



---

**Digital Consumer Credit:  
Four Ways Providers can Improve Customer Experience**

Rafe Mazer and Kate McKee | January 2018

# Digital credit offers opportunities that could benefit borrowers and improve providers' profits. But there are risks:



**Products scale quickly, with inadequate assessment of borrower ability to repay leading to high initial default rates**



**High interest rates with APRs near or above 100% could lead to over indebtedness**



**Easy access to credit with only a few clicks may cause over borrowing**

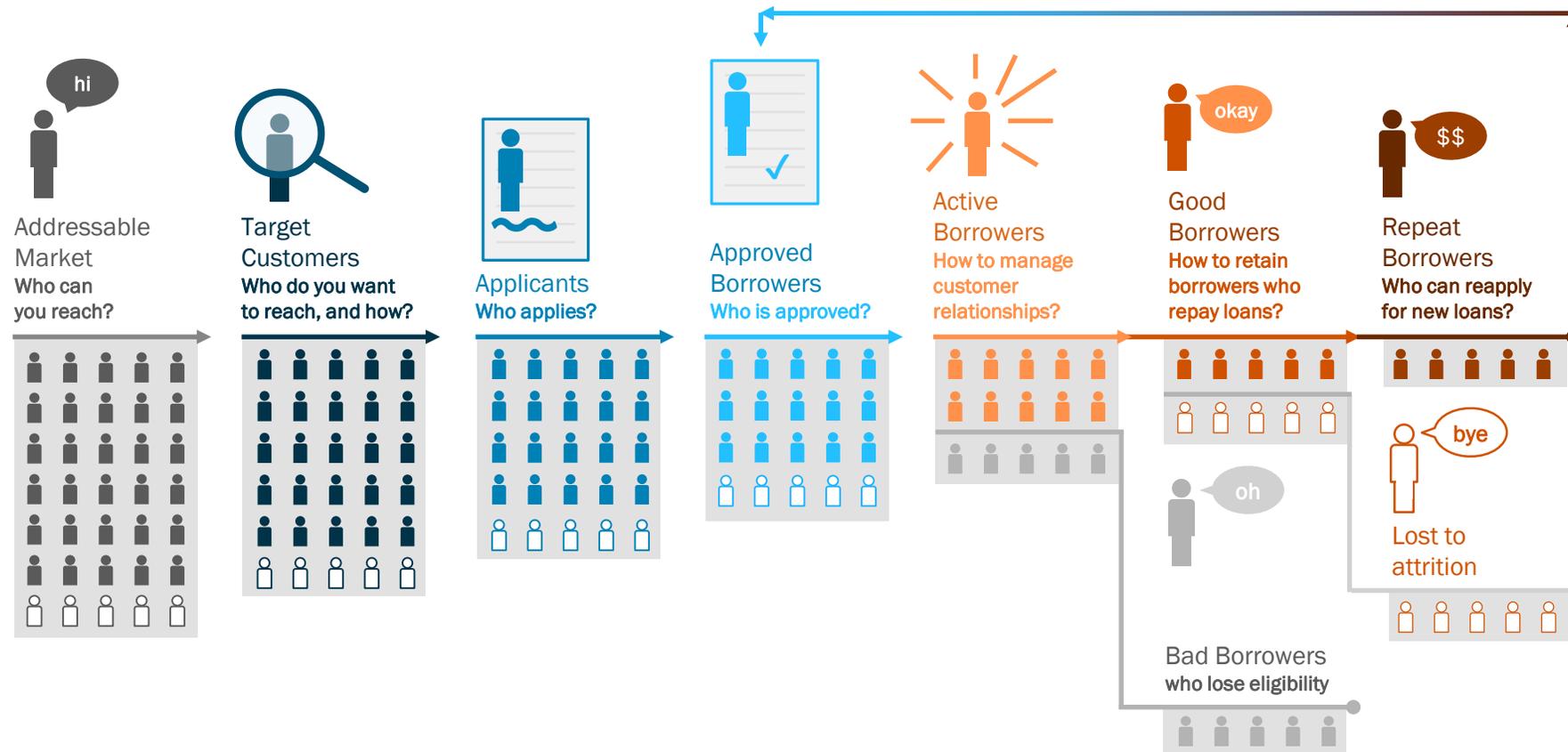


**Digital delivery may affect consumers' understanding of the credit costs**

# CGAP partnered with six digital credit providers to identify “win-win” opportunities for borrowers and lenders



# CGAP searched for opportunities for innovation across the product life cycle



# CGAP's research identified four areas where providers can deliver "win-win" solutions:

1

**Market their products for sustainability and to increase borrower intentionality**

2

**Increase transparency of price, and terms and conditions**

3

**Improve loan repayment and collections**

4

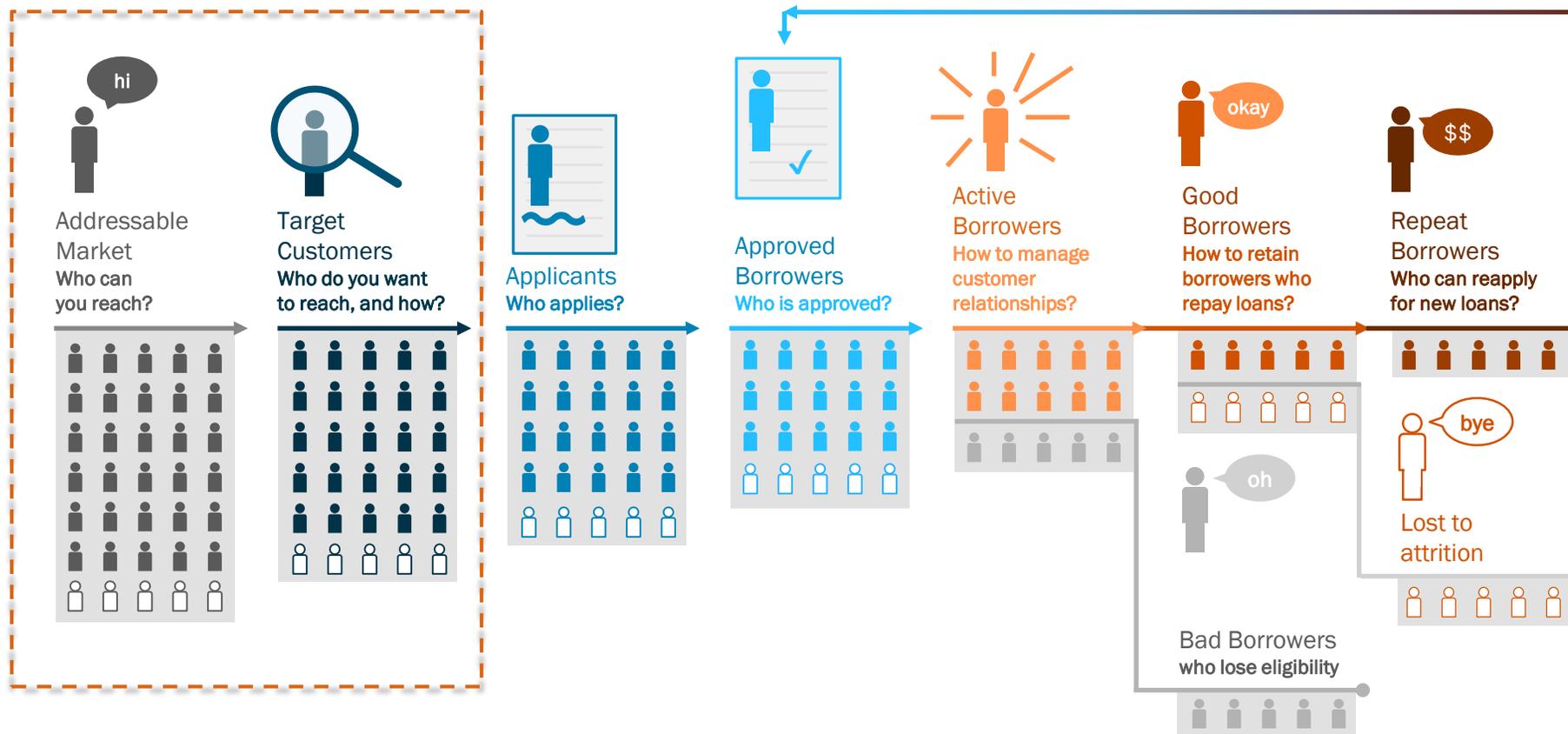
**Build customer relationships, and manage risk with credit information sharing**

