Standards for Responsible Digital Financial Services

Working Group Meeting

Moderator: Amelia Greenberg, SPTF
Guest speakers: Eric Duflos, CGAP; Gerhard Coetzee, CGAP

September 28, 2022
## Agenda

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<th>Session</th>
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<td>9:00 – 9:15</td>
<td>Welcome and introductions</td>
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<td>9:15 – 9:30</td>
<td>Overview of work done so far</td>
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<td>9:30 – 10:30</td>
<td>Group work and report back</td>
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<td>10:30 – 11:00</td>
<td>Coffee break</td>
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<td>11:00 – 12:30</td>
<td>Group work and report back</td>
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<td>12:30 – 1:30</td>
<td>Lunch</td>
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<td>1:30 – 2:15</td>
<td>CGAP: research on DFS risks and responsible digital ecosystem</td>
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<td>2:15 – 3:15</td>
<td>Promoting Implementation</td>
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<td>3:15 – 3:45</td>
<td>Coffee break</td>
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<td>3:45 – 4:45</td>
<td>CGAP: responsible digital transformation</td>
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<td>4:45 – 5:00</td>
<td>Conclusion</td>
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</table>
WHO WE ARE
Two Entities with a joint purpose

SPTF
Founded in 2005
501(c) (3) licensed in USA and Luxembourg
Membership organization: 4,800+ associated members, 80 paying members, 9 project sponsors, 3 core donors
Operating budget (2020): $2M
Key activities: maintain standards, manage grant facilities for standards implementation, convene diverse international stakeholders, disseminate knowledge
Promote responsible behavior of inclusive finance providers and purpose driven organizations
Create positive outcomes for low-income people
Funded by global public and private entities

Cerise
Founded in 1998
French non-profit
Key activities: develop social audit tools, research and publish on best practice in responsible finance, build local capacity for social audits around the world
Operating budget (2020): $0.5M
Promote responsible behavior of inclusive finance providers and purpose driven organizations
Create positive outcomes for low-income people
Funded by global public and private entities
WHAT WE DO
Integrated Service Offer

1 Working Groups currently active: Social Investor, Outcomes, Green Finance, Customer Empowerment, Digital Financial Services Standards
2 Responsible Inclusive Finance Facilities offer co-funding opportunities in three regions: Africa, Southeast Asia, and the Caribbean/Central America.
WHAT WE DO
The Universal Standards for Social and Environmental Performance Management

A complete guide of best practices to help financial service providers (FSPs) put clients and the environment at the center of all decisions and align their policies and procedures with responsible business practices.
Why create these DFS standards

• Clarifies what “good” practice means
• Enhances transparency
• Encourages good practices to grow
• Proposes concrete solutions to the risks we observe
• Enables stakeholders to distinguish between providers with a desire to create value for clients versus those focused solely on profits
• Facilitates partnerships with responsible providers
The Process

- 2020-21: various discussions with the Center for Financial Inclusion, including their input on digital credit standards
- May – Aug 2021: Document review, including resources from CGAP, GSMA, Women’s World Banking, BTCA, FINCA, UNCDF, IPA, USAID, and IFC.
- Sep 2021 – June 2022: about 50 expert interviews, of which a dozen were FSPs
- Feb-Jun 2022: virtual DFS Working Group meetings
- 28 Sep 2022: in person full-day DFS Working Group meeting
- Oct – Dec 2022: final refinements based on working group input; translation
- 2023Q1: publication of DFS standards
- 2023Q1-Q2: development of preliminary assessment tool
- 2023Q2-Q4: pilot testing
Exercise 1 – review the first half of the DFS Standards

Debate and Refine the Draft Standards

1. Read the relevant sections of the Universal Standards and the DFS Standards
2. Is there anything you would remove / edit / add?
3. Take notes so you can report back to the group and email them to ameliagreenberg@sptfnetwork.org

