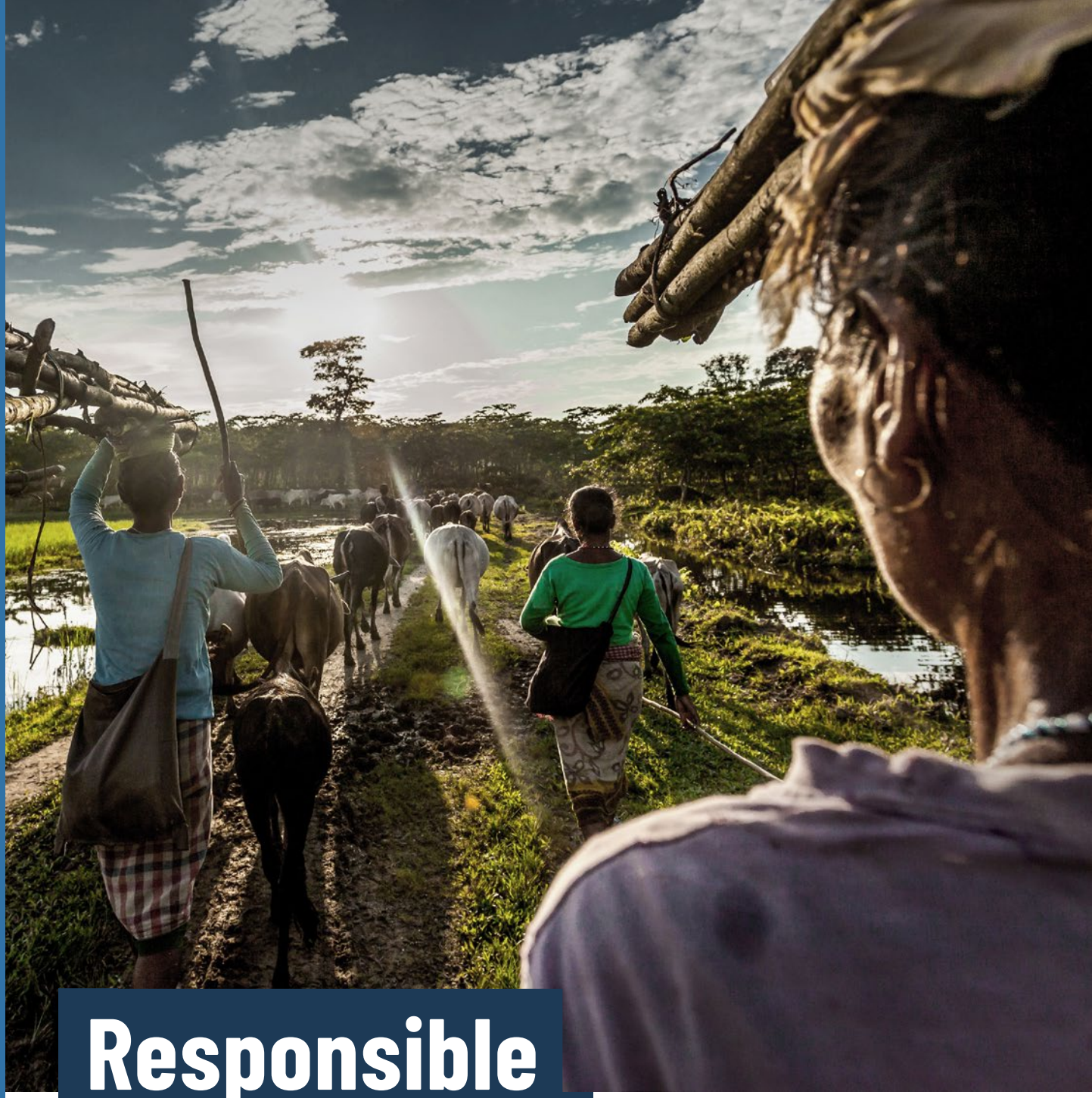
TECHNICAL GUIDE



Responsible Digital Credit

Frontier Solutions for Authorities and Providers

EXECUTIVE SUMMARY

July 2025 • **Juan Carlos Izaguirre, Sonia Arenaza, Patrick Meagher, and Myra Valenzuela**

CGAP

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Executive Summary

THE DIGITAL CREDIT MARKET IS RAPIDLY evolving, shaped by new players, technologies, and partnerships. While this evolution brings financial, experiential, and welfare benefits to borrowers, it also introduces heightened consumer risks. Financial Services Providers (FSPs) may exploit behavioral biases, exposing consumers to fraud, data misuse, lack of transparency, inadequate redress mechanisms, and unfair treatment. These risks, particularly in contexts with fragmented consumer protection frameworks, can lead to overindebtedness and deteriorating financial health.