# Opportunity #1:

---

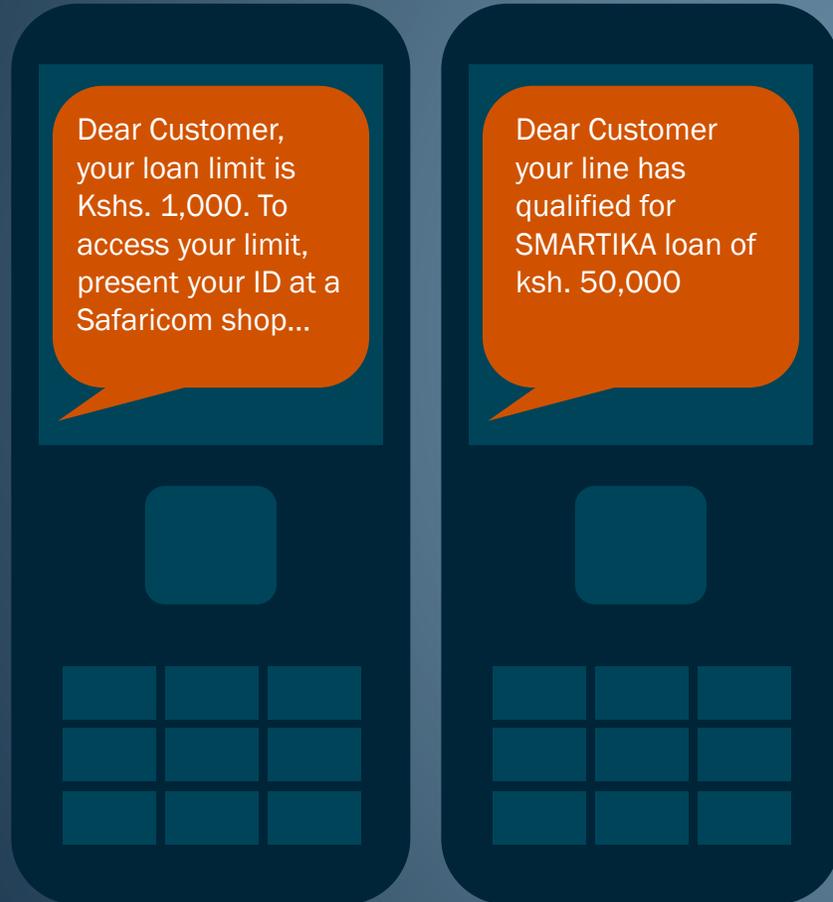
***Market products for long-term sustainability and increased borrower intentionality***

---



## Problem:

**Push marketing may encourage customers to borrow on impulse, without prior intention or a clear purpose for the loan**



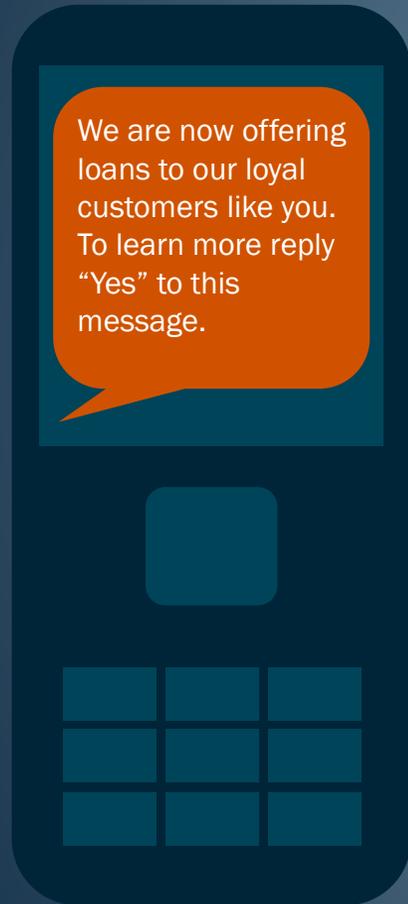
**Unsolicited credit offers in Kenya**

- **Lender emphasizes maximum amount consumer can borrow**
- **Loan agreement too easy, only a few clicks to access the money**

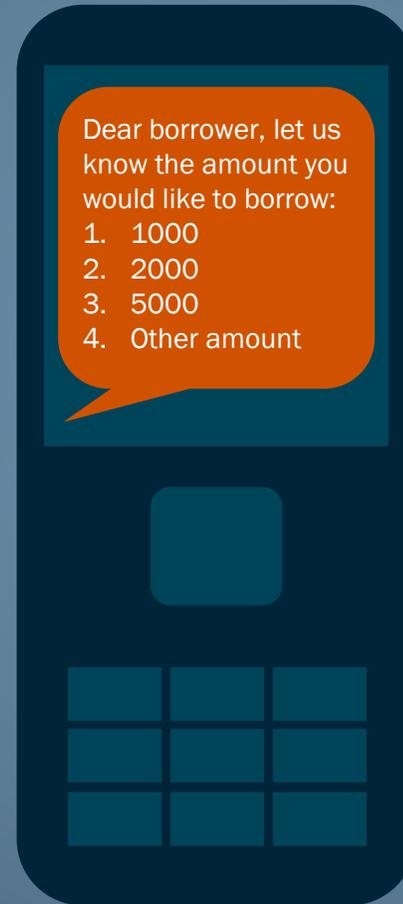
# Solution:

## Redesign digital credit marketing messages

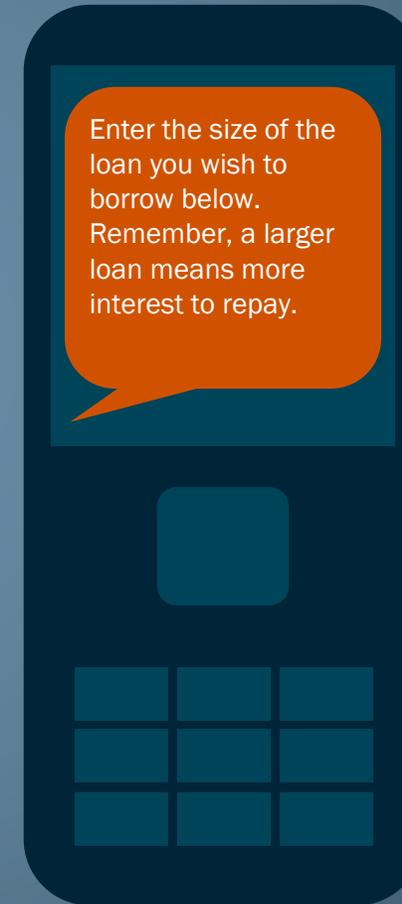
First, limit the “push”