(35 minutes)
## Exercise 1 group assignments

<table>
<thead>
<tr>
<th><strong>DFS Standards</strong></th>
<th><strong>Universal Standards</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Complaints mechanism</td>
<td>Standard 4E – pages 34-35</td>
</tr>
<tr>
<td>Data rights and privacy</td>
<td>Standard 4D – pages 32-33</td>
</tr>
<tr>
<td>Fair and respectful treatment of customers</td>
<td>Standard 4C – pages 30-31</td>
</tr>
<tr>
<td>Fraud mitigation</td>
<td>EP 2.A.3 and its indicator 2.A.3.1.5 – page 12; EP 2.B.2 and its indicator 2.B.2.2.5 – page 15</td>
</tr>
<tr>
<td>Prevention of over-indebtedness</td>
<td>Standard 4A – pages 24-25</td>
</tr>
<tr>
<td>Transparency</td>
<td>Standard 4B – pages 26-29</td>
</tr>
</tbody>
</table>
Exercise 1 - Report back

Summarize for everyone else your group’s feedback on your section of the draft DFS Standards

(25 minutes)
Coffee Break 1

10:30 – 11:00 am

(30 minutes)
Exercise 2 – review the second half of the DFS Standards

Debate and Refine the Draft Standards

1. Continue report backs from Exercise 1 as needed
2. Read the relevant sections of the Universal Standards and the DFS Standards
3. Is there anything you would remove / edit / add?
4. Take notes so you can report back to the group and email them to ameliagreenberg@sptfnetwork.org

(50 minutes)
Exercise 2 group assignments

<table>
<thead>
<tr>
<th>DFS Standards</th>
<th>Universal Standards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outcomes</td>
<td>Standards 1A and 1B – pages 6-9; Standard 3B – pages 19-22</td>
</tr>
<tr>
<td>Product design and delivery</td>
<td>Standards 3A and 3B – pages 16-22</td>
</tr>
<tr>
<td>Responsible pricing</td>
<td>Standard 6B – pages 44-45</td>
</tr>
<tr>
<td>Agent management</td>
<td>3.B.3.7, 4.B.1.4.1, 4.B.1.5, 4.C.2.1, 4.E.1.3.1, 6.A.1.3.2</td>
</tr>
</tbody>
</table>

Two groups will work on this
Exercise 2 - Report back

Summarize for everyone else your group’s feedback on your section of the draft DFS Standards

(40 minutes)
Lunch

12:30 – 1:30 pm

(60 minutes)
Rethinking Consumer Protection: A Responsible Digital Finance Ecosystem

CGAP
September 28, 2022
Speakers

Eric Duflos
CGAP Consumer Protection Lead
Senior Financial Sector Specialist
Why do we need a new approach to consumer protection in DFS?

- Findex 2021 showed a major increase in the number of people in developing countries who have access to a formal financial account, in great part thanks to digital finance.

- There have been many improvements in terms of regulatory frameworks as well as key initiatives to make digital finance responsible.

- But there is no strong evidence that the quality of financial services has increased.

- Recent CGAP research shows that the nature of existing DFS risks is evolving and growing in number and scale.

- Multiple DFS providers are joining the ecosystem, bringing new opportunities and risks.

- While new regulators have emerged, there is often a lack of effective regulation and supervision of new providers.
CGAP Research on the evolution of DFS consumer risks

Given the changing nature of DFS consumer risks, CGAP has identified 66 risks and grouped them into four broad risk types and two cross-cutting risk types.

**Four broad risk types**
- **FRAUD**
  - Examples: SIM swap fraud, Mobile app fraud
- **DATA MISUSE**
  - Examples: Algorithmic bias, Unfair practices e.g., social shaming
- **LACK OF TRANSPARENCY**
  - Examples: Undisclosed fees, Complex user interface
- **INADEQUATE REDRESS MECHANISMS**
  - Examples: Complex redress process, Expensive complaints handling system

**Two cross-cutting risk types**
- **AGENT-RELATED RISKS**
  - Examples: Liquidity challenges, agent fraud, discrimination based on social status
- **NETWORK DOWNTIME**
  - Examples: Distributed Denial of Service (DDoS) attacks, insufficiently tested system upgrade, power outage

We also found that fraud and data misuse are directly linked to cybersecurity while lack of transparency and inadequate redress mechanisms have no direct link to cybersecurity. The two cross-cutting risks also share some elements with all four broad risks. Please refer to the annex for a detailed list of the 66 old and new risks identified, as well as definitions of the four broad risk types and two cross-cutting risk types.
We see increase in scale for most DFS risks

