

Emerging Risks to Consumer Protection in
Branchless Banking:
Key Findings from Colombia Case Study



Bankable Frontier Associates for CGAP

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Background and methodology

In this research on emerging consumer risks in branchless banking commissioned by CGAP, we sought to answer the questions: What problems with branchless banking and mobile financial services models put consumers at risk in Colombia? What can be done to mitigate these risks while still encouraging innovation in the financial markets that serve the poor?

To understand the perspectives of providers and regulators on consumer protection in digital finance, we interviewed representatives of primary banks that offer digital financial services in Colombia, as well as regulators, industry associations, and an agent aggregator. The interviews were conducted between 28 July and 15 August 2014.¹ The purpose of the interviews was to uncover new risks to clients from branchless banking and digital financial services, and to understand what providers and policy makers are doing to protect customers.

On the demand side, we used a combination of individual in-depth interviews and focus group discussions to explore client concerns about agent- and mobile-driven financial services delivery. Respondents were selected from two urban areas of Bogota (Rafael Uribe and Ciudad Bolivar) and two peri-urban areas on the outskirts of Bogota (Usme and Bosa)—all are low-income neighborhoods. Our methodology used exploratory techniques with a small sample, rather than an investigation of the prevalence of problems in a wider sample of the population. This approach provides a window into the frequency and severity of problems that urban low-income populations experience with agents and mobile money.²

Clients report that network outages are the most frequent problem they face in digital financial services.

In the focus group discussions, we asked clients to identify problems they experience when using branchless banking services, and to rank the problems mentioned in each group by importance and frequency. Clients reported network outages as the most *frequent* problem they encountered.

In Colombia, clients mention that both the cell phone network and the point-of-sale connectivity at the agent are offline fairly frequently. Although clients experience this as an inconvenience more than a prohibitive crisis, they found that reversing or getting money back from a suspended transaction can be annoying and time consuming. Clients explained that they can get around network issues by going to another agent or transacting at a different time of day, but these workarounds reduce the convenience of agent banking. And lack of reliability may deter clients from using additional services, such as deposits or bill pay, at agents, as one client described:

“[When my mobile recharge did not go through at the agent] I had to go to [the mobile network operator’s] office.... It was just 10,000 pesos (US\$5) but it’s annoying! I waited for three days for them to answer my complaint, but I [never got it resolved]. This experience led me to worry: what if it happens when I’m paying my bills?”—Man, Rafael Uribe

¹ See the [interviewee list](#) on page 7.

² Note that this sample was selected for qualitative research and is not representative of Colombians, or even of low-income residents of Bogota. More research would be needed to understand the prevalence and actual frequency of these problems in Colombia.

Some clients reported leaving money with agents whom they trust, to complete the transaction once the network is restored. People are accustomed to putting up with network downtimes in the cellular network, and clients do not see network outages as posing a major threat to the safety of funds. However, in interviews with agent network managers on the supply side revealed that network unreliability allows for increased agent fraud, and thus posing a more serious risk.

Agent network managers have observed that network downtime creates more opportunities for agents to misuse funds. In particular, in Colombia this manifests as “jineteeo”—meaning keeping cash to use for one’s own purposes. Clients leave money with agents to pay bills when the network is down, and the agent then holds onto the cash and may use it for his or her own needs, paying the client’s bills at the last minute. Clients will not know that the agent used their money in this way unless the agent runs into a liquidity problem, or for other reasons does not pay on time or at all. We were not able to ascertain how widespread this problem is; more research is needed to estimate how many clients have been affected. Interestingly, although agent managers were aware of this problem, banks did not report it during our interviews. Indeed, providers did not seem well-informed about the impact of network down time on mobile and agent financial transactions.

Clients are most concerned about the lack of clarity about where to complain.

In the ranking exercise participants ranked lack of clarity about how and where to complain as their most *important* concern about digital financial services. Not knowing where to go to file a complaint and not trusting that problems will be solved are major concerns among Colombian clients. Interestingly, respondents voiced concern that they would not be able to get effective recourse when they needed it, rather than having immediate problems requiring resolution. People experience this problem more as a fear of a hypothetical situation, rather than having complaints they want to file immediately.

