

Making Recourse Work for Base-of-the-Pyramid Financial Consumers

A microfinance client lives hundreds of miles from the capital city, where her microfinance provider has its central office. Her entire village was “unbanked” until the microfinance provider started providing services via a single loan officer two years ago. She was happy with her first loan, but is struggling to make biweekly repayments on her second loan, and the loan officer insists she cannot withdraw from her savings to help her to repay because these savings are supposed to be for loan collateral. She feels this is unfair because she has had to withdraw a child from school to make the payments, but does not know what else she can do.

In the meantime, the Financial Superintendent has begun a series of monthly fairs around the country to educate the public on their rights as consumers and available recourse or complaints channels. The microfinance client attends one such fair in the provincial capital and approaches the representative with her story. The representative gives her information about the microfinance institution’s (MFI’s) complaints channels and the Superintendent’s own consumer hotline for unresolved complaints or general inquiries.

The client calls the complaints staff at the MFI to report the problem. A manager then works with the loan officer to adjust the client’s loan repayment schedule to avoid undue hardship. Based on a pattern of similar complaints, the MFI also begins a review of its mandatory savings policies.

This case demonstrates some of the challenges base-of-the-pyramid (BoP) consumers face with the products and providers they use, and how access to effective nonjudicial recourse options can help bridge gaps that are essential to building healthy financial

inclusion in emerging markets and developing economies. This Focus Note explores innovative ways for policy makers and providers to raise awareness and improve accessibility of recourse mechanisms, tailor recourse to suit new products and delivery channels, and proactively use recourse data to address systematic problems in BoP markets.

I. The Benefits of Effective Recourse Systems for BoP Consumers and Markets

Consumer recourse—the ability to raise grievances and have them heard and resolved or redressed—is in many ways at the heart of consumer protection. Timely and effective recourse processes can have important positive impacts on consumer well-being, provider–client trust, product uptake and loyalty, and overall development of a more responsible financial system. This is all the more true for markets with large concentrations of BoP¹ financial consumers and providers serving them.

Investing in recourse systems that effectively serve BoP consumers can reinforce and advance responsible financial inclusion, as illustrated by the following examples:

- **Improved quality of services and products for BoP consumers.** Complaints records offer a wealth of data on consumer experience, product usage, and preferences that can be analyzed and used by financial institutions to improve their operations and develop innovative products. For instance, Tameer Microfinance Bank in Pakistan used its internal complaints system to identify clients with higher default risk; subsequent assistance targeting these clients resulted in a 50 percent decrease in

¹ The term “base of the pyramid” describes a consumer profile, as well as a portion of the financial market and financial services and products directed at this consumer profile. The consumer profile is 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. Often, these characteristics correlate with other factors, such as lower education levels, illiteracy, language differences, minority racial or ethnic status, and longer distances from major population centers.

the delinquency ratio across Tameer's portfolio (Center for Financial Inclusion 2012).

- **Trust in the formal financial system.** Well-functioning recourse systems can support the broader goal of building and maintaining BoP consumer trust in the formal financial system, which is essential to financial inclusion. This is particularly important for the financial sector given the decrease of trust in financial institutions expressed in global surveys in the years following the global financial crisis.²
- **Market monitoring by regulators and supervisors.** High volumes of inquiries and complaints data are of great value to policy makers in monitoring the market, improving regulatory measures and supervisory techniques, and introducing changes in policies or products that could benefit financial consumers. Evidence of systematic problems from high complaints volumes can alert the supervisor to problems with a certain provider or in a certain area of the market, triggering onsite inspection, other follow-up action, or appropriate regulation.³
- **Positive impacts on financial capability and usage.** There is emerging evidence that effective recourse systems can help clarify and explain products and terms and otherwise improve beneficial product usage. Across the consumer recourse systems studied for this Focus Note, it is generally estimated that between 60 and 80 percent of total "complaints" received are actually inquiries or matters of confusion or misunderstanding.⁴

For policy makers and financial services providers interested in developing effective recourse systems in emerging markets and developing economies, this Focus Note offers the following guidance and recommendations drawn from global evidence and experiences:

- **Institutional arrangements in providing recourse.** Financial institutions should be the first line of

defense in handling complaints from their own customers; however, financial providers should not be the only recourse option for consumers. Supervisors or regulators should play a central role in the oversight of the *recourse system* (i.e., internal and third-party recourse).

- **Implementing recourse for BoP markets and consumers.** Three aspects of recourse system implementation are particularly impacted by the nature of BoP markets and consumers: (i) raising consumer awareness of recourse systems; (ii) ensuring accessibility for all consumers; and (iii) developing appropriate complaint-handling methods for BoP consumers and products.
- **Cultural and behavioral issues.** Understanding cultural issues and insights from behavioral science can help to maximize effective recourse usage by BoP consumers. This may include exploring factors affecting consumers' propensity to complain and developing a healthy "complaints culture" through building trust among consumers, providers, and government recourse channels.
- **Challenges to effective implementation of recourse in BoP markets.** Two traits of BoP markets pose particular challenges to effective implementation of recourse systems: (i) incomplete regulatory coverage of provider types and (ii) systemwide resource and capacity constraints.
- **Marketing monitoring.** Complaints data captured by providers and regulators can be an effective tool to proactively monitor and address emerging operational or market problems. Building efficiencies and linkages here can offset and help overcome capacity constraints.

