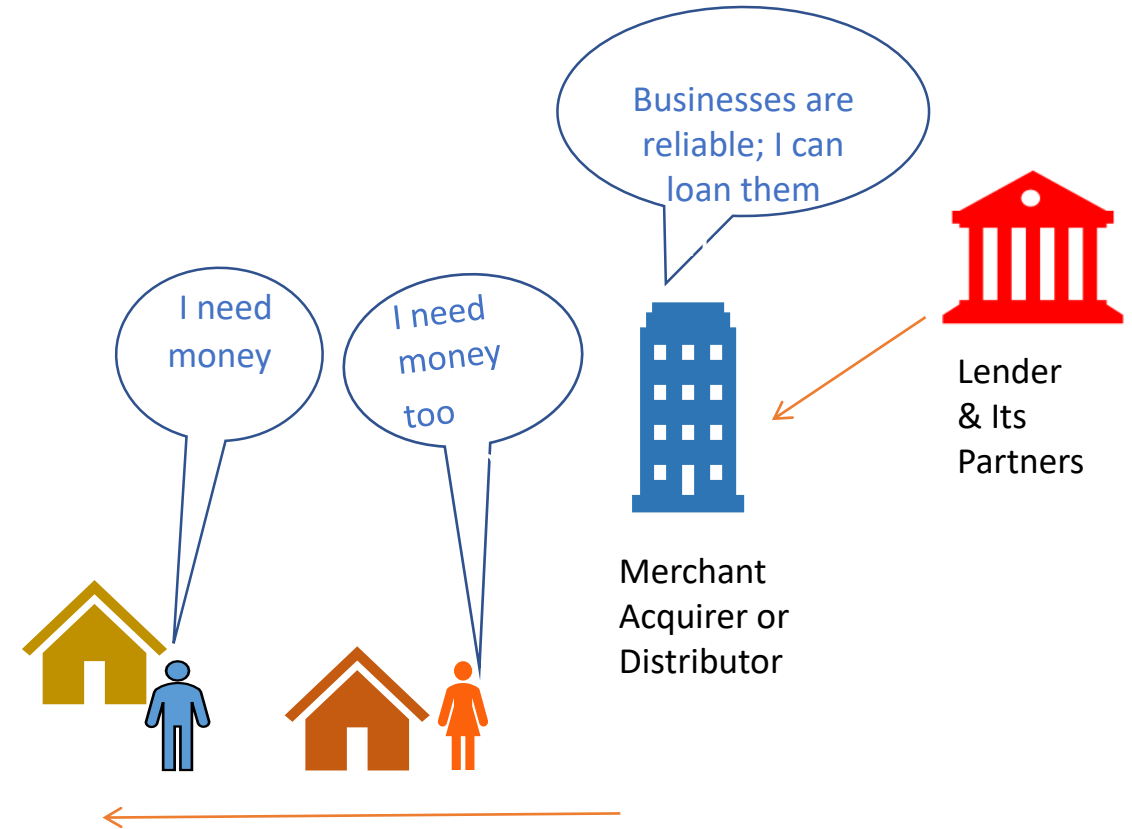
Request



Cash



FSPs
/Fintech



Indirect through Merchant Acquirer or
Distributor

SETTING THE CONTEXT

Issues of Digital Credit

- Regulatory Oversight
- High rates of delinquency
- Interest rates are high
- Lack of channels to understand the needs of marginalized customers to create products that can be adapted to them
- Inadequate customer protection practice
- Confusion or dissatisfaction in the user experience due to a low touch approach.

Customer Protection Principles

- 1. Appropriate Product Design and Delivery**
- 2. Prevention of Over indebtedness**
- 3. Transparency**
- 4. Responsible Pricing**
- 5. Fair and Respectful Treatment**
- 6. Privacy of Client Data**
- 7. Complaint Handling and Resolution**

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Client Protection
Principles