<table>
<thead>
<tr>
<th>Risk type</th>
<th>Global</th>
<th>Regions*</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Fraud*</td>
<td>🔺</td>
<td>🔺</td>
<td>🔺</td>
</tr>
<tr>
<td>2. Data misuse</td>
<td>🔺</td>
<td>🔺</td>
<td>🔺</td>
</tr>
<tr>
<td>3. Lack of transparency</td>
<td>🔺</td>
<td>🔺</td>
<td>N/A</td>
</tr>
<tr>
<td>4. Inadequate redress mechanisms**</td>
<td>N/A</td>
<td>N/A</td>
<td>🔺</td>
</tr>
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</table>

**Red arrow:** Available data show an overall increase in value or volume.

**Orange arrow:** Literature suggests an increase in value or volume without supporting data.

**N/A:** Reliable information and data are not available or sufficient to determine increase or decrease of the risk.


**In some countries, there is evidence of improvements after government intervention (e.g. China and India).
Mobile app frauds rising fast

Based on exploratory work using high-frequency mobile app data for 71 countries, Fu and Mishra (2020) note an increase in the scale and scope of fraudulent and predatory finance mobile apps over the past several years, especially during the COVID-19 pandemic.

Analysis of data from Outseer’s** quarterly fraud reports indicates that between 2016 and 2020, the share of fraudulent transactions via mobile apps increased by 104 percent while the share of transactions via mobile apps increased by 34 percent. Consistent with Fu and Mishra’s study, the increase in the share of fraudulent transactions and the increase in transactions via mobile apps were both more pronounced during the COVID-19 pandemic. Between 2019 and 2020, the share of fraudulent mobile app transactions increased by 83 percent while the share of transactions via mobile apps increased by 38 percent.

In the third quarter of 2020, rogue mobile apps became the primary source of fraud, overtaking phishing which had previously been the predominant attack vector (Spajić 2021; RSA 2018, 2020; Outseer 2021).

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* RSA defined mobile app fraud as “mobile applications using an organization’s brand without permission.”

** Outseer is a new company created by RSA. The formal transition of RSA’s fraud and intelligence business was officially announced on June 9, 2021. Before the new company was created, all the fraud reports were published by RSA.
Increase in data breach incidents surpassing increase in data created

**Global data created and records exposed, annual percentage changes, 2016–2020**

Source: Data adapted from Risk Based Security 2020 Year End Report (global number of records exposed) and Statista (global data created).
Network downtime is also a major issue for customers

Proportion of agents and customers who reported experiencing downtime

Source: Genga et al. 2016, based on data from ANA surveys.

* Data were not available for agents who reported experiencing downtime (Uganda).
Women could be more exposed to DFS risk due to low digital finance literacy

Financial and digital skills of rural women and men

A responsible digital finance ecosystem approach takes a holistic and less piecemeal approach to protecting consumers. It means that all of the key actors in the digital finance ecosystem—consumers, providers, policy makers, market facilitators—interact in a way that protects and ensures positive outcomes for customers using financial services, especially women and vulnerable consumers.
Who are the key actors in the digital finance ecosystem?

**Consumers**: Banked and unbanked, rural and urban, low-income women, vulnerable people, consumer associations

**Providers**: Banks, microfinance institutions, mobile network operators, fintechs, platforms, digital insurance providers

**Policy Makers**: Standard-Setting Bodies, consumer protection regulators, financial sector and data protection authorities, ministries (such as telecommunication, finance, interior)

**Market Facilitators**: Foundations, public funders, researchers, trainers, innovators

*Please note that this list is non-exhaustive and only includes examples.*
How do we make the DFS ecosystem more responsible? (1/3)

1. **Customer-centricity** better protects consumers by putting them at the core of any initiative.

**Providers**
- Create sustainable business value by attracting and retaining customers.
- Shift the responsibility for consumer protection from the customer toward the FSP.

**Policy makers**
- Adopt a customer outcomes-based approach to consumer protection
- Integrate collective consumer voice in regulations, e.g. by interacting with consumers associations

**Funders**
Ensure strategies, projects and support have a strong focus on the experiences and results of a customer’s access to, and use of, DFS, e.g. by including consultation with consumer groups in the process of project design with providers and at the policy level.
2. Key actors have the **capability** to contribute to a responsible ecosystem.

