

# Recourse in Digital Financial Services: Opportunities for Innovation

Ramkumar, a migrant from Bihar, works at a construction site in Delhi, India. He regularly sends money to his family, who lives several hours away in Deoghar, Jharkhand, at the nearby State Bank of India (SBI) branch. He loses a day's wage each time, as the bank branches are crowded and it takes hours to go through the long queues. His friend Raj told him he can now deposit money at the nearby mobile money agent in just five minutes. Ramkumar tries this and deposits INR 3000 (US\$50) at the agent to be transferred to his SBI account. The agent accepts the cash, dials the transaction on his mobile, and tells Ramkumar he will receive the SMS immediately. Ramkumar waits for 10 minutes, but the SMS does not arrive and he begins to get worried. Then he spots the toll-free customer care number on a poster and calls. The customer care executive (CCE) confirms that the transaction happened, the amount has been credited, and Ramkumar should receive the message shortly. Five minutes later the SMS arrives and the CCE calls to confirm. Ramkumar is delighted with this personal attention and decides that from now on he will send money only through an agent.

This actual case highlights the importance of an efficient customer recourse system.<sup>1</sup> Recourse systems can help consumers overcome the challenges related to product adoption and continued use by helping resolve initial problems or challenges quickly, which can build trust in providers and their products, and increase uptake and customer retention.<sup>2</sup> Effective recourse—and the key principles of awareness, access, timeliness, and fairness associated with effective recourse systems—becomes all the more relevant in the case of digital financial services (DFS),<sup>3</sup> which still face trust deficits among some consumers.

## DFS and Recourse Systems

Mobile phones and agents are driving expansion of formal financial services by allowing for new delivery models and product designs that target base of the pyramid<sup>4</sup> (BoP) consumers. These new access points and transaction types also create new challenges and opportunities for delivering timely, accessible, and effective complaints resolution. This Brief highlights lessons from CGAP research on recourse systems developed and being implemented for DFS from six markets using a range of different DFS business models and product lines. The following are three key considerations that can significantly influence the effectiveness of recourse systems in DFS:

- 1. New touchpoints and distribution channels.** These expand recourse options, but can also lead to complaints getting lost in the resolution process as there are multiple levels for customer interaction.
- 2. User-led versus agent-led transactions.** The primary transaction point, whether it is at an agent or the consumer on his or her own mobile wallet, will influence the proper design of the recourse system and likely channel for complaint resolution.
- 3. More advanced services beyond payments.** Offering more complex products such as credit, savings, and insurance via these channels will raise new issues, so recourse systems of DFS providers will need to evolve in response to these product innovations.

This Brief offers guidance for DFS providers to strengthen their recourse systems and adapt them over time as their service offerings and business models evolve. Research conducted includes approximately 50 interviews with consumers, management, agents, and call center staff in six markets (Cambodia, Ghana, India, Kenya, Tanzania, and Uganda) and observations of consumer consultations. CGAP also conducted more in-depth behavioral mappings of entire recourse systems—both DFS and traditional channels—in Ghana and Kenya to probe more fully on consumer behavior and design of provider recourse systems.<sup>5</sup>

1 Consumer recourse refers to the ability to raise grievances and have them heard and resolved or redressed. A customer recourse system refers to the channels and processes by which a financial service provider receives and resolves consumer inquiries and complaints.

2 For a detailed review of key considerations and effective approaches in recourse in a financial inclusion context, see Chapman and Mazer (2013).

3 DFS refers to a full range of products (including digital transfers, payments, stored value, savings, insurance, credit, and more), channels (such as mobile phones and automated teller machines [ATMs]), and providers (including mobile network operators, banks, nonbank financial institutions, and e-money issuers, retailers, post offices, and others).

4 The term "base of the pyramid consumers" describes a consumer profile characterized by a number of related and overlapping potential vulnerabilities including low or variable incomes, lower levels of financial literacy and capability, and limited access to or experience with formal financial services.

5 CGAP conducted behavioral mappings of recourse systems in Ghana and Kenya in 2013 and 2014, respectively. The research included consumer segments that did or did not avail of recourse systems when problems arose, mapping of actual and ideal complaints channel design, and consultations with complaints handling staff at financial service providers

## New Touchpoints and Distribution Channels

During the behavioral mapping research conducted by CGAP on consumer complaints experiences in traditional delivery channels such as branches, the following were some of the main challenges identified for consumers:

- Time and distance costs to present their complaints.
- Lack of comfort with branch locations, lengthy queues, and poor complaints handling—even intentional negligence—by branch staff who are not specialized in handling complaints.
- Lack of clear transactional records or complex processes to access such records at branches.

A key plus of the new DFS channels and services is their ability to improve the number and accessibility of recourse options for customers. For example, one mobile network operator (MNO) in Ghana offers at least seven different channels where customers can present an initial customer complaint, including toll-free call center number, agents, sales offices, and periodic “road shows” by staff. An MNO in Kenya employs a dedicated social media team that uses channels such as WhatsApp, Facebook, and Twitter to resolve complaints. This shows that DFS providers are starting to segment consumers and identify common issues to customize the complaints handling process and increase efficiency in handling and resolving consumer inquiries across growing product lines and touchpoints.