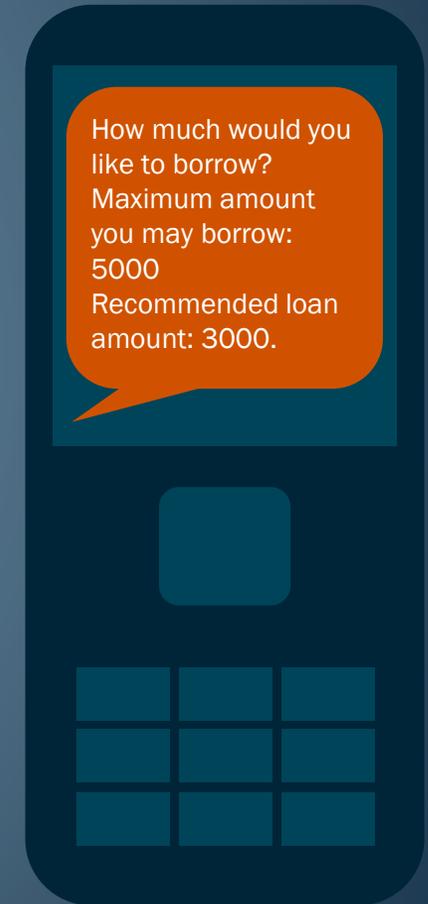
Then, re-frame loan offers. Here are 3 possible ways :



**Present multiple loan options**



**Have consumers suggest the amount**



**Propose an amount below the limit**

# CGAP experiment: M-Pawa



**What**

**M-Pawa is a digital credit and savings product offered by Vodacom Tanzania and Commercial Bank of Africa (CBA)**

**Why**

**Improve consumer understanding and behavior through opt-in, SMS-delivered learning content**

**How**

**Customers can learn about M-Pawa when and how they want, in bite-size portions of self-guided and interactive SMS content. Topics include:**

- **How to use M-Pawa**
- **Savings**
- **Loans**



## Customers who used the learning content

- **Increased their savings balances by Tsh4,447\*\*\***
- **Took out loans that were Tsh1,666 larger\*\*\***
- **Made first repayments that were Tsh1,730 larger\*\*\***
- **Repaid their loans 5.5 days sooner\*\***

*compared to customers who did not engage.*

\* = 90% Confidence interval, \*\* = 95% Confidence interval, \*\*\* = 99% Confidence interval

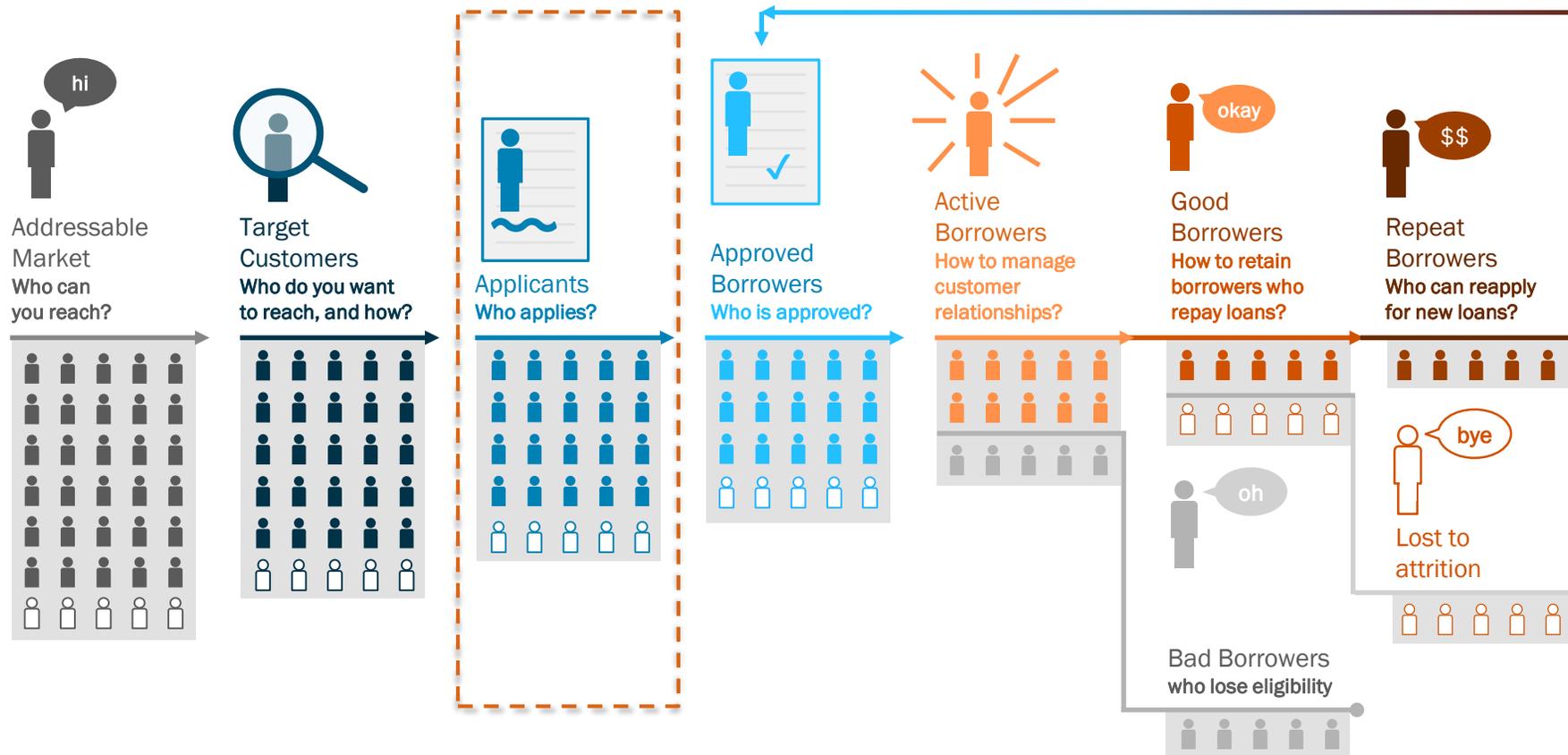
<http://www.cgap.org/blog/can-digital-savings-reduce-risks-digital-credit>

