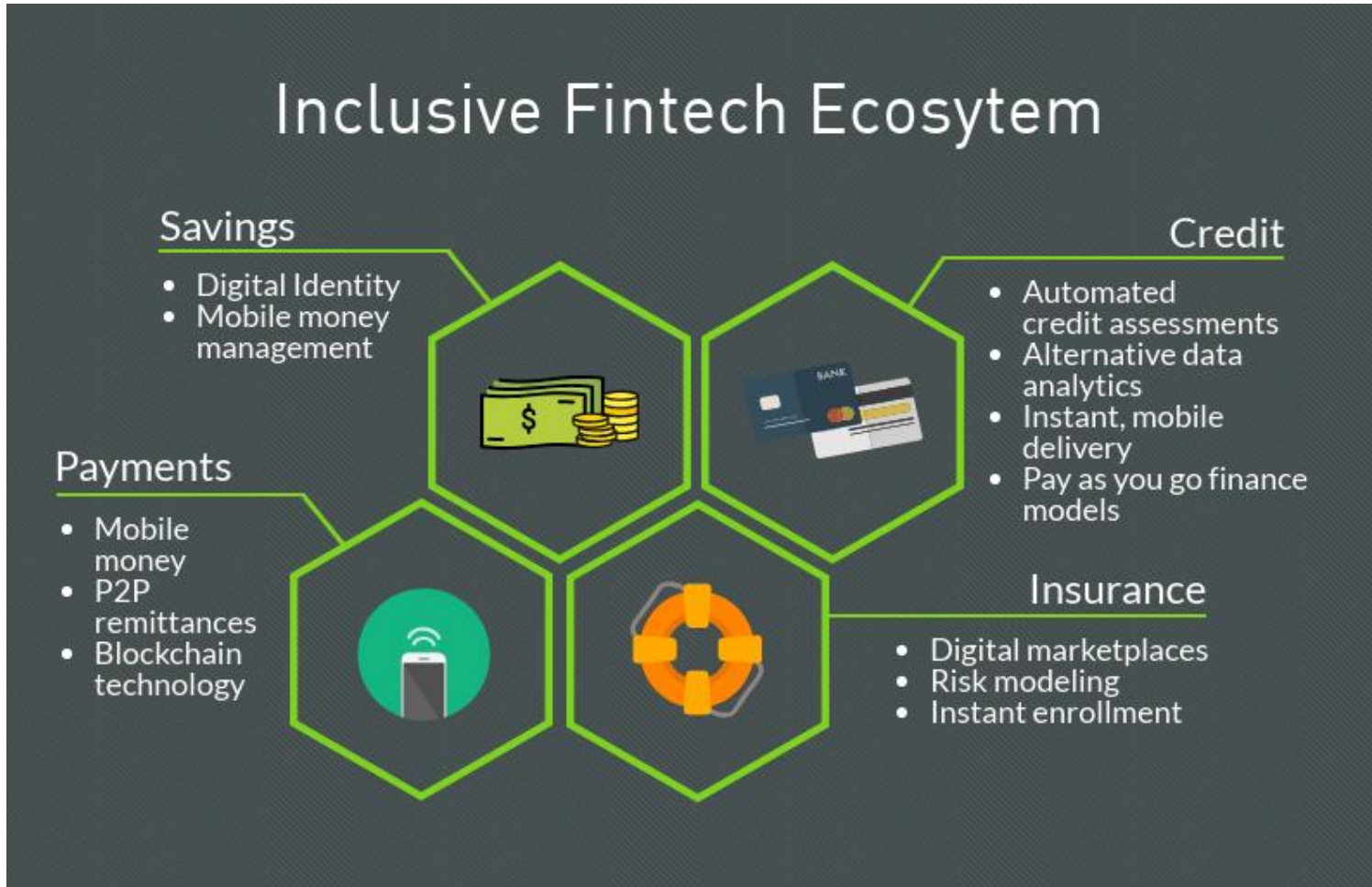


An Expanding Digital Financial Services Ecosystem

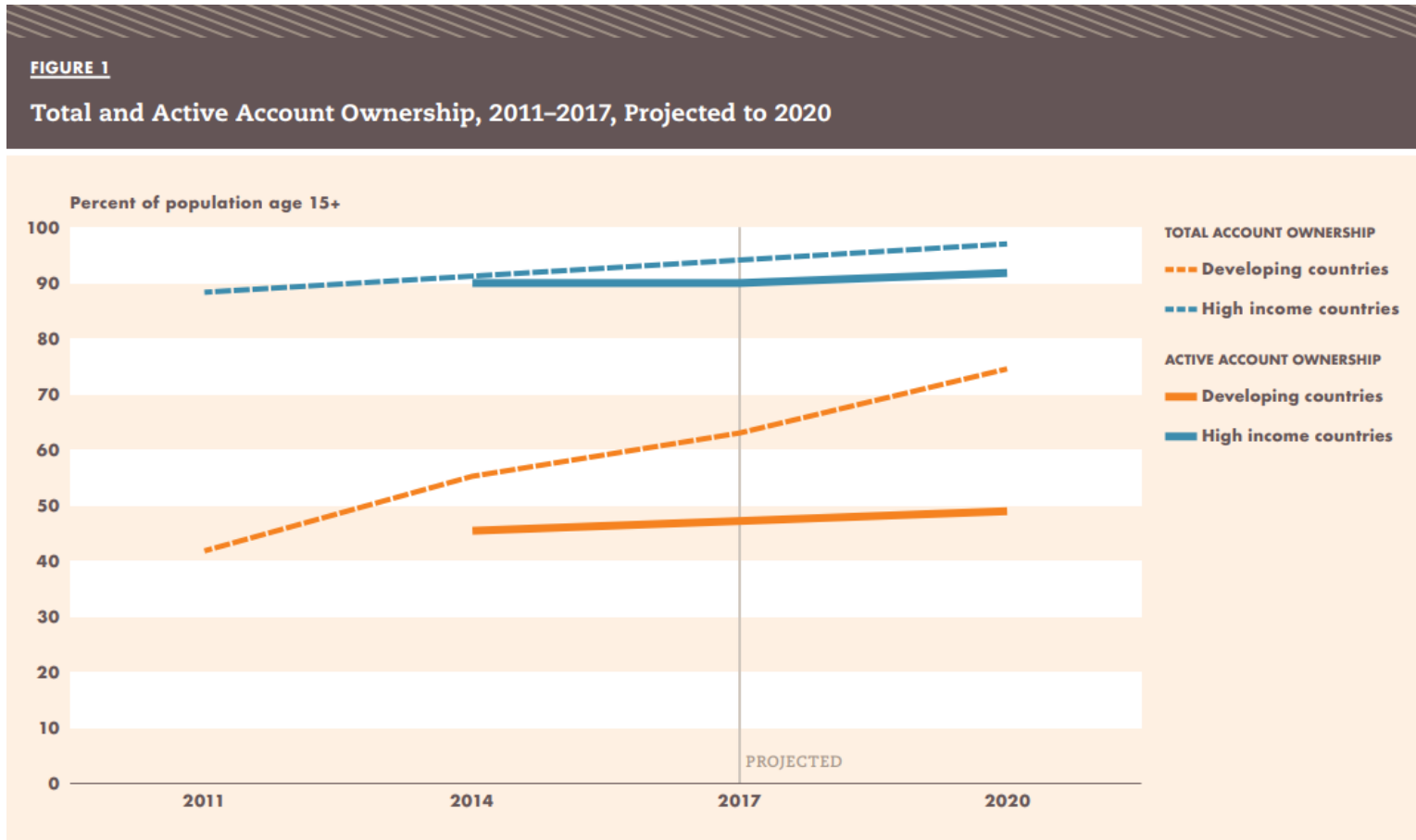


+ \$100 billion in investments in fintech sector since 2010

+ Digital payments and mobile money are drivers of inclusion

+ Digital payments, credit, savings, and insurance relevant to underbanked populations

Yet, a Widening Access-to-Usage Gap



Source Global Findex 2018. Data for 2020 projected using a line of best fit through available years of data.

+ Despite growth, usage is stagnant

+ Low usage raises questions about usefulness and trust

+ Addressing client protection risks could help close this gap

Adapting Standards to New Market Drivers

Client protection standards must respond to new market conditions:

- + **Digitization:** use of digital technology e.g. mobile phones, internet platforms, smartphone applications to engage with borrowers, algorithms and technological networks to acquire and process customer data to assess borrowing capacity and perform underwriting.
- + **Fragmentation of Functions:** providers offering only a subset (one or more) of the functions needed to complete a financial transaction creating longer and more complex value chains.
- + **Agents:** use of agents as the principal interface with customers.

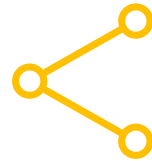


A Modular Framework to Adapt to Fragmentation



PRODUCT

Savings, credit, insurance, payments.



FUNCTION

Marketing, credit underwriting, loan disbursement, collections, complaint management, etc.



DELIVERY

In-person, via third parties, digital interface.

