Using the DFS Standards to Address the Crisis of Customer Harm from Digital Finance – English Transcript

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00:15

Hey everyone, welcome to this session on using DFS standards to tackle customer harm in digital finance. I'm really excited and honored to be here with all of you and this awesome group of speakers. Let's dive right in! I'm Amelia Greenberg, the deputy director of SPTF, a nonprofit organization aimed at making financial services more responsible and inclusive. I'm joined by four panelists, including William Blackmon, who is the associate director for consumer protection at Innovations for Poverty Action...

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...A global research and policy nonprofit. Wayne Hennessy-Barrett is the chair and founder of 4G Capital, a financial services provider in Kenya. Alan Munoz is the CEO of Banco Fihogar, a digital financial services provider in the Dominican Republic, and Sheila Senfuma heads the digital finance program at Consumers International. Let's dive in! My first questions are for Sheila and Willie. We're discussing the crisis of customer harm in digital finance. What do you think are the biggest risks to customers?"

01:27

"Can you talk about the digital financial services you've noticed, and roughly what percentage of their customers have not just faced risks but actually been harmed? Thanks, Amelia. I'll dive right in. Based on our research on consumer experiences with digital finance from 2021 to 2023, we've identified some major risks, mainly related to fraud—especially in payment fraud and digital credit."

02:05

We've noticed different levels of this issue in our network. About 74% of consumer associations from over 100 countries identified fraud as a major concern. Overall, more than 53% of our members from high, middle, and low-income countries also pointed out fraud as one of the biggest risks consumers are dealing with. This issue is appearing in traditional banking products as well as in the growing area of mobile money and digital lending apps.

02:39

I've noticed a trend with AI, especially deep fakes, where they're being used to trick people into sharing personal info, like their PINs or even sending money to scammers. Another big risk we've seen, right after fraud, is about transparency. This includes problems like unclear pricing, overly complicated contracts, and unexpected hidden fees. All of these issues come down to transparency, especially concerning payments and digital credit.

03:13

There's been a lot of talk about digital apps lately, especially when it comes to regulatory loopholes or gaps. This is particularly relevant with all the new innovations in finance, like cryptocurrencies and digital lending apps. The problem is, there isn't really any authority responsible for putting consumer protection measures in place for these things, and since they're still pretty new, it's a bit of a wild west out there.

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We're not fitting into the usual systems for credit, payments, and banking. We've received a lot of feedback about this from consumers. Some people estimate that over a million consumers are impacted, especially in Africa, Asia, and Latin America. When we focus more on consumer-centered data, we're seeing that over 10 million people are experiencing financial losses.

04:12

When it comes to digital credit, we're seeing some serious issues with reputational damage due to aggressive collection practices. Some consumers are being blackmailed, or their friends and family are pressured to pay off debts for them, especially when the credit was taken out through shady or unclear means. These trends are still happening and, unfortunately, seem to be getting worse in different markets.

04:45

There are cases where data protection laws aren't fully enforced, which creates an opportunity for fraudsters to access consumer data and use it for scams. So, I think it’s important for Willie to share his thoughts on this too. Thanks! I find it interesting and important to point out that the damage isn’t just about losing money—though that’s definitely a big issue. There’s also the stress and anxiety that comes from being a victim of these scams.

05:17

"Yeah, aggressive behavior is definitely another risk. Willie, I’ll pass it over to you. Thanks a lot, and thanks Amelia for letting me be part of this important panel. My thoughts are pretty much in line with what Sheila just mentioned, but I'll come at it from a slightly different perspective. Over the past few years, IPA has conducted consumer surveys in various markets like Bangladesh, Uganda, Kenya, and Nigeria. I'd like to share some key stats we've gathered."

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We got feedback from consumers in these surveys, focusing on four main issues that we've found to be pretty harmful: lack of transparency, fraud, debt stress, and how complaints are handled. I'll just touch on this briefly, but if you want to dive deeper, I'll share a link to all our reports in the chat. Also, just so you know, we'll be rolling out more surveys in about 10 countries over the next year or so.

06:24

"Stay tuned for that! So, to kick things off, without clear and easy-to-understand info on pricing and products, people can't really make smart choices about the financial services they use. We asked consumers if they've run into any surprise or confusing charges, and there's quite a difference between countries. In Bangladesh, only 2% of people say it's a problem, but in Kenya, it's 11%, in Uganda, it's 19%, and in Nigeria, it's 23%."

06:56

"I've seen this unclear charge issue over the past year, and then there's the whole fraud situation. As digital financial services get more popular, fraud is popping up more on these digital platforms, just like Sheila pointed out. We asked people about their experiences with fraud over the last year, and the numbers were pretty alarming, with some differences between countries. In Bangladesh, 29% of consumers faced fraud, in Kenya it was 56%, Uganda had 33%, and Nigeria was at 23%. Then there's also the issue of debt stress."