## **Opportunity #2:**

---

***Increase price transparency and  
key terms and conditions for loan***

---



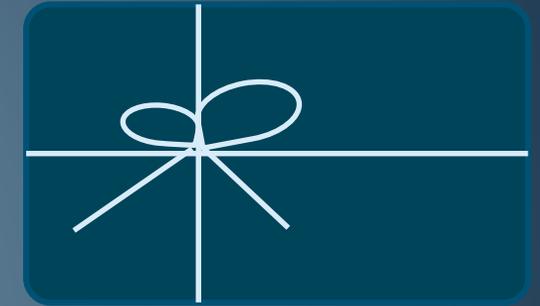
# Problem: Product disclosure is poor



**Costs are hidden by using daily or monthly interest rates, instead of annual percentage rates (APR)**

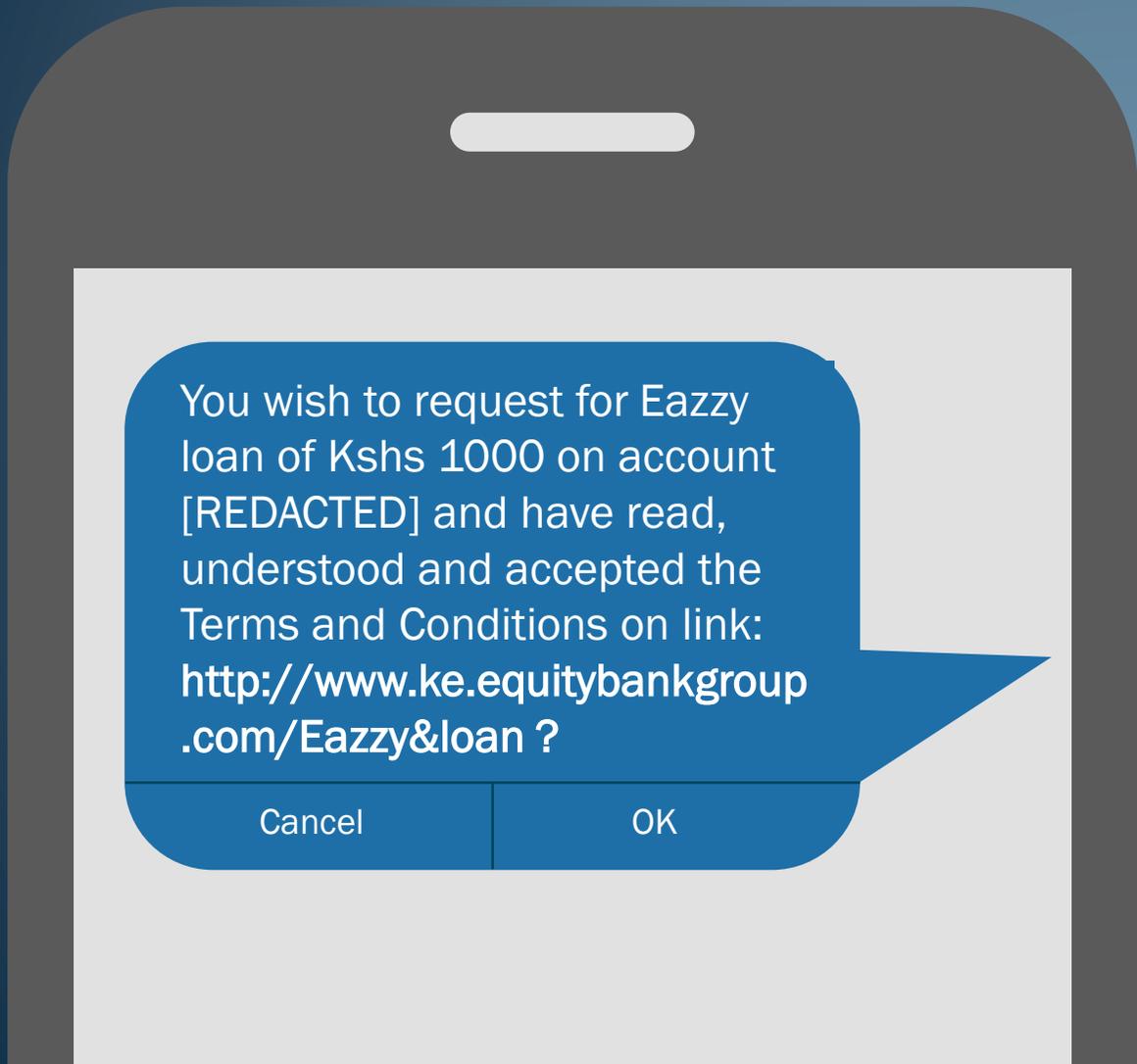


**Key terms and conditions (T&Cs) are complex and difficult to access and read**



**Transparency weak for insurance and other products that are bundled with credit offers**

## Example of poor disclosure: Costs unclear, T&Cs not easily accessed



**This loan is not free (it's 6% per month for this consumer)**



**You need a smartphone to review product terms**



**The link does not contain summary of key costs and terms**

# CGAP experiment: Jumo



<b>What</b>	<b>Jumo is a digital lender active in Kenya and several other African markets</b>	
<b>Why</b>	<b>Improve disclosure and borrower behavior</b>	
<b>How</b>	<b>A lab experiment tested borrowing behavior of customers and their valuation of financial products to understand trust, time preference, and risk appetite of customers</b>	<b>A field experiment tested various reminder messages to identify customers' shifts in understanding the repayment protocol</b>