This calls for a responsible ecosystem approach, one in which authorities, providers, and other stakeholders collaborate to establish customer-centric rules and practices and strengthen their commitment and capability to mitigate and address consumer risks (Duflos et al. 2024). Customer centricity involves:

- Understanding the **entire borrower journey**, from loan application to repayment and redress.
- Mapping the **provider lifecycle** behind the borrower journey, including technology-driven and partnership-based stages.
- Clarifying the **financial regulatory perimeter** of digital lenders and digital credit service providers, including the roles of financial and non-financial authorities.

Following a customer-centric methodology, this technical guide presents practical solutions that authorities and providers can adopt to make personal digital credit more responsible. Drawing from a global landscaping of initiatives by financial and nonfinancial authorities, providers of digital loans and digital credit services, and research and consumer organizations, the guide categorizes solutions across four phases of consumer risk management: **identification, prevention, mitigation, and resolution**.

While the guide offers practical solutions for authorities and providers, it also includes a call to action for funders, research organizations, and consumer representatives, recognizing their critical role in shaping a responsible digital credit ecosystem. As the digital credit market continues to evolve, this guide does not evaluate the effectiveness of each initiative. Instead, it presents a typology of emerging practices, highlighting key **benefits and limitations** to support stakeholders in tailoring solutions to their specific markets.

Our research shows that authorities tend to prioritize preventative solutions, particularly in addressing fraud, transparency, unfair treatment, and overindebtedness. Authorities are laying the groundwork for a more responsible digital credit market by registering and licensing digital lenders, and by collaborating across agencies on regulatory, market monitoring, and market intelligence-sharing efforts, particularly to identify and prevent fraud. Regulatory measures such as improved disclosure requirements, the use of positive friction, and rules on product governance and algorithmic credit scoring enhance transparency and fairness. To mitigate and resolve conduct risks, authorities are introducing initiatives including fraud compensation, personal insolvency, anti-predatory lending regulations, and responsible debt collection. Strengthened collaboration with ecosystem actors

will be essential to developing more customer-centric regulations and improving market monitoring.

Providers are leveraging technology to address risks, especially fraud, data misuse, and overindebtedness, more comprehensively. Tools such as tech-enabled authentication, data analytics, fraud prevention and detection, and customer support systems help to protect consumers from financial harm. Positive friction, dynamic pricing, and automated debt monitoring support more responsible lending practices. Privacy enhancing features like data encryption, sharing preferences, and consent management tools help reduce data misuse. Across the ecosystem, collaborations among lenders, big technology companies (bigtechs), and telecommunications companies, and other service providers are increasingly essential to address consumer risks across the product lifecycle. We urge providers to continue to leverage technology and collaboration to enhance consumer security, product suitability, empowerment, and overall trust in digital credit.