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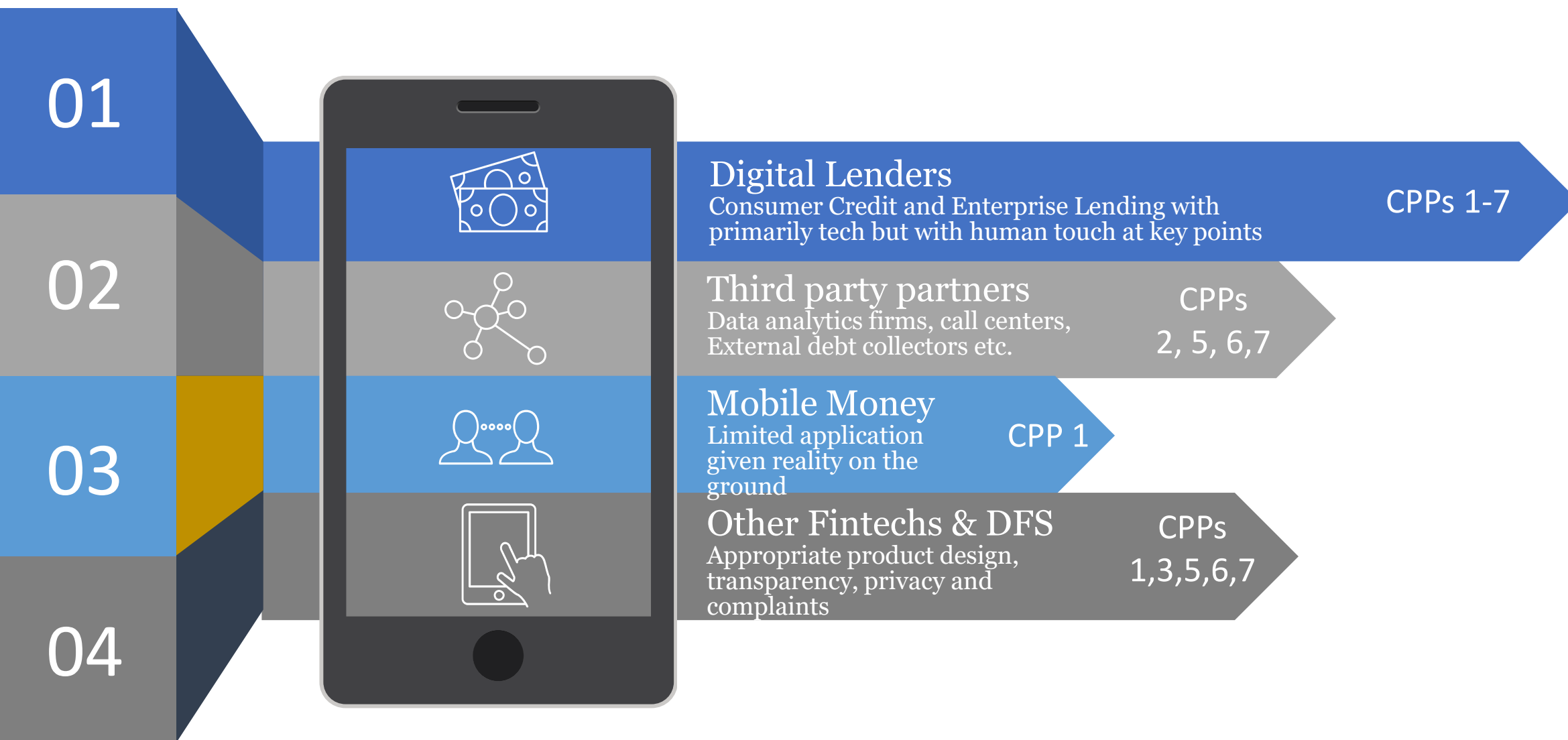
Standards which
represent outcomes
for clients

92

Indicators which
represent the technical
core of the requirements

What are the digital credit standards?