# CGAP tested different methods to disclose costs and key terms



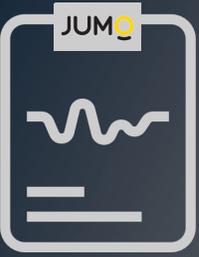
**Make costs more salient to borrower**



**Improve viewing of T&Cs through “active choice” opt-out approach**



**Use summary versions of T&Cs, on both SMS and USSD channels**



# Results: Separating finance fees increases price saliency and improves borrowing decisions

**Choose your repayment plan:**

1. Repay 228 in 45 sec
2. Repay 236 in 1min and 30sec
3. Repay 244 in 2min and 25sec

VS

**Choose your repayment plan:**

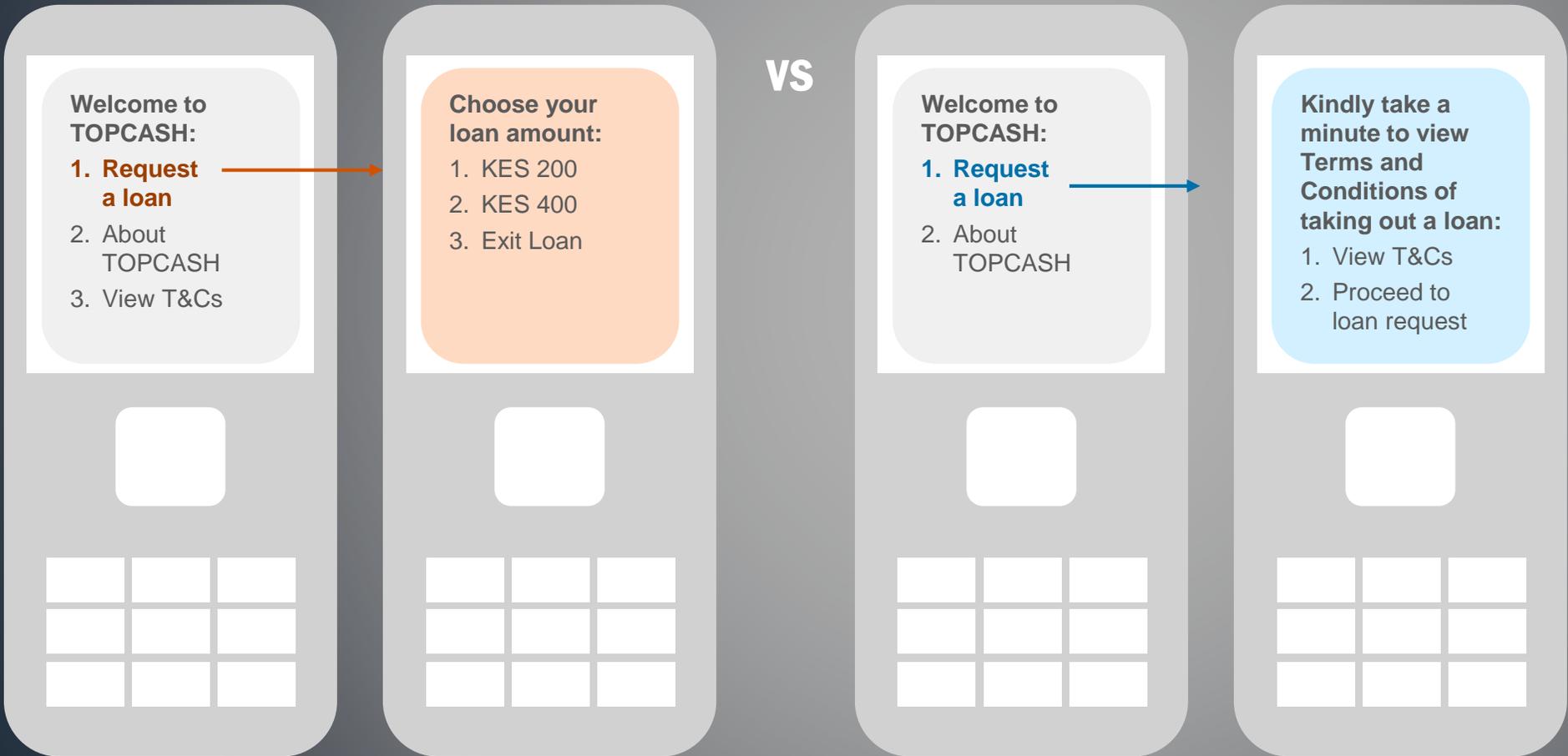
1. Repay 200 + 28 in 45 sec
2. Repay 200 + 36 in 1min and 30sec
3. Repay 200 + 44 in 2min and 25sec

Default rates on first loan cycles fell

**from  
29% to  
20%**



# Result: Increasing consumer views of T&Cs reduces delinquencies



By making it an active choice, viewing the T&Cs increased from **10% to 24%**

Delinquency rates for borrowers who read the T&Cs were **7% lower**



# Jumo integrated the insights into new USSD menus in 2016

## Separated finance charges and principal

### Choose your repayment plan:

1. Repay 1000 + **35** in 7 days
2. Repay 1000 + **170** in 14 days
3. Repay 1000 + **205** in 21 days

\* Back

## Added line showing loan fees with percentage

### Loan term details:

Loan: 1000

**Loan Fees: 135 (13.5%)**

Loan term: 7 days

Repayment: 1135

to be deducted from Airtel Money Wallet on <date>

1. Confirm

\*Back

## Added screen with late payment penalty

**Failure to repay your loan** by the due date will result in a late payment fee of <pct> being added. You may also lose access to KopaCash

1. Next

\* Back

## Created active choice to view T&Cs

**Failure to repay your loan** by the due date will result in a late payment fee of <pct> being added. You may also lose access to KopaCash

1. Next

\* Back

# Key takeaways for providers on disclosure and transparency:

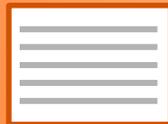


**Show all costs as a monetary amount, as well as annualized percentage rate, before a consumer accepts the loan**



**Clearly present repayment dates, amounts due, penalty fees, and any other consequences of non-repayment**

**State whether other products are bundled with the loan, and if so, provide their costs. These products should be optional, with a separate opt-in step taken by the consumer**



**Present a summary of the key T&Cs**



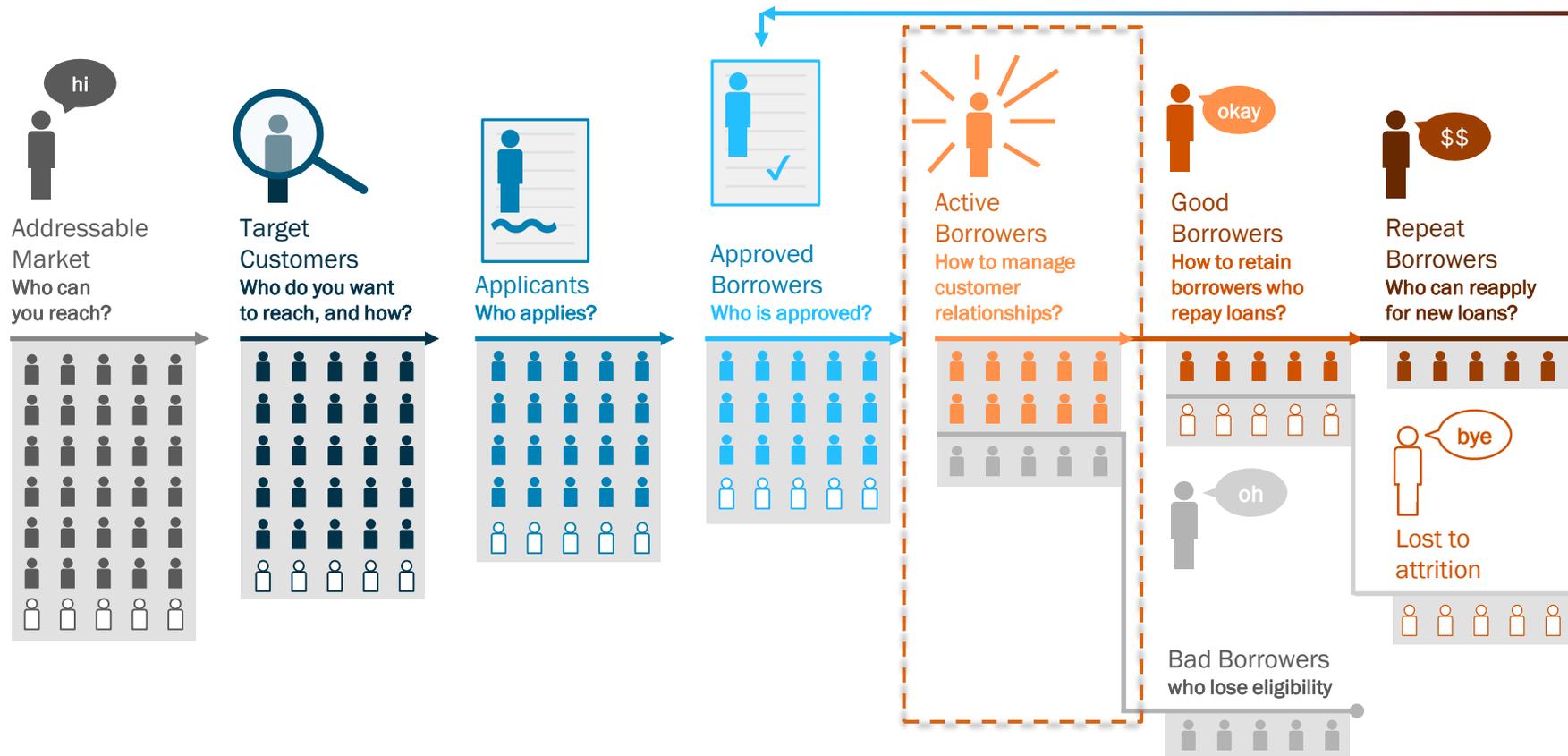
**Use consumer testing to identify best ways to increase consumer understanding of loan product**

