

Client protection & digital finance, practices from Kenya

Smart Campaign's Action Research Plan for Adaptable DFS
Standards

November 15th

Agenda

- 1) Responsible Finance for a Digital World: The Challenge & Opportunity
- 2) Action Research Plan
- 3) Findings and Emerging Standards
- 4) Next Steps



Responsible Finance for a Digital World: The Challenge

Responsible Finance for a Digital World

- **The Challenge:** With new digital products and business models serving base of the pyramid customers, there are no clear standards to help providers do responsible finance right.
- **The Solution:** Identify relevant components of current client protection standards and adapt others to produce guidelines that are flexible and responsive to the new market drivers of digitization and fragmentation.

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, with 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

The Opportunity: Demand for DFS Standards

- A **critical mass of investors & donors** are looking for ways to ensure that they are supporting responsible digital operators
- An **increasing number of providers** are looking for concrete ways to ensure that their digital product offering and delivery “does no harm” and builds client trust
- Regulators are interested in exploring new ways to approach DFS regulation so that it **protects clients while encouraging innovation**
- Industry groups are developing **more codes and guidelines** to address consumer protection issues in DFS for their constituents

Why the Campaign is Uniquely Positioned to Help

- **Industry lens** and consultation through Fintech Protects Community of Practice
- **Neutral facilitator** already coordinating collaboration between the Social Investor Working Group, Responsible Inclusive Forum, GSMA, GOGLA, BTCA, ITU, World Bank, CGAP, DCA
- **Research on risks** of DFS: *Tiny Loans, Big Questions* – Mobile Credit Brief, *Responsible Agent Management*, CFI Fellow publication *Responsible Digital Credit*, Client Voice: Rwanda (forthcoming)
- Experience in moving from **theory to implementation**
- **Moving away from guidelines by provider-type**, encompassing other, more targeted efforts on off-grid solar or digital payments

Fintech Protects Community of Practice

A space where Fintechs and digital providers can brainstorm how to offer the greatest value to consumers while maintaining adequate protections. The goal is to document good practices and identify solutions that feed into the Campaign's standards development.





Action Research Plan

Testing the Framework for Digital Lenders

Phase one will begin with action research with digital lenders at first, with an eye to expanding beyond digital credit to other DFS business models, including agents and paygo.

1

Phase 1: Focus on digital lending models, establish modules based on action research

2

Phase 2: Extend to additional digital business models on a demand-driven basis

3

Phase 3: Expanded eligibility for DFS providers to obtain Smart Assessments or Certification

GOAL: To conduct field assessments of DFS providers that will allow the Smart Campaign to develop standards on what constitutes good practice, and to fine-tune its methodology for certifying various digital finance models.

- **Partners:** Smart Campaign, BSD, Microfinanza Rating, Fintech Protects
- **Process:** The field assessments conducted with Microfinanza Rating will provide a gap analysis by client protection area, highlight risks, and recommend mitigation measures to fill the gaps in best practices for DFS providers
- **Eligibility:** Fintechs & MFIs with digital lending functions representing varied business models and geographies
- **Outcomes:** External technical assessment tool, self-assessment tool, investor due diligence tool that complements Responsible Digital Finance Investing Guidelines





Findings & emerging standards

Sources of Input for Standards

FintechProtects Members



Digital Lenders,
Credit Bureaus
and
intermediaries

Industry Research



Behavioral
research and
solutions,
macroeconomic
analysis, welfare
impact research
etc

Past Missions and Research Pilots



Two pilots thus far with 4G and another digital lender in Kenya that present both centaur model and fully digital lender

Example Practices as Inputs into Standards

- Clients who are part of pilot deployment **are not reported** to credit bureau
- Client has **2 days after loan** approved to decide if s/he wants the loan or not.
- As part of Data Ethics Policy, the organization **actively excludes variables from underwriting** that may correlate with credit performance but are potentially discriminatory including: Gender, Race, Ethnicity, Religion, National origin, Sexual orientation, Disability, Medical history
- Fair and respectful treatment by **collections call staff and customer experience staff are** actively monitored through recorded calls, response time and factors **prominently into bonuses.**
- Organization does an independent **vulnerability scan and penetration testing** once a year and is working towards being compliant with the European General Data Protection Regulation (GDPR)

What We're Grappling with in Standard Setting

- Digital lenders are **clients of Safaricom M-Pesa's paybill service, not partners.** Very limited negotiating power to get Safaricom to share information or make changes like vulnerability security scans, modifying contract, allowing due diligence etc. **Should we require GSMA Mobile Money Certification?**
- In purely digital lenders, what is proxy for **repayment capacity analysis?**
- If we cannot look inside the algorithm, how best should **the process be governed?**

What We're Grappling with in Standard Setting – contd

- Portfolio quality benchmarks different than microfinance and appetite for risk higher
- Revisit using APR as a metric - would MPR be more appropriate?
- Experimental approach to product and algorithm development
- Data Security and Protection requirements in a fast-changing space

Next Steps

Next Steps

● Feedback
from EMW
and others

● Refine draft
standards
Nov-Dec

● Public
Comment
Period
Dec-Jan

● Incorporate
into
Certification
Program
and other
industry
efforts
Q2 2019



How To Get Involved

- Support or participate in a field assessment with the Smart Campaign
- Join or encourage investees to join the Fintech Protects Community of Practice
- For more information contact:
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Join the Conversation!

**FintechProtects
Community of Practice**
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Thank you! Get in touch:

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