7

Client Protection
Principles

25

Standards which
represent outcomes
for clients

85

Indicators which
represent the
technical
requirements

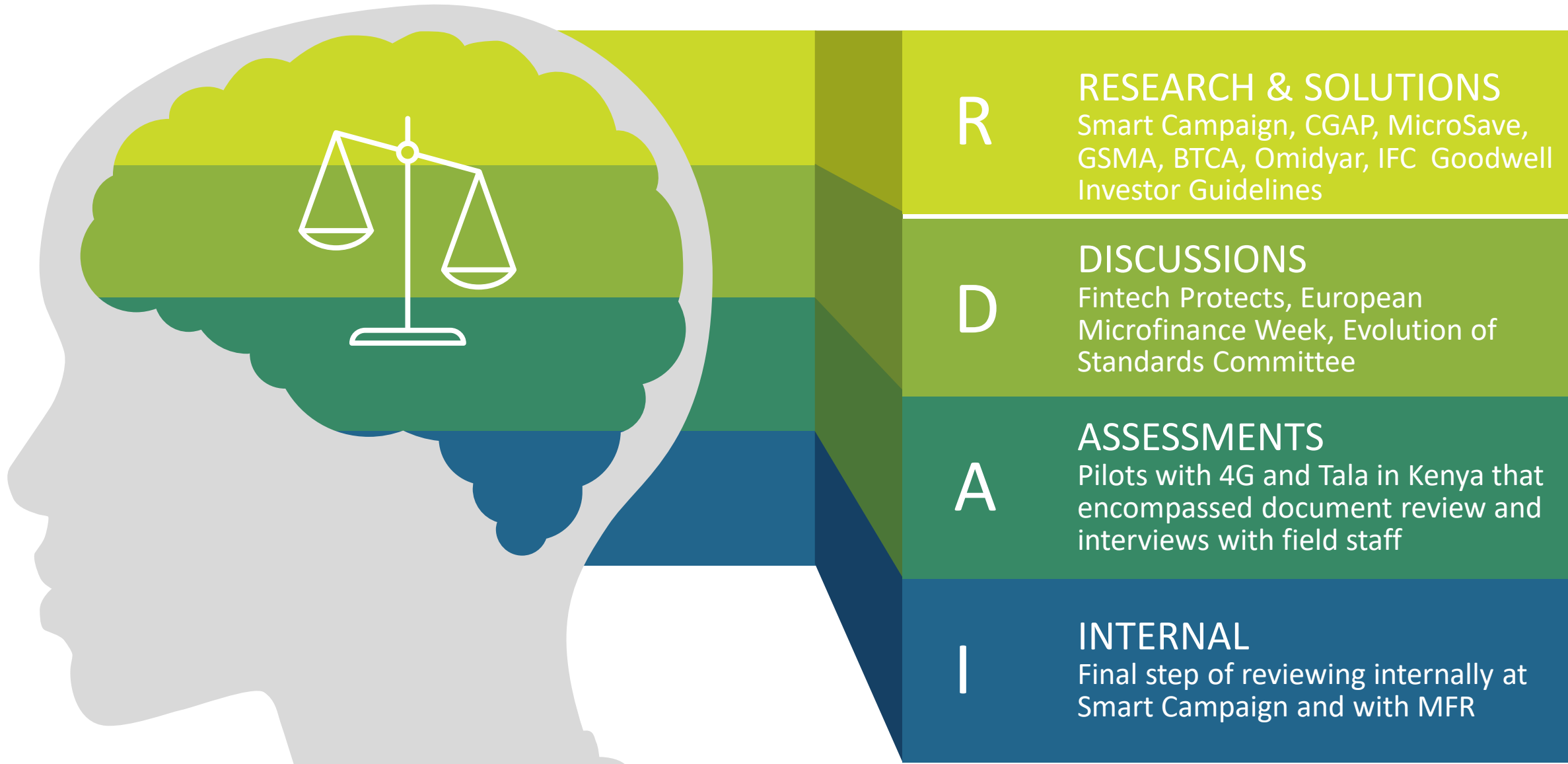
What are the digital credit standards?

- + Consolidate learnings
- + Starting point for further inquiry and discussion across the industry

Why now?

- + Customers need to be trust their provider and its products
- + Demand is rising for a shared set of criteria

Inputs to the Standards



+ Automation & Client Protection Oversight

In models with more automation, oversight is less at the individual loan level and rather at the higher level of defining the rules of the game (e.g. algorithms).

+ Intent & Trends

In an early-stage sector without benchmarks, we will instead ask for transparency of intent from providers.