Standards Meant to Advance Practices for Variety of Providers

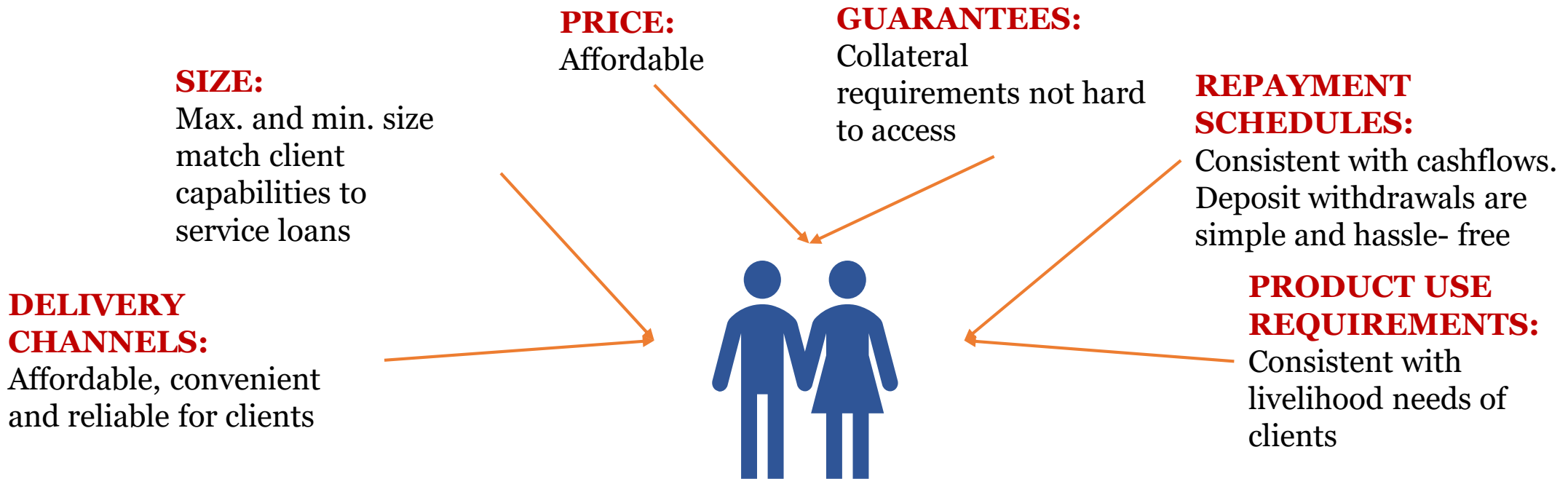


Principle 1 : Product Design and Delivery



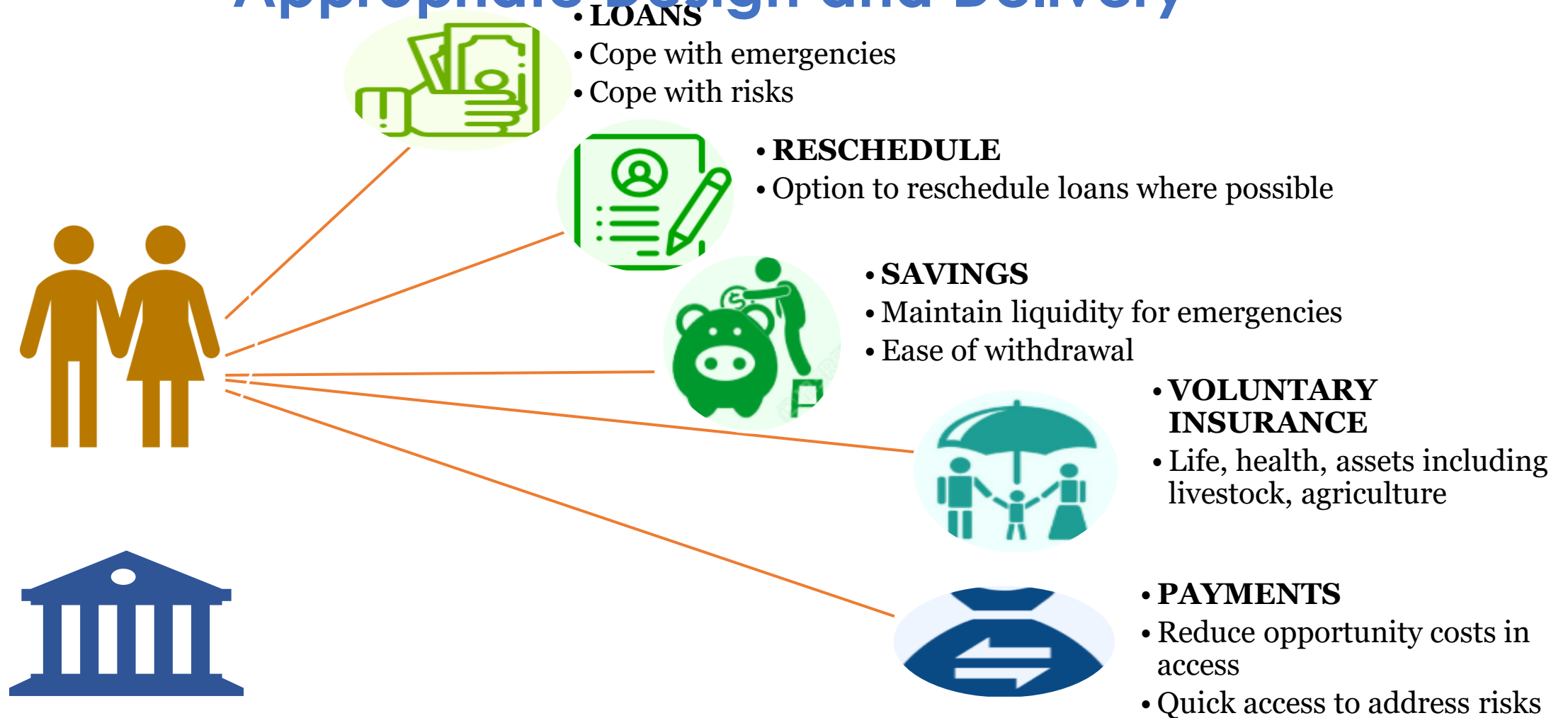
Products and Services Suited to Client

A product suitability policy ensures suitable products and services based on research, client feedback, and performance data