The ranking exercise revealed that having a problem and wanting to file a complaint is not something clients experience frequently. Despite this, clients still report that not knowing where to file a complaint is the most important problem they face. This is because lack of recourse does not have work around solutions that network unreliability does. It is especially scary to clients that if something went wrong with their account, then they would be unable to access their money and would not be able to reach the provider or to solve their problem. Clients reported that they lack information about the correct channels for resolving a problem, fueling this fear of being stranded and unable to get help if they were to need it. Others are misinformed about the correct channels for complaints. For example, clients said they would complain to another agent or to the police if they had a problem with an agent or mobile money, rather than first complaining to the bank.

Among those clients who had complained in the past, forgetting a personal identification number (PIN) or having a transaction that did not go through were the most common problems. Most people in this sample who had complained actually had acceptable (though not perfect) experiences when contacting customer service. Still, some clients did complain of long wait times and staff indifference toward their problems:

“What happens is that you call the bank and you fall asleep because nobody answers.”—Man,
Rafael Uribe

Another reported that talking to an agent about their problem was useless:

Moderator: “Did you show the text message to the agent showing him [the government-to-person deposit confirmation]?”

Respondent: “Yes but ... it was like showing it to the wall because he didn’t even looked at it.”—
Woman, Ciudad Bolivar

Although information about where to complain has not yet filtered down to all clients, the Colombian Financial Supervisor (SFC) is working hard to ensure that complaint mechanisms are up to snuff. Colombia regulation does require complaints escalation processes from providers, and SFC can adjudicate in favor of clients in the case of provider wrong doing. When clients complain to SFC, SFC can issue a legally binding ruling against a financial service provider in favor of a consumer. Using this process SFC may take it on itself to seek redress on the consumer’s behalf. However, according to SFC, there are few complaints to this channel, suggesting that customer knowledge of this option remains low.

Despite difficulties in using digital financial services, Colombians are proactive about being vigilant and not being scammed.

Colombians proactively watch out for fraudsters and are aware so they are not taken advantage of. This is likely due to a combination of culture as well as successful campaigns by providers and the government about keeping PINs safe and being on guard against theft. One respondent described the alertness required to transact at agents and automatic teller machines (ATMs) successfully:

“We have to be very alert of every movement, because danger is everywhere. They can be watching you from far away, so you have to be awake.”—Man, Usme

Clients reported that those who lose money in financial products are at least partly to blame for not being sufficiently alert. “No dar papaya” or “don’t give a papaya” is a Colombian phrase that illustrates this idea. Loosely translated *no dar papaya* means do not put yourself in a position where you can be taken advantage of. This hyperawareness cuts both ways: on one hand it helps clients take precautions to protect their money, but on the other hand the attitude that the client is to be blamed may discourage clients from seeking redress if they perceive a problem to be their own fault.

While temporary PINs may increase security, difficult-to-use interfaces obfuscate mobile financial products.

When discussing the usability of mobile products, many clients expressed a lack of confidence in using the technology. Clunky and poorly designed user interfaces make it difficult for clients who are new users of mobile financial services to master unfamiliar technologies. Participants in the qualitative research, particularly older individuals, reported that they rely on members of their social network, especially family members, to carry out transactions for them. This was the case for an individual interview respondent:

“My sister always withdraws and brings the money for me.... She tries to teach me, but I’m scared with all those buttons of messing up and losing the money.”—Woman, Usme

The *Banca Movil* platform—which is common to all banks—is somewhat convoluted and requires many steps to conduct a simple operation. Clients reported that unintuitive and difficult-to-use interfaces cause them to share PINs with family members and agents, which can result in theft.

Although clients reported that the user interface of the mobile wallets in Colombia is hard to use, the two products currently on the market do use an innovative cardless system that has security advantages. The most popular mobile wallet products, *Ahorro a la Mano* and *Daviplata*, both rely on a temporary SMS code that can be used for withdrawal at the ATM or agent within a 30- or 60-minute window, after which the PIN is rendered invalid. Although a PIN is still required to access the mobile banking menu, the use of temporary PINs reduces the risk that accounts are compromised remotely just by knowing someone’s PIN.

Aligning agent and agent network managers’ incentives with a good customer experience has potential to reduce problems at the agent channel.

Strong agent training and supervision is instrumental in ensuring that agents treat clients well. There are a number of approaches to agent network management in Colombia. Our research provides weak anecdotal evidence that the common practice of outsourcing agent aggregation and management to a third-party company may create more opportunities for consumer protection breaches. We find that in some cases, when agent managers act as “middlemen,” it is in their interest to limit the extent to which the provider is made aware of customer problems with agents.