- **Consumers**: financial literacy, digital literacy
- **Providers**: certifications, e.g. by SPTF and GSMA
- **Policy makers**:
  - Basic legal and regulatory frameworks for financial consumer protection and enforcement authority
  - More staff, tools, incentives, and resources to analyze data, monitor the market and, when possible, correct it
  - Engage in international fora, e.g. OECD, FinCoNet, AFI, Global Privacy Agency
- **Market facilitators**: facilitating learning opportunities, including peer learning amongst groups; use training, technical assistance and knowledge sharing
3. **Collaboration** involves structured and constructive relationships between actors in the ecosystem.

<table>
<thead>
<tr>
<th>Examples of <em>inter-actor</em> collaboration to better identify risks and take coordinated action</th>
<th>Examples of <em>intra-actor</em> collaboration to enable similar actors to exchange knowledge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation Offices and Sandboxes</td>
<td>In Peru: the financial sector regulator (SBS) and the consumer protection authority (INDECOPI) are developing a common framework to better listen to consumers.</td>
</tr>
<tr>
<td>Consumer advisory panels</td>
<td>UNSGSA CEO Partnership for Economic Inclusion, where DFS providers seek to expand responsible finance while doing business.</td>
</tr>
<tr>
<td>In South Africa: FSCA co-created indicators with providers to measure how well consumers are served and protected.</td>
<td>In ASEAN region, consumer associations support each other in their activities with GIZ funding.</td>
</tr>
</tbody>
</table>
How do we monitor progress in building a responsible DFS ecosystem?

- Monitoring customer outcomes is the secret sauce that will tie the three Cs together (customer-centricity, capability, collaboration) in the ecosystem.
- In a pilot in South Africa with the FSCA and five FSPs, we measure “intermediate customer outcomes”, i.e., when services are designed and delivered to give the customer what was promised, what they need, and what they can fairly expect, thereby “meeting the customer’s purpose.”

<table>
<thead>
<tr>
<th>Protecting the customer from harm</th>
<th>Intermediate outcomes</th>
<th>Contributing to the customer’s financial health</th>
<th>High-level outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>FSPs display tables of fees and rates for financial products.</td>
<td>FSPs actively inform customers on how best to transact and use products so they do not incur out-of-bundle charges or penalties.</td>
<td>Customers can apply this knowledge and information by changing suboptimal behavior, thereby reducing unnecessary and punitive fees.</td>
<td>Customers can invest in education and skills development and avail of financial services that support it.</td>
</tr>
<tr>
<td>FSPs alert customers about suspicious messages on the use of digital and other remote channels.</td>
<td>FSPs inform customers about the benefits of using digital and remote channels and guide customers on how best to safely use them.</td>
<td>Customers can save time and money using low-cost channels while still being served according to their preferences.</td>
<td>Customers can generate resources to cope with and recover from emergencies and avail of financial services that support that.</td>
</tr>
</tbody>
</table>
Thank you

To learn more, please visit

www.cgap.org
DFS Standards Implementation Plan

• How do we organize the DFS Standards?

• Should we integrate all standards into the seven dimensions of the Universal Standards, or have a separate DFS module?

• How do we raise awareness? What is your role?

• Brainstorm ideas for pilot testing – with whom, how, for what?
Exercise 3 – Discussion on structuring the document

How should we organize the DFS Standards document?
One idea is by big themes, then alphabetize:

- Risk management and consumer protection (complaints, cybersecurity, data rights...)
  - Promoting benefits for clients
  - Collaboration with third parties

Do we integrate the DFS Standards into the Seven Dimensions of the Universal Standards or Create a Separate DFS Module?

(20 minutes)
Exercise 4 – Discussion of awareness raising

How do we raise awareness of the DFS Standards? What is your role?

(20 minutes)
Exercise 5 – Planning for pilot testing

With whom do we pilot test the DFS Standards? How? What information would be useful to you from that pilot? What is your role?

(20 minutes)
Coffee Break 2

3:15 – 3:45 pm

(30 minutes)
Digitalization and Consumer Protection

Gerhard Coetzee
September 28, 2022
Six key principles of successful digitization

**Principle 1:** Start with core business

**Principle 2:** Minimum viable product approach

**Principle 3:** Business-wide ROI for tech investment

**Principle 4:** Effective change management

**Principle 5:** Customer behavior tracking (business intelligence)

**Principle 6:** Incremental implementation
Principle 1: Start with core business

*Business Risk: not generating business value*

*Consumer risks for digital credit: data rights/privacy, algorithm bias, over-indebtedness*
“Successful implementations use simple technology and the minimum viable product (MVP) approach”

