

Protecting Branchless Banking Consumers

Policy responses to new ways of doing business

Session 5

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Windsor II Global Leadership Seminar on Regulating Transformational Branchless Banking

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Protecting Branchless Banking Consumers

Agenda – Session 5

1. Background:

- Policy goals and consumer protection
- New ways of doing business
- CGAP and consumer protection

2. Positive impacts of branchless banking for consumers

3. What can go wrong?

4. Are issues different from those of traditional banking?

5. What are the hot button issues?

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Policy goals and consumer protection

What do regulators and supervisors look for?

- **Systemic stability**
- **Increased access**
- New regulations are issued to allow transformational branchless banking to take-off.
- Supervisory procedures are revised to suit innovations.
- Branchless banking regulatory frameworks will vary with context, but policy goals will not.

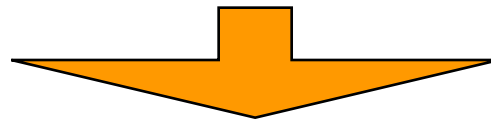
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Policy goals and consumer protection

Consumer protection is embedded in efforts to build a stable inclusive financial system AND promote healthy access, for it helps:

- Keep risk-taking by providers at prudent level;
- Keep undesirable players out of the market;
- Nurture confidence in institutions and the system;
- Improve financial capability.



Consumer protection is the convergence point between healthy access and systemic stability

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CGAP work on CP

- Country level diagnostics
- Convener for high level discussions (Windsor I and II and other international events)
- Technical assistance in financial capability surveys
- Focus Notes and other publications targeted to regulators and supervisors on market conduct regulation, financial capability, competition, etc.
- Comments on draft regulations, preparation of regulations in special case (Maldives)

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Country-level branchless diagnostics BB and CP

- CGAP supported country-level assessments in India, Brazil, Kenya and Peru to identify:
 - Common issues for branchless banking consumers
 - Regulatory and non-regulatory responses
 - Institutional setups for supervision of rules enforcement, and redress mechanisms
- A Focus Note will be issued as a result of this investigation and the discussions today
- The exercise will help countries identify risks and improve responses

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New ways of doing business

Client-provider (bank or nonbank) relationships are:

- **Remote** – distance between point of service and provider's headquarters or branch
- **Indirect** – use of third parties (nonbank agents)
- **Technology-based** – mobile phones, prepaid cards, POS devices, biometrics, internet...

How do these transformed relationships affect consumer protection?

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Is there a value for the consumer?

Branchless banking is valuable for:

- Providing access to previously excluded groups
- Reducing transactions costs
- Reducing risks of carrying cash
- Enhancing service suitability and price transparency
- Breaking cultural barriers between the poor and formal financial markets

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Exercise - What can go wrong for the customer?

- Point out the potential or observed problem that concerns you the most, for example:
 - **On Transparency**
 - Price transparency
 - Transparency on the client-provider relationship
 - **On Fairness**
 - Suitable products and prices
 - Fair treatment, technical errors and failures
 - Redress mechanisms
 - Personal data security breaches, frauds, misuse

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What can go wrong? Some evidence

1. Unclear or absent provider's liability for the agents serving as cash points
2. Redress – inefficient, ambiguous or missing
3. Lack of price transparency
4. Mis-selling (e.g. credit)
5. Frauds
6. Low service quality (cash availability, connectivity, technology failures, poor treatment by agents)
7. Data privacy and security breaches

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Are issues different from those of traditional banking?

Problems are variations on typical CP-focused concerns (transparency and fairness)

However, large numbers of first-timer, unsophisticated financial services users engaged in remote and indirect relationships may:

- Create important nuances to old concerns (e.g. in data security and use of technology-assisted devices)
- Exacerbate previous weaknesses (e.g. weak enforcement of business-of-conduct rules)

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What are the hot button issues for regulators?

1. Who regulates and supervises the provider?
2. Are client's funds protected?
3. Is the provider fully liable for its agents?
4. Is there enough transparency?
5. Is redress effective and affordable?
6. Are services provided with quality?
7. Is personal data safe?

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