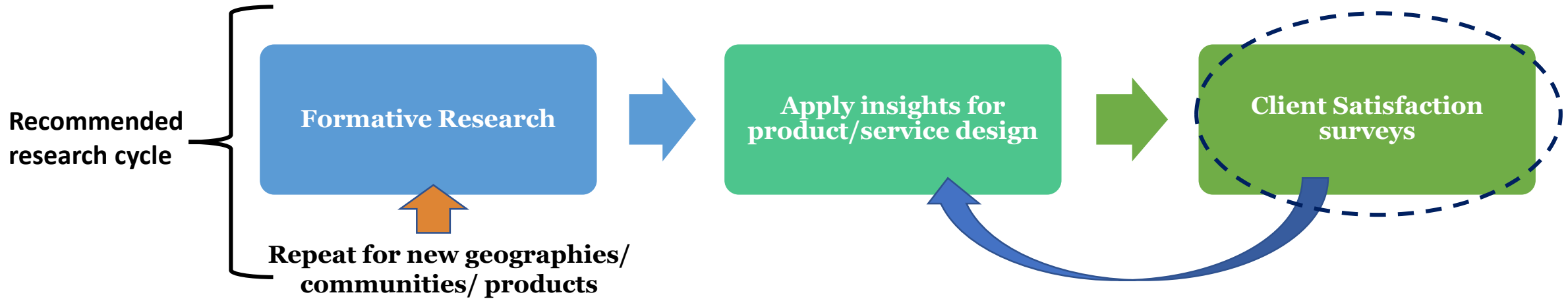
- ✓ Trains staff and, if applicable, direct agents on the product suitability policy/sales staff trained
- ✓ Clients ability to interact effectively with technology.

Appropriate Design and Delivery



The financial service sector should offer a diverse product suite that aims to reduce risk and improve client's and their household's capabilities to cope with common emergencies

Monitors Data : Survey Approach

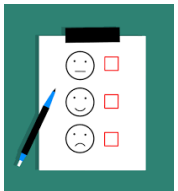


UNDERSTAND CLIENT SATISFACTION

LEVEL OF TRUST IN FSP

TRACK PRODUCT USAGE

CLIENT STICKINESS



- Did product meet needs?
- Down time for clients ?
- Was access convenient?

- How was the user experience?
- Were there any pain points?

- Has product uptake moved to usage?
- Borrowing , repeat borrowing, drop out

- Levels of dormancy
- Reasons for client exit
- Segmented by geography, product, branch etc.
- Client complaints
- Partner feedbacks

Management uses information to improve product.

Appropriate Design and Delivery



Third Party : Mobile, recovery agent, analytics company.

- Ensure suitability, based on research, client feedback.
- Due diligence – use minimum public available information check reputation
- Transparent process for selection
- Frequent opportunities for provider to review and cancel
- Incentivizes take care of fair treatment and rapid problem solving



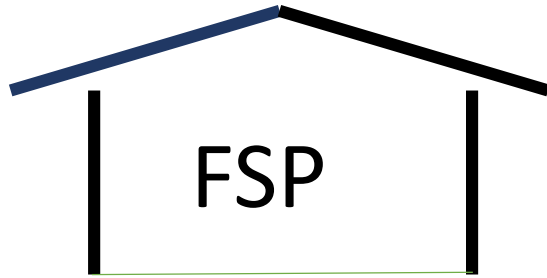
Predatory Practices

- ✓ Predatory and deceptive sales are defined as part of policy
- ✓ Staff trained not to use deceptive sales
- ✓ Direct sales agent are trained
- ✓ Cancellation period is available for agreements
- ✓ Mechanism for monitoring front line staff.
- ✓ Incentives do not promote predatory sales

Principle 2 : Prevention of Over indebtedness



Prevent Over-indebtedness : Concept



Borrowers

- Carefully establishes the borrower's ability to afford the loan and repay it.



- Are able to handle debt service requirements without sacrificing their basic quality of life.

Consider this:

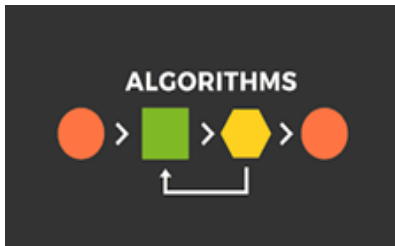
Research and practical experiences shows that borrowers consistently overestimate their own capacity to repay debt.

Sound policy and well-documented process for loan approvals



- Working definition of client over indebtedness used for underwriting:
 - including defining client stress
 - based on size of loan

Repayment Capacity automated through Algorithm



- Rationale documented and available to senior management

- Algorithms reviewed and tested by independent unit.
- Changes made for improvement

Staff ability
to
overwrite
in case of
errors

- Underwriting data refreshed in full or part regularly
- Staff taking underwriting decisions are trained on monitoring portfolio quality and debt stress
- Internal control system ensures uniform application.- staff and third party

Prevent Over-indebtedness

CREDIT BUREAU



- Usage of credit reporting information

- Timely positive and negative reporting to credit bureaus
- CB reports used for approval

Customers allowed a window period before being negatively reported.

