Mapping and gap finding exercise

**Purpose** of the research on Principles, Standards, and Codes of Conduct in DFS:
To understand what exists and ascertain what gaps might yet remain in order to provide financial services responsibly.

- What are the **gaps** in coverage by either type of provider/delivery channel/product or service that not covered by existing principles, standards, or codes of conduct?
- What are the emerging **risks** customers face when using DFS that are mitigated by existing principles?
- Are there **providers** in the DFS ecosystem facing barriers to entry? Do they fall under any existing customer protection principle?
- What would be the **basic set of standards** to create a level playing field?
There is more **complexity** because of the interplay between a very dynamic sector and **new** elements and players that are broadening the **DFS value chain**.
### Principles, standards, and codes of conduct: What we analyzed?

<table>
<thead>
<tr>
<th></th>
<th>Type (e.g., Principle, standard, code of conduct)</th>
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</thead>
<tbody>
<tr>
<td>2</td>
<td>Components (e.g., recourse mechanisms, transparency, privacy, etc.)</td>
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<td>3</td>
<td>Level of coverage</td>
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<td>4</td>
<td>Provider type</td>
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<td>5</td>
<td>Delivery channel</td>
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<td>6</td>
<td>Process of development and adoption</td>
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<td>7</td>
<td>Adoption level</td>
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<tr>
<td>8</td>
<td>Enforcement mechanisms</td>
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<tr>
<td>9</td>
<td>Potential gaps</td>
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</tbody>
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#### Sample:
- **Windhover** Principles for Digital Identity, Trust, and Data
- **GSMA** Code of Conduct for Mobile Money Providers
- **G20** Principles for Innovative Financial Inclusion
- **OECD** Privacy Principles
- **SMART** Campaign Consumer Protection Principles for digital microfinance
- **AFI** Mobile Financial Services Consumer Protection in Mobile Financial Services
- The Principles for **Investors** in Inclusive Finance
- **World Bank** Global Good Practices for Financial Consumer Protection
- **Privacy by Design** Principles
- **Equator** Principles (EPs)
- **CaLP** Principles and operational standards
- **SPTF** Universal Standards for Social Performance Mgmt.

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Potential risks consumers face when using DFS

- Agents (misconduct, liquidity/float, failure to screen/train leads to lack of service)
- User error
- Protection of trust accounts related to mobile money
- Security of the network and digital channel
- Data privacy and security
- Non-transparent and unauthorized fees
- Fraud against customers
- Network/service downtime and coverage leads to lack of service
- User interfaces and product design
- Recourse mechanisms/redress
- Transparency and disclosure of information

More dynamic & complex ecosystem:
- New risks
- Old risks in a new context
Mapping of principles, standards, and codes of conduct and potential risks to customers

- **Rarely covered**
  - Failure to adequately screen/train agents leads to lack of service, agent misconduct, agent liquidity or float, network/service downtime and coverage, trust accounts, interoperability.

- **Partially covered**
  - Non-transparent and unauthorized fees, fraud against clients, security of the digital channel, user error, user interface and product design.

- **Usually covered**
  - Transparency and disclosure of information, recourse mechanisms/redress, data and privacy.

**Range of coverage** may vary broadly:
⇒ Principles focus on specific products or apply to certain providers
⇒ Level of detail of each of them varies from high-level principles to standard, to guidance and indicators

Level of effectiveness of principles will be determined based upon agreement on some issues e.g., data and privacy.
Our findings: Gaps

**Industry Level**

- Lack of coverage for new service providers
- Lack of consumer/service based approach (focus on provider/institution type)
- Lack of accountability
- Lack of enforcement
- Lack of inter-agency/cross-sectoral coordination
- Some products/channels not covered by regulation

**Consumer Level**

- Lack of consensus on data issue
- Security of the digital channel
- Network/service downtime and coverage
- Lack of clarity on the responsibility for the last mile of the service
- Not enough protection in trust accounts related to mobile money
## Our findings: needs, challenges, and the way forward

### Needs and Challenges

#### Needs to fill gaps
- International standards that could be **picked up by regulators**
- Minimal, simple, and predictable regulatory environment to create a level playing field specially for **new entrants**
- International standards **high level** to be applicable globally and to achieve endorsement
- All **providers** need to implement consumer protection codes of conduct within their **value chains**
- Need for **baseline** for donors and investors

#### Challenges
- The more **high level** the less **actionable, applicable**
- International principles need to be **implementable** and consider local contexts
- Difficult in designing principles that apply to all stakeholders in different contexts
- **Tradeoff** between addressing risks without stifling innovation

### Taking responsible finance forward
- **A more dynamic ecosystem demands for more compliance awareness**
- In markets where there is more **competition providers** are being pushed towards **consumer orientation**
- The industry needs to evolve to achieve more responsible delivery of DFS by **applying, adapting, and strengthening enforcement** of self-regulatory regimes

  - **If nothing** is done:
    - **Patchwork** of uncoordinated efforts if each organization works on its own
    - Dampen **consumer confidence** and **trust** in DFS
    - DFS industry could be tainted with bad **practices**

  - **A more systemic** approach:
    - Identifying and agreeing on a **basic set of standards** with a service and customer based approach
    - **Dialogue** across sectors around current gaps and tough issues
    - Work across silos
Conclusions and recommendations

There is need for the industry to take a **service-based approach** where the customer is at the center.

The priority task is to address the most **salient gaps identified by the research**.

Donors, investors, regulators, and service providers could use **overarching standards as a baseline**.

There needs to be inter-sector, inter-agency **cooperation. Work across silos** to create coordinated and more holistic approaches.

**Trade-off** between high-level principles and principles that are actionable and endorsed by the industry.
Highlights from our Interviews

“You can have a great set of policies for consumers but if you don’t have a watchdog to make sure these are followed then they are useless.”

“If we don’t do anything we’ll see a patchwork of different standards that are applied in different ways. If nothing happens we will miss an opportunity to increase consumer confidence.”

“There is a need for an activities based approach because from the consumer perspective you would want to know that the protection is the same regardless of the type of organization providing the service. Also regulators would want to avoid the risk of regulatory arbitrage”

“If you can prove that self-regulation works, the regulatory authorities will hand over the authority to the self-regulation authority”

“A sample of voices of the Industry

“Identify consumer rights and then it is up to each player to find the way to implement that”

“The best way to address this would be through a regional approach”