DFS providers can and should prioritize leveraging mobiles and agents to offer more accessible and user-friendly recourse systems when developing new service lines. Our research revealed three essential features.

**Complaint tracking and turnaround time.** Using mobile phones for most DFS transactions allows for improvements in ticketing and tracking of complaints via an SMS confirmation of the complaint receipt and tracking number immediately after being submitted. CGAP research revealed consumers often do not have a clear concept of how many days it should take a complaint to be resolved, in part because providers do not give them a specific timeframe. SMS confirmations with committed turnaround times can both frame expectations and improve customer trust in recourse systems.

**Complaints “triage.”** Local agents can mitigate distance barriers, which are an oft-cited problem for low-income and rural financial consumers in presenting and resolving complaints. Properly trained agents can also serve as a form of triage for consumer complaints, limiting the number of minor inquiries or basic questions that are directed to the consumer hotline.

**Partnerships and efficient complaints resolution.** As DFS expands beyond closed-loop payments products to include interoperable mobile payments, bill pay, bank-to-wallet transfers, savings, credit, and insurance, an increasing number of parties get involved in administering and delivering these products, some of whom are small firms without proper complaints handling infrastructures already in place. This can confuse consumers’ perceptions of whom they should approach when problems arise. Even if the delivery channel provider does not issue or administer the product, consumers typically turn to the consumer-facing brand in the partnership. Therefore, partners in DFS products should develop back-end coordination mechanisms so even when consumers direct their complaint to the wrong contact, it is quickly redirected to the appropriate contact point. For example, while M-Pawa in Tanzania is a bundled loan and savings product offered and held by Commercial Bank of Africa (CBA), the advertising, as well as the complaints resolution systems, emphasize MNO partner Vodacom as the consumer-facing brand and responsible party for complaints handling. To improve the complaint-handling experience, CBA provides the upfront specialized training for the MNO call center staff that handle calls related to these credit and savings accounts. In India, Eko, a DFS provider that has multiple banks as partners, has developed support tools such as process manuals for each partner bank to standardize complaints processes across Eko’s partnerships.

## Recourse Options for Different DFS Models: Over-the-Counter and Mobile-Wallet Based

The difference between over-the-counter (OTC) or agent-based versus mobile wallet-based transactions has important implications for design of recourse systems; the respective roles of consumers, agents, and call centers; and the challenges and opportunities to make recourse work better for BoP consumers. The most salient difference from a recourse standpoint is the customer’s degree of “ownership” of the transaction process. In a wallet-based model consumers will generally need to be able to conduct more of the transactions on their own,<sup>6</sup> while in OTC models the agent plays a leading role in sending, receiving, and cashing out the money using the agent’s own account. This distinction creates different risk points and responsibilities between consumers and agents when problems occur.

## OTC Transactions and Recourse

In OTC models, customers are more likely to complain to agents instead of complaining directly to the service provider. In these cases, however, lodging a complaint against an agent can be problematic for customers. From interviews with OTC customers of different providers, few

<sup>6</sup> In some markets consumers with limited experience or low technical literacy may have agents or other third parties help them conduct their transaction, even if it is being sent from the consumer’s own mobile wallet on their own handset. In these cases, the consumer may face recourse challenges and consumer protection risks relevant to OTC transactions as well as wallet-based transactions.

### Box 1. Tips for an effective DFS hotline

Even with mobiles and agents, the hotline will likely remain important as a quick and efficient channel for accessing the recourse system. The research identified four best practices:

1. **No charge for the call.** Both agents and consumers interviewed mentioned lack of a free hotline as a deterrent to lodging complaints.
2. **Specialized hotline for DFS** if the provider offers other services such as telecommunications.
3. **Procedures to deal with common problems** and expedite/escalate more serious ones. Some DFS providers have developed specialized teams to handle more serious issues such as payment reversals, lost SIMs, and forgotten personal identification numbers (PINs).
4. **Dedicated agent hotline** to fast-track agent issues or time-sensitive customer complaints.

of the customers were even aware of the existence of the hotline. When asked what they would do if they had an issue, most reported they would turn to the agent. In one case, where a consumer had been overcharged by an agent, rather than seeking out the recourse channel, he just stopped using that agent.<sup>7</sup>

Providers can take three steps to encourage OTC consumers to complain more effectively:

1. Improve awareness of the hotline via well-placed and prominent signage.
2. Train agents to support OTC users that need assistance to resolve problems with the DFS. Agents of one OTC-dominant provider revealed significant differences in attitudes and actions taken to help customers avoid falling victim to common frauds such as lottery scams. Some agents reported warning customers that came in with abnormally large transactions or nervous looks on their faces that the lottery “winning” was likely fraudulent. In contrast, other agents did not intervene despite their suspicions because they believed it to be the customers’ fault if they are defrauded. While personality differences may account for some of this variance, improved agents training on fraud detection, and even incentives for catching and reporting fraud instances, could be helpful.
3. Leverage call center data to help detect abusive practices in an OTC environment. For example, one DFS provider in Asia monitors and investigates the transaction amounts for overcharging, noting cases where the amount sent is just below or above a common whole number sending amount (e.g., the consumer deposits to send 100, but the agent sends 99 and pockets the extra 1 for himself or herself.) Consumers in OTC transactions do not always receive SMS transaction receipts, which can make monitoring of overcharging more difficult. Because of this,

transactional data can become an important tool, in addition to self-reporting by consumers, to identify abusive OTC behavior.