## **Opportunity #3:**

---

***Improve repayment and collections***

---



## Problem:

# Digital delivery of loans can change repayment dynamics

### Challenges for the lender:

- No in-person collection or enforcement
- Default bears few consequences for consumer
- Consumers may “tunnel” (head in sand) when sent too many SMS repayment reminders

### But lender also has opportunities:

- More private communications with late payers
- Low-cost collection methods
- Can test creative or flexible repayment structures, and A/B testing on how to incentivize repayment.

## CGAP experiment: Jumo

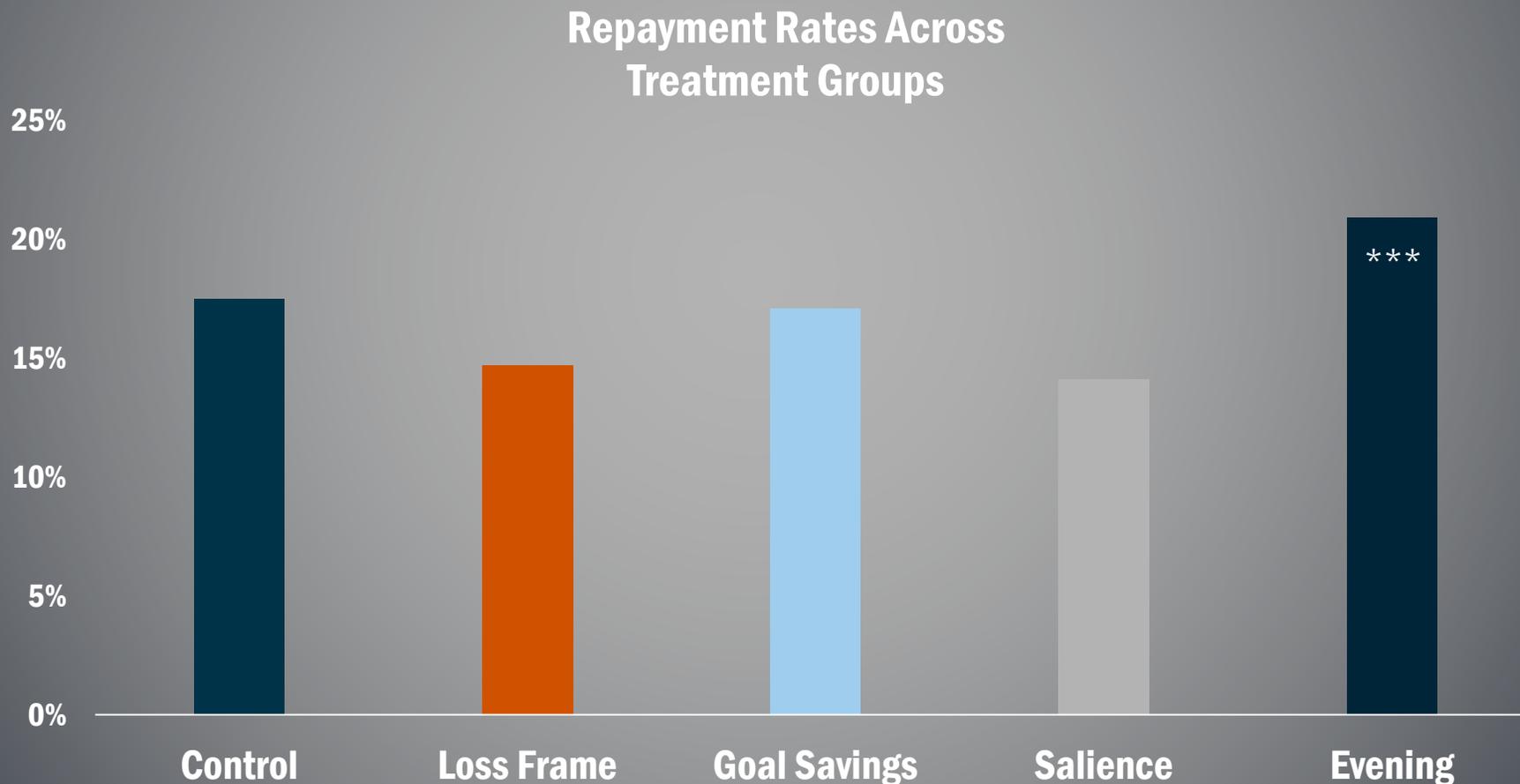


<b>What</b>	<b>Jumo is a digital lender active in Kenya and several other African markets</b>
<b>Why</b>	<b>Reframe customer reminders to increase repayment rates</b>
<b>How</b>	<b>CGAP tested effectiveness of sending different repayment reminder SMSs to 543 Airtel users, emphasizing:</b> <ul style="list-style-type: none"><li>› <b>Access to larger loans in future</b></li><li>› <b>Citing a specific (Ksh500) future loan amount versus a non-specific “higher amount”</b></li><li>› <b>Repayment reminders sent either in morning or in evening</b></li><li>› <b>Failure to repay risks loss of access to future loans</b></li></ul>