Management and Board Monitor OID, Portfolio Quality

- Board reviews PAR on Quarterly basis
- Market systemic OID : slower growth, more conservative loan approval criteria, limits number of loans for an individual.
- Policy of sustainable growth targets – reviewed every 2 years.
- Defined level of portfolio quality requiring additional monitoring and response.
- PAR used to review algorithms
- If PAR expected to increase, pre-emptive measures taken

Principle 3 : Transparency

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Transparency



Loan Disclosure

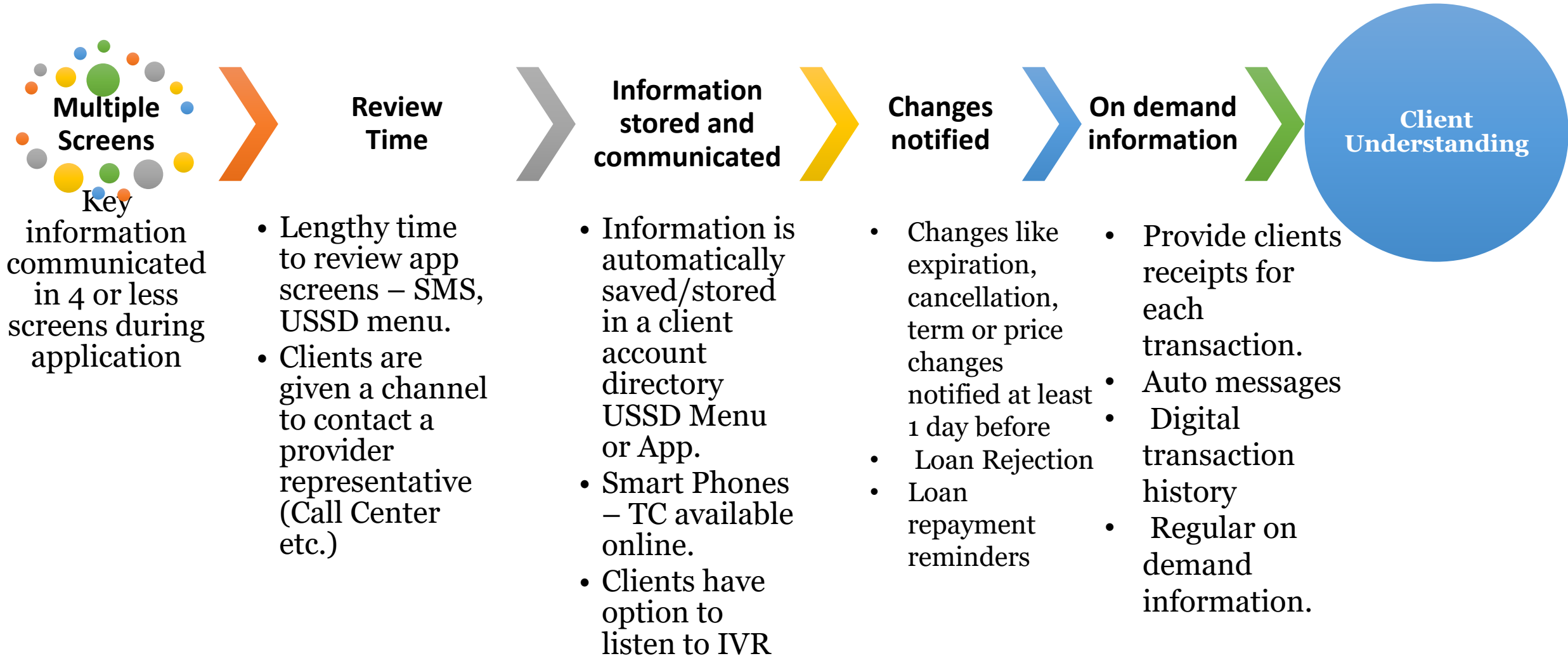
- ✓ Loan amount and disbursement amount after fee deduction, if applicable;
- ✓ Total cost of credit
- ✓ Monthly Percentage Rate (MPR) if loans under 3 months.
- ✓ APR/EIR
- ✓ Taxes and cash collateral
- ✓ Maturity date

Key Information in Local Language

- ✓ Loan contracts include all information included in the summary document : grace period, guarantor obligations, collateral, collateral seizing procedures, cancellation rights, cooling off period.
- ✓ Key information in local language (to the extent local alphabet is compatible with software);
- ✓ Clients allowed to choose from multiple major local languages
- ✓ Simple contacts – no legal language

Transparency

Client Communication



Support Decision Making with Disclosures

- Display product and service features in physical locations or digitally
- Provide consistent information – marketing material
- Clear and simple user interface
- Illiterate clients – written information supplemented with oral information.