Principle 2: Minimum viable product approach

Business Risk: technology overwhelming
Consumer risk: transparency
“Where technology supports multiple parts of the business, global measures of ROI are required”

Principle 3: Business-wide ROI for tech investment

Business Risk: suboptimal technology investment

Consumer risk: balancing benefits to company and clients
“Change management starts with C-suite competency and requires reorganization and training down the line”

Principle 4: Effective change management

*Business Risk: poor change management*

*Consumer risk: not starting with impact on clients*
“Measuring customer behavior change is the key to measuring value created”

Principle 5: Customer behavior tracking (business intelligence)

Business Risk: failure to create customer or business value
Consumer risk: clients don’t always act in their best interest
“Cases of incremental success are the common pathway to digitization”

Principle 6: Incremental implementation

Business Risk: loss of momentum
MFI Digitization pilots

- Credit renewal automation
- Business intelligence

**Principle 1:** Start with core business
**Principle 2:** Minimum viable product approach
**Principle 3:** Business-wide ROI for tech investment
**Principle 4:** Effective change management
**Principle 5:** Customer behavior tracking (business intelligence)
**Principle 6:** Incremental implementation

<table>
<thead>
<tr>
<th>MFI</th>
<th>Measurement</th>
<th>Automation</th>
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</thead>
<tbody>
<tr>
<td>Accion Microfinance Bank (Nigeria)</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Crystal (Georgia)</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Microfund for Women</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Première Agence de Microfinance (Madagascar)</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Shakti Foundation (Bangladesh)</td>
<td>X</td>
<td></td>
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<tr>
<td>SHARE Microfin Limited (India)</td>
<td>X</td>
<td>X</td>
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</table>
Measurement workstream

- Setting up / connection to the data warehouse
- Dashboard release and final delivery
- Business response

3 months
Insights from pilots

- The measurement workstream has generated significant insights about current levels of customer activity.

- For many MFIs, significant levels of customer inactivity in the core business reveal opportunities for improvements to the product, and ultimately the customer experience.
Customer Behavior is an Indication of Customer Value
Key Dashboards for Cohort 2

Client Growth

Dashboard: Customer Acquisition by Channel
Client Transaction behavior

**Dashboard: Activity Levels**

**Dashboard: Customer Journey - Transactions**
Client Deposit behavior

**Dashboard: Customer Journey - Deposit Behavior**

Client Borrowing behavior

**Dashboard: Follow-up Loan Rate**

![Graph showing AVG Deposit Balance by Journey Month](image)

![Graph showing 6 month Follow Up Loan Rate](image)
Automation workstream

- Setting up the data warehouse
- Optimizing processes (productization in sandbox)
- Minimum viable product pilot
- Pilot assessment, adjustments and scale up

Customer data

Lending recommendations

MFI 1

MFI 2

MFI 3

MFI 4

12 months
Insights from pilots

• The automation workstream is still early phase, but we have demonstrated that the MVP approach reduces the tech deficit and enables quick launch.
CERISE/ SPTF Standards for Responsible DFS

Thematic Areas:

1. Agent Management
2. Algorithm Bias
3. Complaints Mechanism
4. Cybersecurity
5. Data Rights/ Privacy
6. Fair and Respectful Treatment of Customers
7. Fraud
8. Outcomes
9. Partnerships
10. Prevention of Over-Indebtedness
11. Product Design and Delivery
12. Responsible Pricing
13. Transparency
Theme 2: Algorithm Bias

Issues

- Transparency and flexibility of algorithm design
- How and when to define “fairness”
- Definition of biased data
- Equal treatment of men and women
Theme 10: Prevention of Over-Indebtedness

Issues

• Pros and cons of fully automated process for underwriting
• Requirements of in-person repayment analysis assessment for automated repeat loans
Contact information

- Ivo Jeník, Project Lead (ijenik@worldbank.org)
- Isabelle Barres, CoP Technical Lead (ibarres@worldbank.org)
- Mark Flaming, Technical Lead (mflaming@worldbank.org)
Thank you

To learn more, please visit
www.cgap.org

@IvoJenik  IvoJenik  www.cgap.org
Conclusion

Thank you! Please stay in touch:

amelialgreenberg@sptfnetwork.org
info@sptfnetwork.org

We have a new website. Please explore:

https://cerise-sptf.org (homepage)