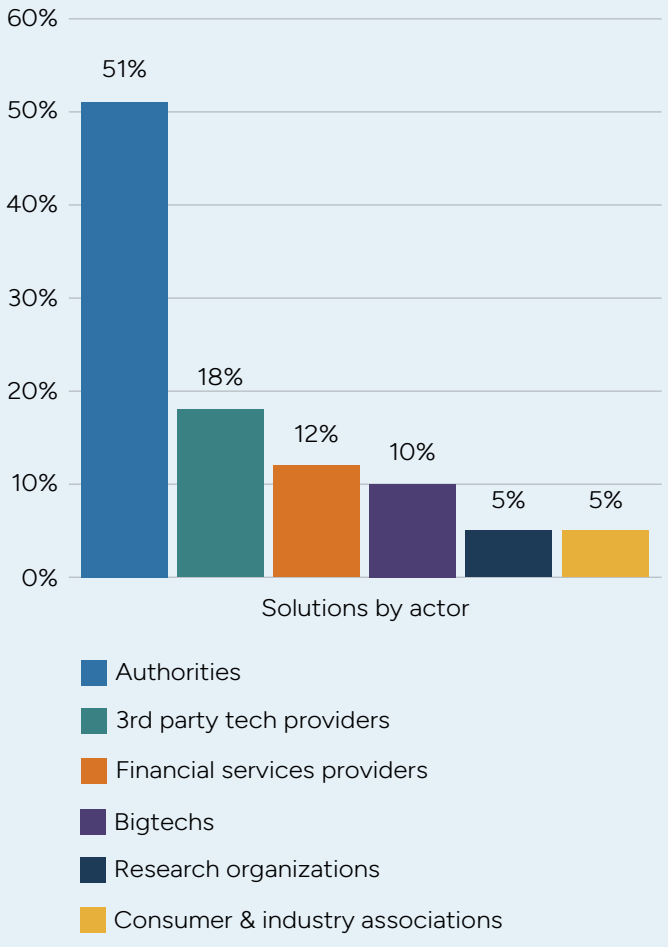
Researchers, consumer representatives, and funders play critical roles in advancing a responsible digital credit ecosystem. Research and consumer organizations have partnered with authorities and providers to monitor borrower risks, generate market insights, and test and advocate for solutions. We encourage them to deepen these efforts and strengthen their ability to engage effectively with authorities and providers. We also encourage funders to disseminate and advocate for solutions, conduct thorough due diligence, monitor the adoption of solutions, and strengthen collaboration among stakeholders.

Ultimately, only collaborative efforts will lead to a responsible digital credit ecosystem.

Summary Results of the Global Landscaping

This desk research identified 160 initiatives aimed at addressing the various risks faced by personal digital credit borrowers. Numerous initiatives span multiple risks, phases of the risk management cycle, and stages of the customer journey. The majority were led by government authorities (see Figure 1). For these solutions, our unit of analysis was a specific regulatory chapter or clause, rather than an entire regulation or guideline. As a result, a single digital credit guideline or regulation may have been disaggregated into multiple initiatives, each linked to different consumer risks.

FIGURE 1. **Initiatives per actor**



Source: Authors.

Note: Values do not add to 100 percent due to rounding.

Regarding the customer journey, most initiatives focus on the steps of application, repayment, and agreement stages (see Table 1). In terms of consumer risks, the most commonly addressed issue was lack of transparency, followed by fraud, data misuse, and unfair treatment (see Table 2). Across the risk management cycle, the majority of initiatives targeted risk prevention (108) and risk mitigation (63) (see Table 3).

References

Duflos, Eric, Juan Carlos Izaguirre, Sai Krishna Kumaraswamy, Laura Brix Newbury, and Myra Valenzuela. 2024. "Responsible Digital Finance Ecosystem (RDFE): A Conceptual Framework." Working Paper, Washington, D.C.: CGAP. https://www.cgap.org/research/publication/responsible-digital-finance-ecosystem-rdfe-conceptual-framework

TABLE 1. **Initiatives by step in the customer journey**

Customer Journey Step	No. of Initiatives (Many Cover Multiple Steps)
Awareness/ Market Information	66
Advice/ Orientation	59
Account Sign-up	79
Application	90
Agreement	83
Assessment/ Approval	72
Disbursement	63
Using Funds	51
Repayment	88
Closure	47
Late Repayment	56
Recourse/Query/ Grievance	72

Source: Authors.

TABLE 2. **Initiatives by consumer risk and issue**

Consumer Risk and Issue	No. of Initiatives (Many Cover Multiple Risks)
Behavioral Vulnerabilities	24
Fraud	41
Data Misuse	36
Lack of Transparency	48
Inadequate Redress	19
Unfair Treatment	33
Agent-Related Risk	11
Network Downtime	19
Overindebtedness	32

Source: Authors.

TABLE 3. **Initiatives by risk management phase**

Risk Management Phase	No. of Initiatives (Many Cover Multiple Phases)
Risk Identification	52
Risk Prevention	108
Risk Mitigation	63
Risk Resolution	11

Source: Authors.

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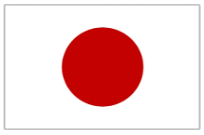

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