Mitigating Digital Finance Risks for Consumers in Sub-Saharan Africa

May 3, 2022
<table>
<thead>
<tr>
<th>Time</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>9:00</td>
<td>Welcome and introductions</td>
</tr>
<tr>
<td>9:05</td>
<td>Opening Remarks by CGAP CEO Sophie Sirtaine</td>
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<tr>
<td>9:12</td>
<td>Presentation - DFS consumer risks</td>
</tr>
<tr>
<td>9:27</td>
<td>Presentation – CGAP’s market monitoring toolkit</td>
</tr>
<tr>
<td>9:34</td>
<td>Q &amp; A</td>
</tr>
<tr>
<td>9:40</td>
<td>Panel discussion</td>
</tr>
<tr>
<td>10:10</td>
<td>Q &amp; A</td>
</tr>
<tr>
<td>10:25</td>
<td>Reactions from panelists and conclusion</td>
</tr>
</tbody>
</table>
Logistics

1. Participants’ microphones will remain muted in the first hour of the webinar.
2. Participants will be unmuted during the breakout session.
3. To ask questions during the webinar, please use the chat box. Please submit your question at any time during the webinar presentation.
4. To ensure your question is seen by the moderator, select “All Participants” from the drop-down menu when sending your question.
5. The webinar recording will be emailed to all participants and registrants.
The evolution of the nature and scale of DFS consumer risks in SSA region

What does the evidence show?
Benefits of digital financial services

DFS help reduce negative coping mechanisms and increase access to essential services

- **Uganda** – mobile money improved saving, borrowing & remittances by **25%**, **22%**, and **82%**, respectively.

- **Kenya** – households that used Mshwari were **6.3% less likely** to forego expenses due to negative shocks.

- **Côte d'Ivoire** – a short-term digital education loan product helped to increase children’s school enrolment rate from **49%** to **73%**

Further info is available in *The Evolution of the Nature and Scale of DFS Consumer Risks*, CGAP 2022

Photo by Evarine Bagambiki for 2016 CGAP Photo Contest
CGAP identified 66 consumer risks and categorized them into four broad risk types and two cross-cutting risks.

**Four broad risk types**

- **Fraud**
  - Examples: • SIM swap fraud • Mobile app fraud

- **Data Misuse**
  - Examples: • Algorithmic bias • Unfair practices e.g., social shaming

- **Lack of Transparency**
  - Examples: • Undisclosed fees • Complex user interface

- **Inadequate Redress Mechanisms**
  - Examples: • Complex redress process • Expensive complaints handling system

**Two cross-cutting risk types**

- **Agent-Related Risks**
  - Examples: Liquidity challenges, agent fraud, discrimination based on social status

- **Network Downtime**
  - Examples: Distributed Denial of Service (DDoS) attacks, insufficiently tested system upgrade, power outage

Fraud and data misuse are directly linked to cybersecurity. The two cross-cutting risks share some elements with all four broad risk types.

Further info is available in *The Evolution of the Nature and Scale of DFS Consumer Risks, CGAP 2022*
The scale of DFS consumer risks has increased in most cases

Available evidence and data since 2015 show an increase in scale for most risk types identified by CGAP

<table>
<thead>
<tr>
<th>Risk type</th>
<th>Global</th>
<th>Regions*</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Fraud*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Data misuse</td>
<td></td>
<td></td>
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<tr>
<td>3. Lack of transparency</td>
<td></td>
<td></td>
<td>N/A</td>
</tr>
<tr>
<td>4. Inadequate redress mechanisms**</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
</tr>
</tbody>
</table>

Red arrow: Available data show an **overall** increase in value or volume.

Orange arrow: Literature suggests an increase in value or volume without supporting data.

N/A: Reliable information and data are not available or sufficient to determine increase or decrease of the risk.

Further info is available in *The Evolution of the Nature and Scale of DFS Consumer Risks, CGAP 2022*
Mobile money users in Kenya face more challenges than other formal finance users

- 2016-2021: Formal inclusion up from 75% to 83.7% but financial health down from 39% to 17%.
- Mobile money account users who reported loss of money up from 8.4% in 2019 to 47.4% in 2021.
- Multiple borrowing increased from 33% before to 44% after the COVID shut down. (IPA, 2021).