## Key finding:

# Repayment reminders sent in evening increased repayment



# CGAP experiment: Pesa Zetu

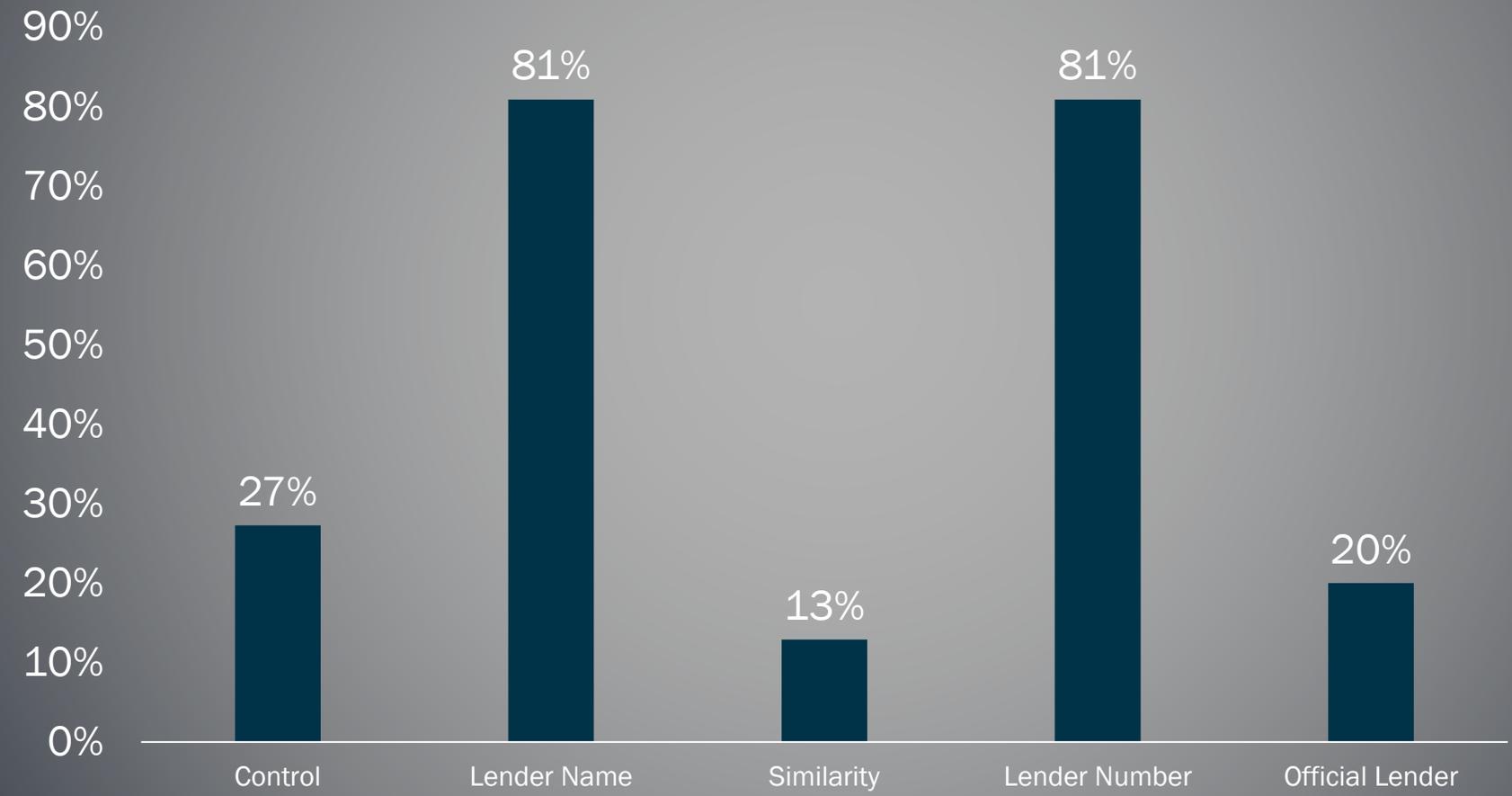


<b>What</b>	<b>Pesa Zetu is a peer-to-peer digital lender in Kenya</b>
<b>Why</b>	<b>Determine if repayment is affected by borrower's perception of who the lender is</b>
<b>How</b>	<b>CGAP lab-tested four types of repayment reminders, emphasizing:</b> <ul style="list-style-type: none"><li>› <b>Lender name</b></li><li>› <b>Number of lenders</b></li><li>› <b>Borrower's similarity to lenders</b></li><li>› <b>Lender as an official institution (Pesa Zetu)</b></li></ul>



# Borrowers who received the reminders with the name or number of lenders were more likely to repay their loans on the day the reminder was sent

Percent of Borrowers in Each Treatment Category Who Sent a Loan Payment Same Day as Receiving Repayment Reminder



■ Percentage of Borrowers Sending Repayment Same Day as Reminder

## Three ways providers can innovate to improve repayments:



**1**  
Implement a pay-what-you-use model i.e.: charge interest only on number of days the loan is out before repayment

**Offer flexible debt restructuring.  
For example:**

- › Extension of loan term with small penalty
- › If loan is late, option to make a partial payment and extend the loan term a few days
- › No late payment penalties

**Conduct A/B testing of different message content, framing, timing and repayment terms to identify which maximize consumer repayment and good standing**

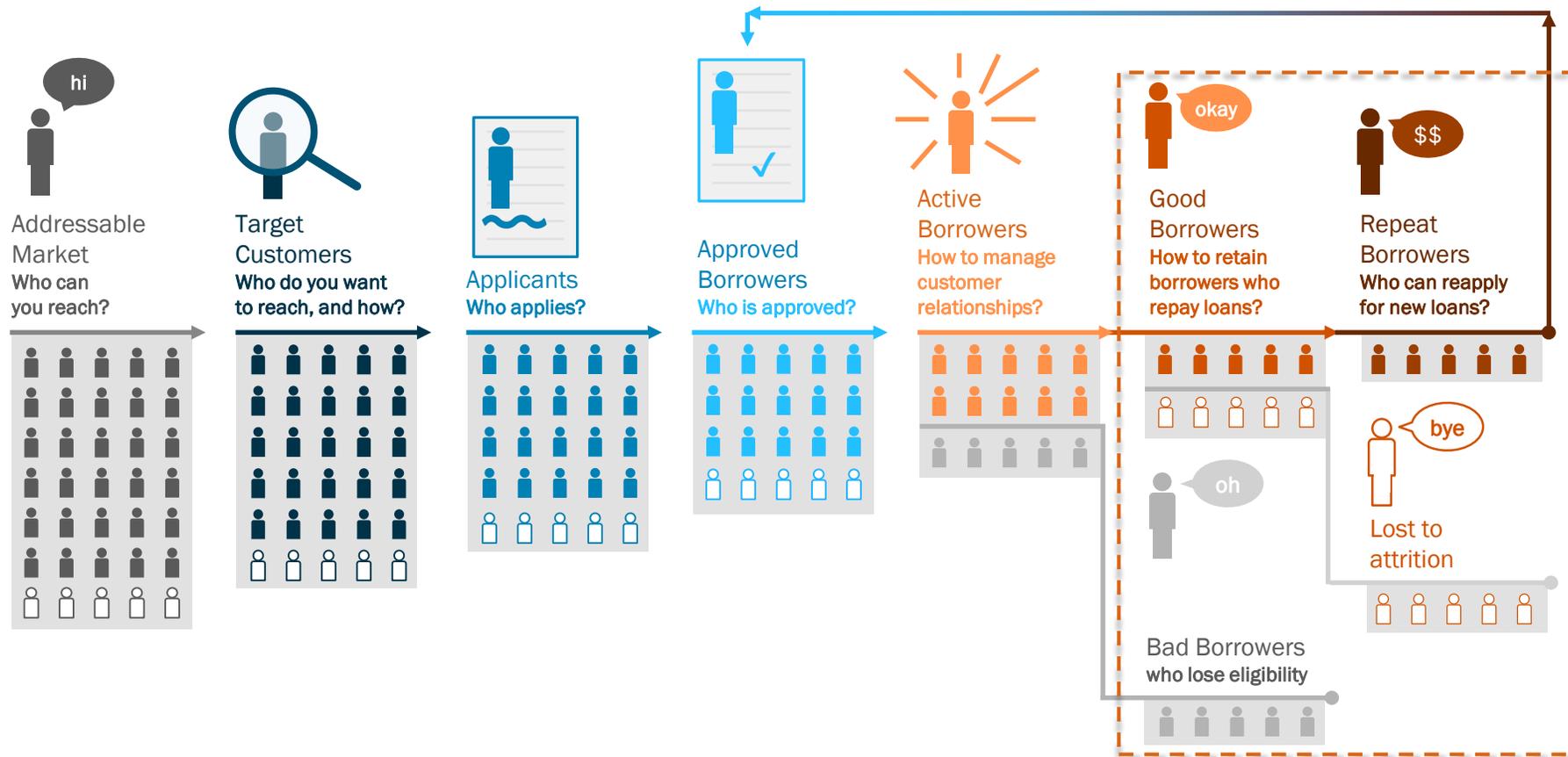


## **Opportunity #4:**

---

***Build long-term customer relationships and manage risk by sharing credit information***

---



# Problem:

Digital credit raises consumer protection concerns over data usage and sharing

Consumers cannot always consent meaningfully to lender's data practices



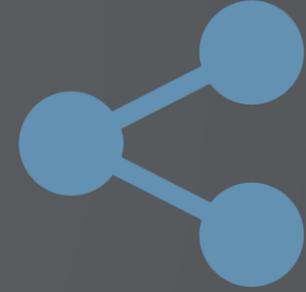
Lenders collect personal information from handsets, browser history and other sources without customer consent