07:33

Digital Credit could really help consumers manage their money, but getting quick and easy access to it often comes with high fees and interest. This can push people to borrow more than they can handle. One sign of this is the sacrifices people are making to pay back their loans. We looked into it and found that in Bangladesh, access to Digital Credit is pretty limited, so we didn't see much there. But in Kenya, 52% of consumers said they had to cut back on food spending.

08:04

To pay back loans in Uganda, it's 32% of their income, which means cutting back on food. In Nigeria, it's a staggering 177%, which is really worrying. We also checked out digital credit transactions in Kenya and found that at least 6% of people borrowing money from different lenders had two or more active loans at the same time, suggesting they might be in over their heads with debt. Lastly, we looked into how complaints are handled when consumers have issues.

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They need an easy way to file their complaints, and those complaints need to be handled properly. Let's take Uganda as an example, where only 39% of people facing serious issues actually filed a formal complaint to get it sorted out. There's a big difference between genders here too. We checked out all the mobile money users in the country and found that 45% of them were women, but then we looked at all the complaints made to mobile money providers.

09:09

I noticed that only 35% of the complaints come from women, which means they're way less likely to speak up compared to men. This kind of makes sense, though, since consumers don't really have a great chance of getting their issues sorted out when they do complain—only 40% of people in our surveys said their problems were resolved. I'll stop there, thanks. So, it's pretty eye-opening to hear about the drop in food consumption and just how widespread it is.

09:43

In every country, these issues come up. I'm going to switch gears now and talk to our financial service provider rep, starting with you, Alan. The range of risks is huge, but can you focus on a few that Banco Fihogar has worked on solutions for? Please share your experience in the Dominican Republic regarding some of the risks your customers have faced and the solutions you've found to tackle those risks. Great, thanks! I'll try to move on to a different type of financial topic.

10:13

"Now, we're talking about digital financial services and moving to digital accounts. I know digital lending can show risks pretty clearly, but there are also a lot of risks for customers with digital accounts that they might not even realize. During the onboarding process, we see the usual issues like account takeovers or identity theft, but we've also encountered some other risks that have come up."

11:04

It's kind of a big issue for us because people are getting taken advantage of without even realizing it. Their identities are being hijacked by someone, whether it's someone they know or a complete stranger. They don't even know they're being used to open fake accounts. The accounts are set up in their names, but there isn't any identity fraud happening directly; it's more like they're being used to create these accounts, which are then used for scammy stuff. We've actually noticed this happening a lot, especially with older folks.

11:49

Some customers have had family members open accounts for them, and then those accounts end up being used for fraud, like getting fake transfers and immediately wiring the money to someone else. We're pretty concerned because we've noticed it happening in two ways: some people are being used without knowing it, while others might be involved but don't fully understand the legal risks they're taking.

12:32

They deal with a lot when they do this, and I think education plays a role in both the problem and the solution. It's not just about financial education; it's about education in general. Transparency needs to be a big focus when it comes to helping people protect themselves. Moving on to different risks, we have a pretty extensive agent network, and we see a lot of risks related mostly to accurate information or misinformation from the agents, which can happen due to a lack of proper training.

13:15

One of the biggest challenges we face is the high turnover in their staff. We do the training, and then suddenly there's a new person handling our customers. We put a lot of effort into how we communicate with customers and make sure they know everything they need when they're dealing with a loan or making a payment. But when they reach an agent, it feels like they don't really get that information.

14:01

"Yeah, it's important to understand how people are gonna get the services and info from all the different channels. We need to make sure everyone has the info they need, not just from the agents, but also that they know where to find it and can access accurate info. I'll pass it over to you now. Thanks a lot! Those are great points, and I really like how your solutions focus on both your work with the agent network and your interaction with the customers."

14:32

So, Wayne, you’ve got a multi-faceted strategy going on. Can you share some of the risks your customers are facing and what solutions 4G has implemented? Thanks, Amelia! I’ll give it my best shot, though it’s tough to follow those deep insights. I’ll try to be both general and specific. We’re a microlender focusing on micro and small businesses in Kenya and Uganda. We offer small loans to self-employed entrepreneurs, who make up about 80% of the market.

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Africa's economy is the future of the world. We know that Africa is where things are headed. This market segment is super important because by 2050, one in four people will be African, and one in three working-age adults will also be African. So, it’s essential that we help these informal economies transition to more formal setups and operate effectively. Our clients are naturally quite vulnerable; they have low incomes but are incredibly resilient and have amazing potential. However, they need support in terms of skills and education.