In addition, the incentives for the agent managers will impact the time and explanations agents give clients, and how likely they are to cheat clients. For example, if the agents and agent aggregators are paid by the number of transactions, they have an incentive to sign many bill pay vendors and to perform each transaction as quickly as possible. Because of these incentives, it is not surprising that agents do not want to take the time to explain a new product to clients or to help them when something goes wrong.³ Similarly, some banks in Colombia reported that agents will treat clients with deference and patience only when the agents feel loyal to the bank they are representing. In supply-side interviews, banks and agent network managers reported that helping agents see the value in building long-term relationships with clients is key in ensuring that agents treat customers well.

We encountered three positive examples of agent network management in which providers are prioritizing a good customer experience at the agent:

- The microfinance provider **Finamerica** is selective in choosing agents: agents must be trained as community leaders first, before having the opportunity to act as an agent. Agents will therefore have worked for two to two-and-a-half years with Finamerica, giving financial education training and working on community development projects, before they begin to transact as agents. Finamerica clients, therefore, have a high level of trust in the agents. Finamerica plans to share

³ We suspect these issues to be a particular challenge in Latin America, where bill pay dominates transaction volume at agents. As opposed to the findings from the parallel MicroSave study in the Philippines, Uganda, and Bangladesh, where agents are the frontline of interaction with clients and agent banking is perhaps their only business, in Colombia there are more lucrative uses of agents’ time than cash-in/cash-out transactions.

its agent network with other financial service providers to recoup some of the high cost required to invest in quality agent relationships.

- Unlike other commercial banks, **Bancolombia** has maintained direct control of agent training and complaints resolution. The bank finds that resolving complaints through its centralized call centers allows it to closely monitor problems, and to ensure a higher level of quality in solving clients' problems. Bancolombia offers a specific call center to help its agents.
- Microfinance provider **Banco WWB** was particularly concerned about security breaches by agents. It implemented innovative solutions including the following:
 - The agent operator does not have access to any kind of client/product information
 - Withdrawals have a limited timeframe to cash-out after request
 - Mobile withdrawals require physical identification, PIN, and over-the-counter code
 - Mobile banking leaves no information, notifications, or geolocation information on clients' phones
 - Tips for how to transact securely are explained in detail upon product opening.

These different models illustrate that there may be many paths to building a well-functioning agent network, but establishing a strong relationship between the provider and agents is important.

Questions for additional research

Relying on qualitative research, we were not able to learn about the incidence of problems in the population of branchless banking users, or about which client segments would be most severely affected by emerging risks. Specific additional research questions for demand-side research include the following:

- What is the frequency and severity of cited risks and problems at the national level? Quantitative surveys or accessing detailed information from call centers may be required.
- How does the likelihood of complaining and difficulty with technology vary by gender and other demographic factors?

In interviews, providers explained that agents can be both the perpetrators of fraud and theft in agent banking as well as victims themselves. Interviewing agents to understand the challenges they face and the incentives that guide their behavior would be a useful supplement to this study. A survey that samples from agents that operate under different management models would shed further light on which agent management systems are conducive to a positive customer experience and efficient resolution of client complaints.

Additionally, providers and regulators are interested in learning about the findings from the demand-side research on consumer protection in branchless banking. This research could be used as a starting point to motivate dialog between providers and regulators about client protection in branchless banking through an in-country workshop.

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List of interviewees in supply-side interviews

Institution	Name	Position
Bancolombia	Mauricio Munera Palacio	Director, Financial Inclusion
Comisión de Regulación de Comunicaciones (CRC)	Juan Pablo Hernandez	Executive Director
Asobancaria	Margarita Maria Henao	Director of Financial Education and Stability
Asobancaria	Juan Camilo Berrio	Director of Payments and Financial Inclusion
Superintendencia Financiera	Jorge Castano	Director of Research and Development
Superintendencia Financiera	Ernesto Murillo	Director of Operational Risk
Superintendencia Financiera	Sandra Villota	Director of Research
Superintendencia Financiera	Miguel Angel Villalobos	Deputy, Operational Risk
Banco Caja Social	Carolina Guzman	Innovation Manager
Banco Caja Social	Juan Pablo Rojas	Manager, Marketing
Banco Caja Social	Maria Nieves	Manager, Channels
Banco WWB	Jose Alejandro Guerrero	President
Asomicrofinanzas	Maria Clara Hoyos	Executive President
Consultant	Beatriz Marulanda	Consultant
Finamerica	Gregorio Mejia	President
Banca de las Oportunidades	Carmen Cecilia Leon	Investment Program Coordinator
Consultant	Jose Fernando Astralaga	Consultant