Support staff available for guiding usage of technology

Client facing staff is trained

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Principle 5 : Fair and Respectful Treatment of Clients

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Fair and Respectful Treatment of Clients : Code of Conduct

An institutional Code of Conduct (or Code of Ethics) helps employees practice fair and respectful treatment of clients by defining clear standards of professional conduct that they must uphold about their finances



Clear Communication on Code of Conduct

Fair and Respectful Treatment of Clients

Policy

- Defines appropriate and in-appropriate collection practices through digital or non digital transactions.
- Documents policies governing actions taken in collection process.
- Policy of rescheduling, refinancing and write off in case of distress.
- Policy on non discrimination – non discriminatory algorithms updated.
- Debt collection contract electronic or telephone identifies provider uses clear and simple language.

Monitoring

- Performance evaluations includes reviews of adherence COC, ethical behavior and quality of interaction with clients.
Management reviews key results (e.g., client satisfaction survey, complaints handling summary) related to fair and respectful treatment of clients.
- Improvement measures are discussed, implemented, and monitored, records of these actions exist.
- Internal control system involved in monitoring policies.

Staff Training ensures implementation of policies !!!

Principle 6 : Privacy, Security and Integrity of Client Data



Privacy, Security and Integrity of Client Data

Third Party Partners

- Same internal standards maintained through service agreements.
- Service agreements include a penalty or termination clause on third party partners in case of data privacy breach.



Policies and process maintain confidentiality, security and accuracy of client data.

Period of personal data collected, stored and shared are minimized.

FSP conducts regular formal assessments of documents and personal information of clients

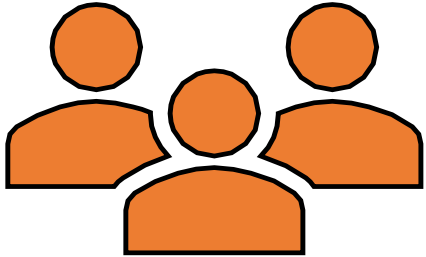
Risks – mitigation measures are identified.

Penalties for staff data breaches.

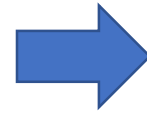


- Training for implementing policies, protecting data, third party collector trained.

Privacy, Security and Integrity of Client Data



Clients Consent : Procured and Informed



- Specific Uses : sharing with third parties, credit bureau, marketing, sales to third parties, services delivered through USSD or SMS.



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- Right to opt out of services
- Convenient access to information and specialized customer service -
- Right to challenge data – to have it erased, rectified, completed.
- Product terms and conditions include clear concise explanation of how client data may be used or shared with whom.
- Consent to specific uses of their data.



Privacy, Security and Integrity of Client Data

Monitoring Security Breaches and Audits

Internal control and External Audit

- Audit trails in system track activities
- Fraud detection



- Mobile application (app) security regularly tested
- Scans performed at least quarterly to identify potential security weaknesses. Corrective actions are taken.
- Systems prevent and detect fraud.



- Security measures to protect against unauthorized access to data (passwords, firewalls, access levels, software)
- IT passwords are changed periodically with different access levels to position staff

- Protect misuse of client data and security breaches in accordance with international best practices.
- Daily back up

Privacy, Security and Integrity of Client Data

Managing Frauds

- Robust system to detect fraud committed by staff, agents, and others.
- Staff and direct agents trained on fraud risk, including common frauds, fraud identification, and fraud reporting
- Staff and agents have accessible channels to report potentially fraudulent activity.

✓ Apply sanctions to staff and agents in case of fraud based on the severity and repetition of the offence.

- Client compensated by provider (financial providers should be liable) for any direct loss due to mistakes not imputable to the client