+ Value Chain

Re-examined feasibility in terms of digital lenders' control over certain third-party partners (e.g. MNOs vs. call centers vs. EDCs)



Details on the Standards



Details on the Standards

+ More Robust Data Security, Data Usage and Privacy

Reflecting evolution of space in areas of fraud prevention, systems security and privacy rights.

+ Reflect Digitized Operations

The standards reflect the reality of (almost fully) digitized operations but ask for 'human touch' at key inflection points

Context Setting on Data Protection

Data Privacy

- What data is collected
 - The right of the individual to keep his or her data to himself or herself
 - Focuses on **authorized access to data**, specifically who has it and who defines it

Data Security

- How that data is kept safe
 - The technical implementation of what data privacy dictates
 - Focuses on **securing data against unauthorized access**



Major Data Security Issues

+ Robust Secure Infrastructure & Processes

Digitally based, open systems are more prone to attacks than closed or offline systems. Providers need robust systems and processes to protect clients against misuse of their data and security breaches.

+ Staff Training

Staff are well trained to identify and mitigate security risks.

+ Fraud Detection & Management

Systems and policies support early detection of fraud.

+ Data Ownership & Control

In models with more automation, and data rich environments, clients should more than ever have control over their own private data: who sees what data, why and for how long.

+ Data Purpose & Storage Limits

Data collected, used and stored is limited to the use case of that data.

+ Transparency & Complaints

Clients know what data is used, for what purpose and can challenge decisions.

+ Consent

Clients have agency over who captures, uses or shares specific private or confidential data.



Major Data Privacy
Issues

Mapping Client Protection Standards to the Investor Guidelines

Client Protection Principles → Investor Guidelines

- **Appropriate Product Design & Delivery**
 - Guideline 8: Enhance Customer Services to Problem Resolution & Product Innovation
- **Prevention of Over-indebtedness**
 - Guideline 2: Manage Risks Comprehensively with Growth of Digital Inclusion
 - Guideline 9: Prevent Over-indebtedness, Strengthen Digital Literacy & Financial Awareness
- **Transparency**
 - Guideline 6: Promote Fair & Transparent Pricing
 - Guideline 7: Improve Disclosure of Terms & Conditions for Customers
- **Responsible Pricing**
 - Guideline 6: Promote Fair & Transparent Pricing
- **Fair and Respectful Treatment of Clients**
- **Data Privacy, Security, and Integrity**
 - Guideline 5: Establish Customer Identity, Data Privacy and Security Standards
- **Mechanisms for Complaint Resolution**
 - Guideline 8: Enhance Customer Services to Problem Resolution & Product Innovation

Investor Guidelines

Guideline 1: Promote Responsible Investment in Digital Finance



Client Protection Certification and Assessments

Guideline 3: Foster a Proportionate Legal and Regulatory Framework



Model Legal Framework

Guideline 5: Establish Customer Identity, Data Privacy & Security Standards



Digital Credit Standard: *The provider has assessed and documented the personal information it needs from clients in order to deliver the service (e.g. identity, transactions etc). The personal data collected, the personal data shared, and the period of time during which personal data is stored are minimized and directly justified by operations needed to provide the service or by law. The assessment identified data privacy risks to consumers during collection, processing, storage, and transfer of personal data.*

Guideline 6: Promoting Fair and Transparent Pricing



Digital Credit Standard: *There is evidence that the board of directors monitors the provider's pricing against policy. (For example, topics of board deliberation may include opportunities to reduce interest rates and fees, dividend policy, and application of profits for client benefit.)*

Investor Guidelines

Guideline 7: Improve Disclosure of Terms and Conditions for Customers



Digital Credit Standard: *The user interface is clear and simple, providing step-by-step instructions in a major local language (assuming alphabet can be supported by technology) to let clients understand how to use the service (on-board, transfer money, apply for a loan, access account information) and cover frequently faced issues.*

Guideline 8: Enhance Customer Services for Problem Resolution and Product Innovation



Digital Credit Standard: *If a provider receives complaints via call centers or live chat, the call center/response unit is adequately staffed by appropriately trained respondents and maintains an average waiting time below 15 minutes.*

Guideline 9: Prevent Over-indebtedness, Strengthen Digital Literacy and Financial Awareness



Digital Credit Standard: *If the repayment capacity analysis is automated (e.g., through the use of an algorithm), the effectiveness of the system in predicting the client repayment capacity is reviewed by a unit of the organization independent from the algorithm development team (e.g. internal audit, senior management, or other department). The review provides recommendations to improve the algorithm outcomes that are promptly implemented.*

Securing the Value Chain for Vulnerable Consumers