Customers cannot view, correct, or control their data trail



Transactional information is shared without customer authorization



# CGAP experiment: First Access



**What**

**First Access provides alternative data scoring and analytics for digital and traditional lenders using mobile phone and other data to build scores and expand pool of credit-worthy customers**

**Why**

**Ensure that customers can provide *informed* consent to share their data**

**How**

**CGAP and First Access used a series of field tests to determine appropriate methods for informing borrowers in Tanzania how their data will—and will not—be used by First Access**



# Based on testing, two messages in Swahili were added to: 1) Explain mobile phone records; and 2) Make clear First Access' commitment to privacy

Original message approved by regulator

This is a message from First Access: If you just applied for a loan at Microfinance Bank and authorize your mobile phone records to be included in your loan application, Reply 1 for Yes. Reply 2 to Deny.

**“More Information” response options added during user testing to allow consumers to learn more about how their data is used.**

This is a message from First Access: Mobile phone records are information captured when you use your phone, including phone calls, SMS, airtime top-ups, or a mobile money account. Questions? Call First Access 12345678

This is a message from First Access: First Access ONLY uses your mobile phone records to make a loan recommendation to lenders. We NEVER share your personal information with anyone. Questions? Call First Access 12345678

## CGAP experiment: M-Kopa



**What**

**M-Kopa is an off-grid energy company in Kenya offering loans that are used to purchase solar energy devices**

**Why**

**Test the impact of allowing customers to view, verify, and correct their credit histories**

**How**

**M-Kopa partnered with TransUnion and Credit Information Sharing Kenya to test an interactive SMS platform where consumers could learn about credit history, view their own history, and make corrections**

# Solutions: Using digital channels to increase consumer control of credit information and data

Screen shot of SMS-based credit history check process

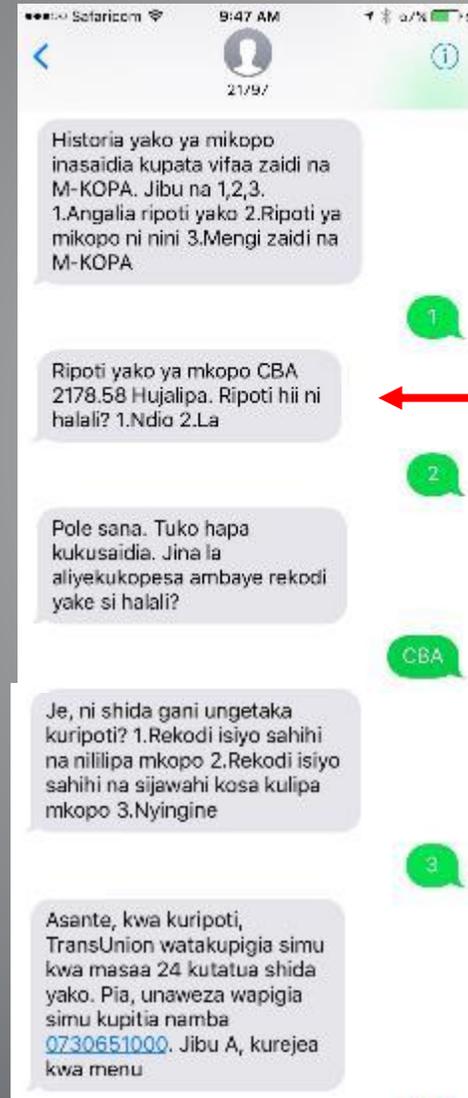
1. Opt-in to check history track

2. Review report and notify if incorrect

3. Identify incorrect account

4. Specify reason for dispute

5. Confirmation of outbound call from credit bureau



This borrower was incorrectly listed as a defaulter in their M-Shwari account due to their savings account being listed as a loan

Through SMS, borrower can request help to correct inaccurate digital credit history



# Consumer access to credit history may have positive impact on product usage

24%

of the 1,632 invited M-Kopa customers opted-into to learning content

225

checked credit history successfully

Findings from analysis of M-KOPA customer payments during 6 week pilot test, February – April 2017 (further testing and analysis in progress)

	Average Credit Days	Blocked Customers	Finished Loan Payment
Opted In: SMS invitation only	45	6.1%	22.7%
Opted In: Phone invitation then SMS	48	6.6%	17.5%
Did Not Opt In	35	25%	11%
Control	36	32.1%	5.1%

## Key Takeaways

- **CGAP experiments show multiple “win-win” linkages between consumer protection and building a better business case for digital lenders**
- **More experiments are needed, including collectively across the industry**
- **More industry-wide experimentation could lead to good practices that are formalized by private-sector rules and policymaker regulations**

# 10 tips for digital lenders to build strong business models and customer relationships

## Terms and conditions

1. Provide consumers the all-in price before they sign a loan agreement. Consumer understanding of costs can improve intentionality and repayment performance.
2. Test and adopt measures so borrowers read and understand the terms and conditions and their obligations. This includes using cost-effective tweaks to the menu design, “opt-out” framing, and screens that summarize “Key Facts” in a clear and simple manner.

## Marketing

3. Consider whether push marketing and unsolicited offers are effective strategies in the long term because they exacerbate the risk of encouraging borrowing without a purpose.
4. Design loan offers to reduce the likelihood that consumers will take the largest amount available without thinking through their needs and repayment capacity.

## Suitability and product design

5. Introduce measures to improve intentionality and increase the “friction” in the borrowing process to make sure consumers are taking active and well-considered credit decisions.
6. Structure the loan process to collect more customer data up front to better assess needs and avoid the observed tendency toward “mono-product” one-size-fits-all digital loans. But have clear data privacy protections in place.

# 10 tips for digital lenders to build strong business models and customer relationships

## Repayment and collections

7. Optimize effectiveness of payment reminder messages through framing content, timing, and tailoring to different borrower segments and preferences.

8. Reward strong repayment performance by using incentives such as risk-based pricing, lower lending costs or longer terms, to create incentives for your “prime” customers.

9. Consider whether your system allows for flexibility in repayment options, such as semi-automated loan restructuring.

## Credit reporting , data sharing

10. Increase borrower awareness of their data trails and credit histories, including their credit report and their ability to ensure accuracy, which in turn incentivizes strong performance and strengthens loyalty.

## Advancing financial inclusion to improve the lives of the poor