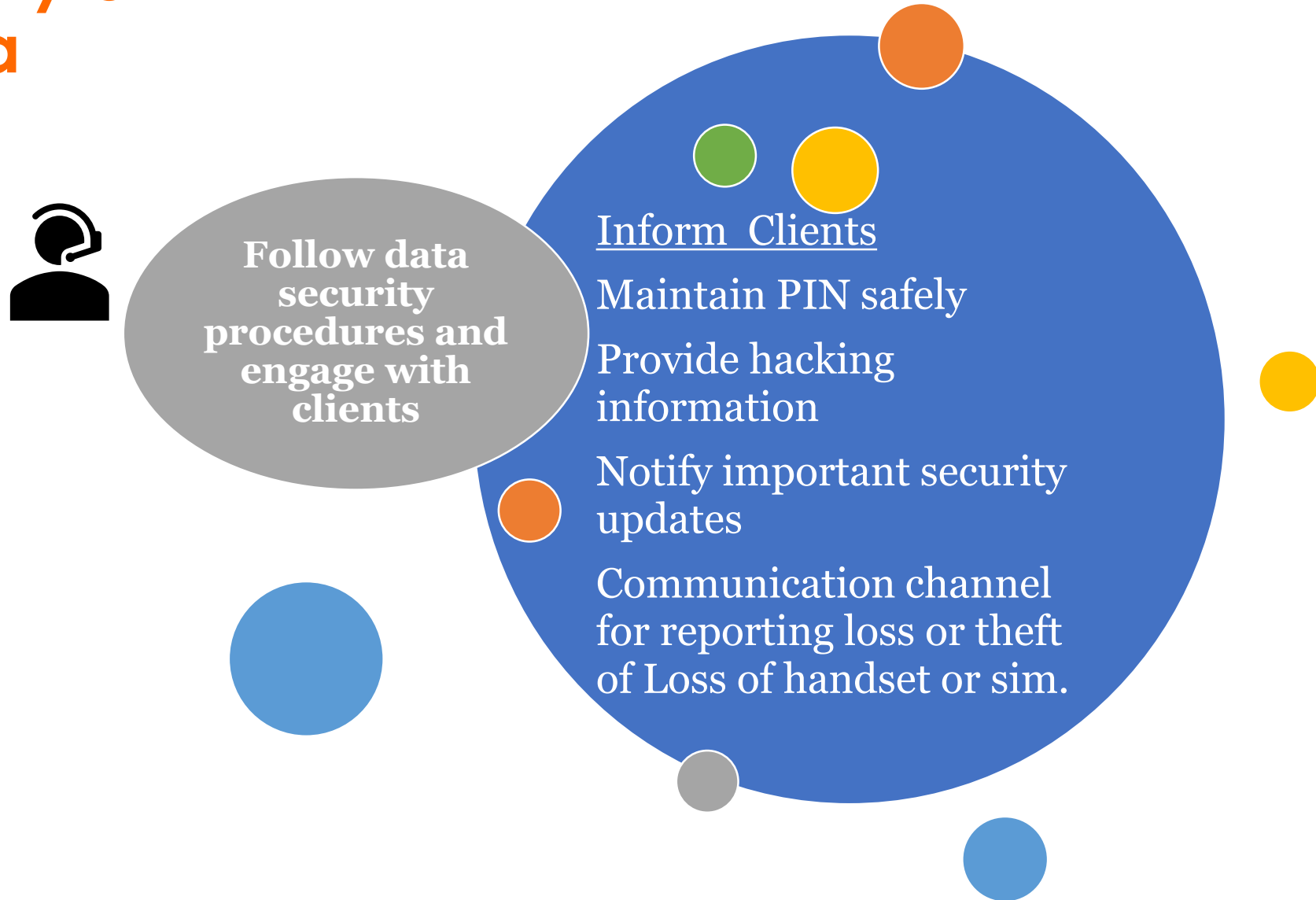
In case of Natural Disasters : Fire, Flood, Power Failure, staff loss or cyber attack

- A business continuity plan in place.
- Plan is updated every 3 years



Privacy, Security and Integrity of Client Data

Staff Engagement : Inform Clients



Principle 7 : Mechanism for Complaint Resolution



Effective Complaint Resolution Mechanism

Complaint Resolution Policy

- Channels
- Minimum performance standards on complaint resolution

Escalation matrix

- Manage complaints internally based on complaint type, severity and client satisfaction
- Referral to external recourse options

Complaints



- Free of charge or minimum telco rates
- At least two channels
- Verify complaints

TAT

- Prioritized based on severity

Call center or Response unit

- Have access to relevant customer data, including transaction details
- Monitored for client interaction

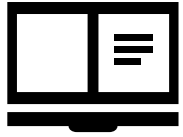
Trained



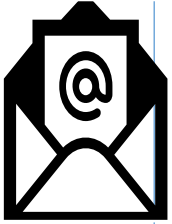
- Complaints to Third-party can be submitted directly to the third party or to the provider.
- Agreement with third parties - training, role of complaint staff, manage complaints and refer them to appropriate person.

Complaint Resolution Mechanism

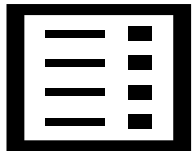
Communication to Clients



During product application stage



Details are indicated upon registration (e.g. SMS/email/in app) on the handset menu



Visibly displayed branch offices, at agent locations (if applicable), flyers, in mobile app etc.