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They're naturally at risk from products that aren't made with them in mind. A lot of traditional credit companies are just focused on growing their loan portfolios and maximizing profits. I really want to emphasize customer protection. The DFS standards you advocate for—those six or seven key standards—are a great starting point, and we're proud to try to follow them. It's all about creating products that actually meet the needs of the clients.

16:12

"First off, we want to make sure that the loans we offer really help businesses grow. So, we combine our Enterprise training with each loan and tailor the terms to fit what each business needs. We focus on creating customer-centered products, using data while being careful about protecting customer information, especially since we’re in fintech. We need to stay aware of cyber risks and threats, like Sheila mentioned. Also, we prioritize responsible pricing; it’s not just about designing the product."

16:44

It works, but it's really crucial to navigate the challenges of keeping the price right for the customer while also reflecting the risks involved and explaining how that pricing fits into the overall value chain. We're dealing with high-risk lending here—these are unsecured loans for people with limited credit history. We've got a solid algorithm and an amazing product, plus our relationship officers in the field help support our fintech channels with a hybrid approach. So, it's super important that...

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We're able to get funding that aligns with our mission, and we've had great success in securing support from impact investors, development finance institutions, and local banks. They all understand the market reality. The products we design for our clients need to be transparent and fair, and it's important that our customers really understand them. We have to make sure we're clear in how we deliver and explain these products to help them grasp what's going on and to address any uncertainties they might have.

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Every practitioner should be clear with their customers, so they know exactly what they're getting—no hidden fees or shady practices. But we do see some pretty risky stuff happening out there. For example, some loan officers are securing small loans, like $100 or $200, with collateral that's worth way more, like a piece of land valued at $1,000. That's not cool.

18:24

We need to keep in mind that responsible pricing goes beyond just looking at APR or effective interest rates. The loan has to work for the customer, be sustainable for the business, and provide a return for the investor. But it also needs to manage risks throughout the entire credit process. We truly believe the best way to achieve this is through education and clear terms and conditions.

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Great product design really matters, whether it's about protecting customer data, the terms of the product, or how it's used. I strongly recommend having real-time feedback loops. We're always surveying our customers; it's built into the product design. Their input is our biggest asset and helps us evolve to meet their needs. We've been really fortunate—being a B Corporation, we proudly represent that.

19:22

We're super proud to be part of your community, Amelia. I really believe that the North Stars—if we can have more than one—are key to our success. I'll stop there. One thing I noticed from what everyone has said is the importance of transparency. Wayne, what you mentioned about getting customer feedback is spot on and really crucial for being transparent. A lot of the time, we think it's just about how we…

19:52

I shared some info with my customer, but part of the process is really listening to their feedback to make sure they understood everything and to see if they have any unexpected questions or issues. So thanks for all those helpful solutions. Now, let’s move on to the DFS standards. Abi, could you pull up my slides? The reason we named this session “Using DFS Standards to Help Mitigate This Crisis” is that’s exactly what they’re meant to do. We’ve spent about...

20:21

"We spent two years creating these standards with a global community of people dedicated to inclusive and responsible finance. We kicked things off by reviewing documents and interviewing around 50 experts to figure out what good practices look like and what others have learned worldwide. We took all that valuable info and worked it out in groups for about nine months, tackling each topic to nail down what we learned about preventing over."

20:55

We worked with some managing agents to make sure everything was clear, step by step. From that group, we created a trial evaluation tool in Excel. We tested it over eight months with 28 different institutions worldwide. Then, we looked at the results to see which practices they had already implemented, which ones they hadn’t, and for those they weren’t doing yet, whether they agreed that these practices should be included in our DFS.

21:28

"We've got this awesome free tool that any organization can use. You can see the download link on your screen. It’s organized by standards and covers a bunch of topics. For those who know about our Universal Standards, they’re all about management practices for responsible and inclusive finance, which we’ve been promoting for years, even before digital really took off."

22:02

We took finance concepts and made them fit the digital world, plus we added some new stuff like algorithm management that's specific to digital. On the screen, you can see the different topics this tool covers. The image on the bottom right is a screenshot of the homepage. Just so you know, you can pick the language—English, French, or Spanish. Abi, if you could go to the next slide, I’ll show you an example.

22:34

So, the part about fraud basically says that the company needs to tackle external fraud risk, which is different from employee fraud, since that's internal. External fraud is a major issue in the digital world, so the company has to take steps to reduce it and help customers who fall victim to it. There are also some indicators and details that get scored, so if you're assessing your own situation…

23:05

"You're assessing how well you meet the DFS standards. You can rate yourself as yes, no, kind of, or not really relevant. For example, the first indicator, 3B 61, talks about how the provider looks into fraud risks by checking out outside fraud trends and looking at customer feedback to pinpoint specific fraud risks in their market. This needs to be a continuous effort since fraud strategies keep changing. Basically, this first one is all about what financial service providers are doing."