Further info is available in The Evolution of the Nature and Scale of DFS Consumer Risks, CGAP 2022.
SIM swap fraud is rising faster than mobile cellular subscriber growth

Percentage change in SIM swap fraud incidents in South Africa (SA)’s banking sector and mobile cellular subscribers in SA: 2018–2020

- 2017/2020 – SIM swap fraud incidents in SA’s banking sector up by 233% vs # mobile cellular subscribers up by 8.4%.
- The mobile channel accounted for more than 90% of SIM swap fraud incidents.
- One of Mozambique’s largest banks had a monthly average of 17 SIM swap fraud cases before providers acted.

Source: South African Banking and Risk Information Centre (SABRIC) 2018, 2019, and 2020 annual stats (SIM swap fraud); World Bank DataBank (mobile cellular subscribers).

Further info is available in The Evolution of the Nature and Scale of DFS Consumer Risks, CGAP 2022
COVID-19 exacerbated DFS consumer risks

40% of SSA's regulators perceived an increase in fintech-related consumer protection risk during COVID-19 compared with the global average (13%).

Nigeria
Abusive digital credit-related debt collection practices were reported during the COVID-19 pandemic.

Zambia
In 2020 CCPC reported an increase in the number of complaints related to digital finance scams (Toronto Center, 2021).

Further info is available in *The Evolution of the Nature and Scale of DFS Consumer Risks*, CGAP 2022.
Some voices of DFS users in SSA

“MNO X regularly deducts airtime credit from my phone, so I am afraid that if I open a mobile money account the company will do the same with my money. I don’t trust this MNO.”

— Street vendor, Bamenda, Cameroon

“It is difficult to trust that your money is safe with FSP Y or Z. With network problems you are not sure if it is true that they have network problems or if it is just your money that they do not have to give you.”

— Anonymous user, Zambia

“I stopped using Mobile Money because there was no security. Once someone stole 90,000 francs but there was no way of finding out who had withdrawn it.”

— Shop assistant, Dakar, Senegal.
Over-indebtedness is more complex in the digital era
Journey of a customer using a fraudulent digital credit app

- Customer gets unsolicited marketing messages.
- Customer trusts app which uses prominent person’s name.
- Customer doesn’t understand terms & conditions.

**Lack of transparency and fraud &**

**Data misuse, & agent issues**
- Customer permits the app to access their data e.g., contact list, photos, GPS location, etc.
- Unrealistic targets force agents to call customers or customers’ contacts repeatedly.

**Loan stacking**
- Customer obtains another loan/s to repay the existing one.
- Customer caught up in a vicious circle.

“Making Digital Credit Truly Responsible Insights from analysis of digital credit in Kenya.”—the study was commissioned by SPTF MSC, and the Smart Campaign, a project of the Center for Financial Inclusion.
The Market Monitoring Toolkit
Why is market monitoring important for consumer protection?

- Helps identify, understand, and track industry developments and consumer risks, behaviors and consequences.
- **Shifts the focus of supervision** from individual providers to markets and consumers
- Supports consumer protection approaches focused on **customer outcomes and financial health**
- Enables **risk-based conduct supervision**
Market Monitoring Toolkit

• Introduction

• Market Monitoring Tools

- Analysis of regulatory reporting
- Analysis of complaints data
- Phone surveys
- Social media monitoring
- Analysis of consumer contracts
- Mystery shopping
- Industry engagement
- Thematic reviews

• Characteristics
• How to use this tool?
• Benefits and opportunities
• Limitations
Market Monitoring Toolkit

- Introduction
- Market Monitoring Tools
- Country Cases

- Background
- Purpose & incentives
- Technical methodology & data ecosystem
- Staff, expertise & other requirements
- Vendor selection & cost
- Benefits & impact
- Limitations & implementation challenges
- Future plans for the tool
- Learnings
Market Monitoring Toolkit

**Supervisors**
- Where are you in your monitoring journey?
- How does market monitoring fit your supervisory activities?
- Establish a strong foundation for market monitoring
- Select a mix of tools

**Other stakeholders**

**Further Resources**
- Market monitoring FAQ
- Suptech FAQ
- What standard setters say
- Other resources

- Introduction
- Market Monitoring Tools
- Country Cases
- Taking Action
- Further Resources
Thank you

To learn more, please visit www.cgap.org/ConsumerRisk
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