Scope and research methods

This Focus Note is written primarily for policy makers in lower-income countries striving to advance financial inclusion and looking to implement or improve recourse as a key part of consumer protection for BoP

2 See, for example, the annual Edelman Trustbarometer global survey, <http://www.edelman.com/insights/intellectual-property/trust-2013/trust-across-sectors/trust-in-financial-services/>

3 Dias (2012) explains the role of complaints handling in consumer protection supervision of financial institutions. Davel (2013) makes a case for proactive market monitoring, including using complaints data, for early warning signs of debt stress.

4 These numbers bear out across a wide variety of complaints mechanisms from many parts of the world. Among these, the head of SIBOIF's credit card dispute unit in Nicaragua estimates 80 percent of incoming "complaints" were actually a matter of misunderstanding/confusion or lack of information; the former head of MFRC in South Africa estimated about 60 percent were questions/inquiries rather than actual complaints, at the FOS in the United Kingdom this number was approximately 75 percent; and the Banking Ombud in Pakistan had a ratio of about 5,000 enquiries to 1,500 informal complaints and 1,100 formal complaints.

consumers. It considers a broad range of government and industry approaches to nonjudicial recourse system design and implementation, thereby drawing lessons from provider-level recourse mechanisms and general consumer usage that are also highly relevant to providers.

The focus is exclusively on nonjudicial recourse options since judicial recourse is generally inaccessible for BoP financial consumers and inappropriate for resolving their typical claims against financial services providers (see Box 1). As used here, “recourse” spans everything from a call center or help desk that receives inquiries and complaints to more formal ombudsman mechanisms, and encompasses related terms, i.e., “complaints handling,” “dispute resolution,” and “redress.”⁵

The emerging practices highlighted are from extensive desk research, key informant interviews, and several of CGAP’s country-level advisory and consumer research engagements related to the issue of recourse in the types of markets focused on. The research illustrates how regulation can help ensure adequate and consistent internal complaints handling systems by financial service providers, which is the foundation for effective recourse systems. It

also describes how, as resources permit, a strong case can be made for creating and strengthening external recourse mechanisms, provided either by the supervisor, other government entities, or organizations such as an industry association. The research also underscores the importance of effective oversight by the regulator, whichever of these institutional arrangement(s) is in place for external recourse.

Distinctive recourse challenges—and opportunities—in BoP markets

Recourse mechanisms in emerging market and developing economies must strive to be accessible, efficient, and user friendly for a diversity of BoP consumers, who often have limited financial experience, live in remote locations, or face other barriers in accessing formal financial services. This invariably requires creative approaches to ensure awareness and accessibility of recourse options within these market segments. For example, speedy and less complex or formal complaints handling procedures may be necessary since BoP consumers generally use less complex financial products than other market segments and often transact in relatively small amounts.

The availability of effective recourse can also vary across different segments of the market due to inconsistent regulatory coverage. Policy makers in many emerging market and developing economies face significant market coverage challenges, because they lack authority over some of the broad spectrum of providers serving BoP consumers. This can include MFIs, consumer lenders, informal providers, and innovative new channels and products, such as banking agents and payments and transfers. These coverage challenges can create situations where policy makers do not have the authority to set standards for internal recourse channels, impose sanctions, or issue binding rules or decisions on consumers’ cases. In such cases, policy makers should make efforts to fill coverage gaps and coordinate among agencies to ensure standard

Box 1. Focus on nonjudicial recourse

This Note focuses solely on nonjudicial recourse for several reasons. First, in many countries characterized by lower levels of formal financial inclusion, courts may be too slow, formal (i.e., requiring a lawyer’s services), expensive, and lacking impartiality and the requisite specialist expertise to resolve common disputes that arise between financial institutions and their clients, particularly lower-income and less experienced consumers. The relatively small monetary amounts typically at stake—while potentially devastating for that consumer and for her faith in the financial sector—do not generally justify the costs of going to court, and so without a nonjudicial mechanism in place many consumers will abandon efforts to resolve complaints at the early stage of the process (Rutledge 2010).

⁵ This Note is limited to recourse mechanisms primarily designed to resolve complaints and problems raised by consumers and, as such, does not consider lender-initiated alternative dispute resolution (ADR) mechanisms. Such ADR mechanisms can help consumers as well—for instance, in negotiating a workout instead of automatic debt collection—and can be important for advancing financial inclusion for consumers who would otherwise pose too great a risk of default. However, consumer-initiated recourse has somewhat distinct design considerations and goals and is thus separated here from lender-initiated ADR.

treatment for all financial consumers is pursued as much as possible (See Annex A).