23:37

You need to be aware of the various fraud sources in your market. Once you're aware, you have to reduce that fraud risk by doing at least a few things: first, invest in your own technology and staff; second, analyze your data, which includes transaction data and complaint data, to spot any suspicious activity; and finally, focus on education.

24:07

Alan brought up the need to let customers know through at least two different ways how to keep themselves safe. And lastly, the 3B 63 indicator is about what to do if a customer still falls victim to fraud. There are some details about your responsibility as a provider to alert customers when you spot any suspicious activity. The timeframe for notifying them depends on whether you're an analog or digital provider. You also have the duty to look into it.

24:41

The customer shouldn't be blamed if they fell victim to fraud; it's not their fault. The provider has a duty to help recover lost funds. I'll stop there for now. That's just one example. I want to hand it over to Alan. Banco Fihogar took part in the DFS standards pilot, and I'm curious if you could share your experience with the group. Was it helpful for you as a financial service provider to have your practices evaluated against these standards? If so, how?

25:11

Sure! I think the DFS standards are a really interesting way to break down the steps for improving your progress. It's like having a cheat sheet that gives you a solid list of standards to follow, making you take a good look at your practices. You can see what you're doing well and where you still need to improve, and once you've finished evaluating, you'll have a clearer picture.

26:07

If you focus on yourself, you'll end up with a list of things to do to move forward with your plan. We found it really helpful both as a way to analyze things and as a follow-up tool. It helped us concentrate on what to do next and figure out which standards were more relevant to us. One challenge we faced, and I know you looked into this after the pilot ended, was that the self-evaluation was actually...

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It's really detailed, and the challenge is fitting such a big evaluation into every category for all the institutions that use it. Sorting through what actually reflects your reality can be tough, but it definitely helped us. It gave us a framework to plan for what comes next after the evaluation. What you mentioned hits the nail on the head: the standards are meant to be an internal tool, not just a document.

27:36

"So, this is a tool you use to show off your skills to the outside world, but it's really for internal training. And Alan hit the nail on the head—after you get a full picture, you need to have a chat internally about what gaps are important to us, which ones we should tackle, and which ones we can ignore. Really smart point, Alan. Now, let's wrap up with some final thoughts from the other panelists as you listen to today's discussion."

28:05

"So, when you're considering not just the risks but also the solutions, what's one main point you want the audience to remember? Willie, let's start with you. Great, thanks! So, my takeaway is that you should really focus on thoroughly testing solutions to these challenges before you try to scale them up. I heard Wayne and Alan discussing education today, so I'll use an example related to anti-fraud education that we've tested out."

28:36

In three different places—Kenya, Uganda, and Nigeria—we ran anti-fraud education campaigns using randomized control trials. Unfortunately, two out of the three times, they didn’t really work. People became more cautious and started reporting anything suspicious, even real messages. But during the third trial in Uganda, we made a small change to how we delivered the information.

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We communicated this through voice response systems and more engaging activities, and we discovered that it worked really well in Uganda. This education is actually helping people spot fraud. So, the main point is that having good ideas isn't enough; you need to test them. Thanks a lot, and Sheila, it’s your turn. Just quickly, I’d add that we also need to focus on more vulnerable consumers. Our recent research shows that for every one...

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A rise in the vulnerability score means there's a 1.28 increase in the negative experiences reported by consumers, particularly in Africa, Asia, and parts of Europe. So, as we examine various frameworks and existing risks, we really need to focus on certain groups of consumers who might be more vulnerable or affected by these risks. Over to you, Amelia—great point. That's a tough reality, Wayne. Let’s wrap it up.

30:10

"Advice for the world? Well, I’m sorry to say, but I’m going to embarrass myself. I really believe in the SPTF and its measurement and management tools. They let you measure and compare different social performance aspects that matter to all of us. Plus, they help you set goals and track your progress. What we’re doing is crucial—financial services can either drive us forward or pose a significant risk."

30:45

Both the customer and the company benefit from this, so if you focus on what drives your success and your customer's success, and you manage and measure it, you don't need to reinvent the wheel. The tough work has already been done, and you can easily find it by following your organization. I'm not sorry for that; it really works well. It's a great way to wrap things up, and we appreciate the kind words.

31:14

"Totally agree with what you just said—digital finance can really do a lot of good, but it can also cause some serious problems. So let’s make sure we get it right. Thanks a lot, everyone, for joining in, and enjoy the rest of Financial Inclusion Week!"