Notified when complaints are received and resolved

Feedback Loop

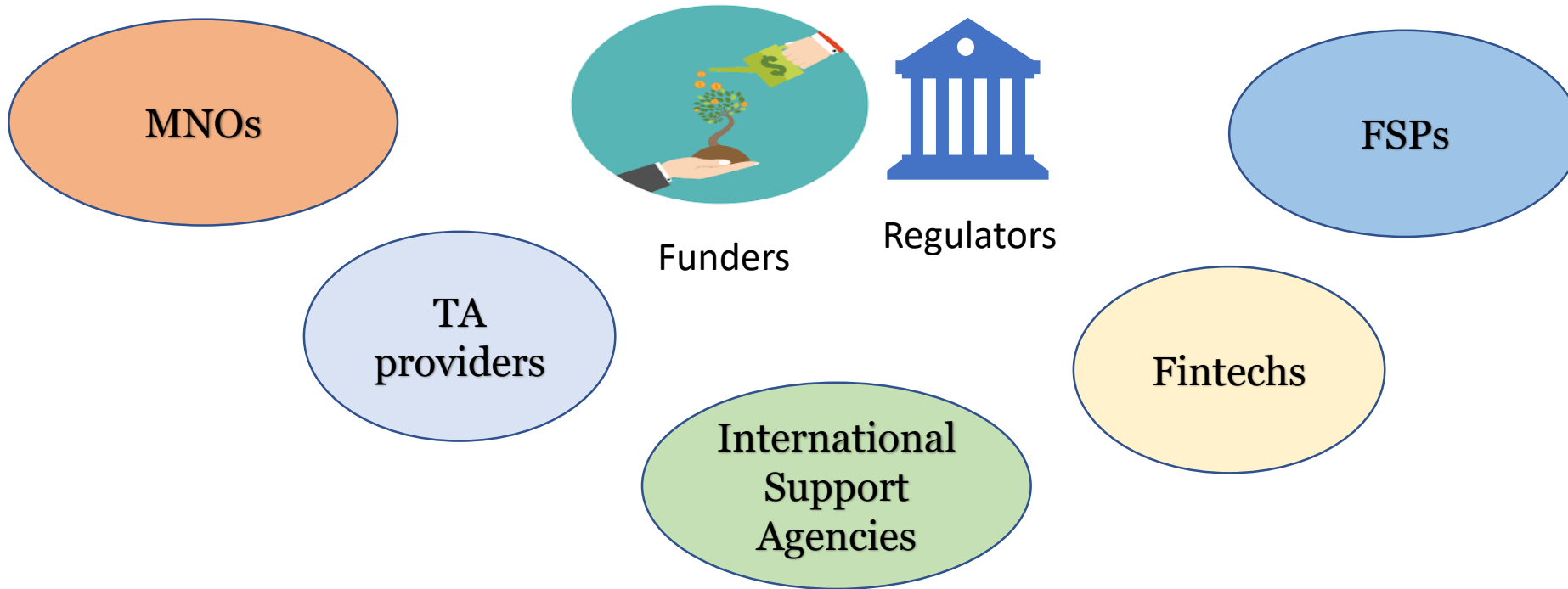


- Improve product design and delivery
- KPIs reviewed (e.g. percent resolved) for corrective action
- Complaints and resolution – part of staff bonus and performance evaluation
- Improve operations and user interface

Client Responsibilities

- Make efforts to resolve problems directly first.
- Do not make negative comments without first trying to resolve the complaint.
- Avoid making frivolous complaints about issues that have not caused inconvenience or cost.

Group Activity



- ☐ How would you as a stakeholder think of embracing/enforcing these standards ?
- ☐ Within your groups, which countries do you think seem to ready to for adaption of standards ?
- ☐ Which countries you think will need more support for adoption of DFS standards and how ?

Questions and Answers



Convening a Community for Responsible DFS

- + In 2018, the Smart Campaign founded Fintech Protects as an action research and consensus-building project to create awareness and engage fintechs on consumer protection risks.
- + The group currently includes more than 20 companies, from digital credit to blockchain companies and pay-go models. Members meet regularly to share their approaches to implementing the Client Protection Principles.
- + The community of practice provides a space where fintechs and digital providers exchange ideas on how to offer the greatest value to consumers while maintaining adequate protections, also feeding into standards development.



Fintech Protects Members



Why Fintech Protects? Members Weigh In



“As a fintech lender, Fintech Protects was the perfect forum to share our experiences and learn from others to find ways to close the finance gap, which leaves so many businesses and families excluded.”

**WAYNE HENNESSY-BARRETT,
CEO OF 4G CAPITAL**



“Our work breaks new ground by including many customers that have never accessed formal financial services before. This is exciting, but also means we have a significant responsibility to make sure their first formal financial services experience is positive and empowering. That’s really important to us, so we’re open to testing, learning, sharing and collaborating – it’s a part of our contribution to building the digital financial services ecosystem.”

BUHLE GOSLAR, CHIEF CUSTOMER OFFICER, JUMO



“Customer protection standards provide tremendous value to us. A customer may not be inclined to repeat a service if they felt it was not working in their favor and protecting their privacy.”

**ROSE MUTURI,
EAST AFRICA REGIONAL
MANAGER, TALA**