### Mobile Wallet-Based Transactions and Recourse

Unlike OTC users, wallet customers risk losing any stored value on their wallet through common fraud, such as phishing scams, SIM swaps,<sup>8</sup> and fake reversal requests,<sup>9</sup> and are not always near an agent who can assist them. Providers highlighted the importance of a well-functioning and well-used recourse system in identifying and mitigating these wallet-specific types of fraud. As such, it is particularly important that providers offer multiple means of access to the recourse system for wallet users, and use proactive communication to help consumers avoid common wallet-based risks such as fraud.

### More Advanced Services beyond Payments

The addition of credit, savings, and insurance products to DFS offerings affects how recourse systems should be designed and implemented, due to their more complex and variable terms and longer tenor. In addition, they may rely less on agent networks and be delivered through a more complicated and multi-step user interface. As a result, these more advanced products may require new approaches and capabilities within a recourse system.

*Product-Specific Recourse Issues in Mobile Credit.* For the mobile savings and loan product M-Shwari, the call center team has played an important role in increasing customer awareness of loan due dates and encouraging customer repayment. On the day the loan is due, call center staff call each customer to remind him or her of the due date and encourage him or her to make at least partial payments to avoid falling into delinquency. They

<sup>7</sup> Financial Inclusion Insights surveys in Tanzania and Uganda found similar behavior with consumers who were overcharged by agents switching agents or reporting the problem to another agent instead of presenting a formal complaint.

<sup>8</sup> In a SIM swap, fraudsters clone a consumer’s SIM onto a new SIM to transfer all the details onto the new SIM, including the mobile money account.

<sup>9</sup> A fake reversal request involves sending a fake transaction confirmation to another user, then calling them to ask that they reverse the transaction, as they had sent it in error, or making a purchase with mobile money, then immediately calling customer care to reverse the transaction, thereby canceling the payment for the item purchased.

also explain the longer term consequences of extended delinquency—such as being reported to the credit bureau. These calls complement SMS messages that are sent to borrowers as the loan due date approaches, which may be a good practice for similar mobile-phone-based credit products. The call center team in fact received an internal award from the provider six months after it was launched for helping to drive down nonperforming loans. For a more in-depth look at recourse and other consumer protection aspects of the M-Shwari product, see Cook and McKay (2015).

*Product-Specific Recourse Issues in Insurance.* An MNO-microinsurance partnership in West Africa has developed a high-touch, pro-consumer claims handling system built into the hotline operation for its health insurance products. While insurance claims are not identical to complaints, they also require an initial outreach by a consumer to notify the provider, often require follow-up and escalation, and can turn into complaints if the consumer is not satisfied with the claim decision. The approach used by the insurance provider to address claims may therefore provide useful lessons for DFS recourse systems in general. In this case, the microinsurance provider proactively follows up with its consumers to ensure consumers can navigate the claims process and helps them to secure all the required documentation—including alternate documents, such as a note from a village elder. In one West African market where this provider is active, the provider originates on average more than four calls to a claimant for each successful claim. While distance and lack of face-to-face interaction can present barriers to claims processing, this microinsurance provider has built out a cost-effective, remote claims handling system that takes advantage of the mobile channel to increase the likelihood a consumer's claim is honored, and may provide applicable lessons for building effective DFS recourse systems.

## Conclusion

The DFS ecosystem is becoming an increasingly diverse space, with a growing range of products and delivery channels. It is also a space where smaller actors are joining large banks and MNOs as DFS providers. Both the growing product line, and the wide range of provider types offering DFS products, can create capacity

challenges for providers who either need to establish a recourse system, or adapt their existing recourse systems from more mature product lines—such as traditional banking or telecommunications services—to DFS products and delivery channels.

The use of innovative delivery channels to offer more complex financial products also requires increased sophistication in customer care and handling of consumer inquiries and problems. For consumers to take full advantage of these valuable products and services, they need sufficient support and quick resolution when things go wrong, in particular when they are first beginning to use these DFS services.

This review of emerging practices in recourse for DFS shows that there is great potential for building effective recourse systems that are worthy of the innovative products they serve, and can help support use of these products by consumers even in the face of initial challenges.

Returning to the case of Ramkumar in India, we can see how a well-designed recourse system can help encourage uptake and continued use of DFS products and services. To effectively implement the strategies described in this Brief, we advise DFS providers to take stock of their existing recourse system, their consumers' experiences accessing this system—including the barriers that prevent some customers from formally presenting complaints when problems arise—and how new DFS channels and products they offer can be leveraged to improve the quality of their recourse system.

## References

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## AUTHORS:

Rafe Mazer and Nitin Garg