Recourse mechanisms also need to be cost effective for financial institutions and third-party recourse providers that serve these consumer segments, reflecting the limited resources and infrastructure of many of these providers, as well as the diversity of product and business models serving BoP consumers. Financial institutions serving BoP consumers tend to be successful in reaching otherwise financially excluded populations by using innovative operational models or new financial products and services. It can be a challenge for established recourse channels to keep pace with decentralized business models, such as village banking, agent banking, or mobile money, which are essential for advancing financial inclusion. At the same time, as the examples below drawn from branchless banking show,⁶ these new distribution channels and product innovations can also offer new opportunities to deliver timely and efficient recourse to BoP consumers.

II. Institutional Arrangements and Responsibilities in a Recourse System

In many economies with large segments of BoP consumers and providers that serve them, recourse mechanisms may be nonexistent or undeveloped. Thus, policy makers may first need to help build a recourse system. From the regulator’s perspective, the first steps in building a comprehensive recourse system for both emerging market and developing economies generally involve (i) putting in place rules for complaints handling and dispute resolution for the financial sector and (ii) determining the proper roles for, and relationships among, financial institutions, government authorities, industry associations, and other third-party channels to ensure a comprehensive and coordinated recourse system.

While there is no single set of standards or best practices to guide policy makers in these areas, the past decade has seen a growing body of research and standards on recourse.⁷ This research has identified certain key principles—such as *access, fairness, independence, and timeliness*—as well as specific guidance on topics such as training and competency of staff handling consumer complaints. (See Box 2.)

Recourse systems may begin in different places at different times in different sectors and evolve over time. This means no single set of arrangements is “best” or “perfect.” However, for policy makers seeking to get started or expand the quality and coverage of consumer recourse in the financial sector serving BoP consumers, there are three general principles that should be considered:⁸

Box 2. Key standards and principles relevant to internal and third-party recourse

Several domestic and global professional bodies and networks have set forth standards and principles for internal and third-party recourse (not necessarily specific to the financial sector), resulting in general consensus on a core set of principles that, while not specific to BoP markets, is important to consider when designing recourse systems in all markets:

- *Independence*
- *Fairness*
- *Neutrality and impartiality*
- *Confidentiality*
- *Effectiveness*
- *Jurisdiction and legality*
- *Openness and transparency*
- *Accountability*
- *Liberty of consumer to participate or not participate in recourse process*
- *Credible review process*

Sources: International Ombudsman Association, British and Irish Ombudsman Association (BIOA), Australia and New Zealand Ombudsman Association (ANZOA), OECD Task Force on Financial Consumer Protection, European Commission, and World Bank Global Program on Consumer Protection and Financial Literacy.

6 Branchless banking refers to the use of information and communication technologies and nonbank retail channels to reduce costs of delivering financial services to clients beyond the reach of traditional banking.

7 See, for example, the principle on Complaints Handling and Redress in OECD (2011); Thomas and Frinzon (2012a); and World Bank (2012).

8 These three principles are discussed with reference to a number of different examples drawn from developing economies and emerging markets. Because of the market coverage gaps that are so common in BoP financial markets and that are only now beginning to change, many of the examples used to illustrate possible institutional relationships are not actually from recourse systems specifically geared toward BoP consumers and providers.

1. Financial institutions should be the first line of defense in handling complaints from their own customers.
2. Financial providers should not be the only recourse option for consumers, and policy makers and industry associations should therefore work as quickly as possible to ensure that some form of third-party recourse is available.
3. The financial regulator or supervisor must play a central role in the oversight of the recourse system.

Box 3. The building blocks of a recourse system

Internal recourse: Recourse offered within the financial services provider; may start with a simple mechanism for handling inquiries and complaints and proceed to formal dispute resolution procedures.

Third-party recourse: Recourse offered by a third party who intermediates between the consumer and the financial services provider; can be more or less formal and backed by industry, government, or both.

Ombudsman: An officially appointed but independent individual or entity that receives, reviews, and renders decisions on disputes; there are “organizational ombudsmen” who hold office within a single institution or company as well as ombudsmen who cover an entire industry or market segment.

Mediator: An individual or office providing conciliatory alternative dispute resolution (ADR), such as mediation (as opposed to adjudication) between two or more parties; note, however, that the French term *mediateur* is often used to describe an office that would best be translated as “ombudsman.”

Alternative dispute resolution (ADR): A range of dispute resolution techniques ranging from negotiation, mediation, conciliation, and arbitration through to nonjudicial adjudication—all offering an alternative to judicial proceedings or litigation; ADR methods vary significantly among recourse mechanisms.

Financial institutions as the first line of defense in handling complaints from their customers

This generally accepted principle is particularly important for markets where regulators face significant capacity and resource constraints. Financial services providers are best situated to understand and resolve individual complaints related to their own products, as well as to identify and address broader problems or variations in quality of service across client types and operational areas. Providers are also typically the first place consumers naturally choose to present complaints and seek assistance, and so may be the least burdensome channel for consumers to use initially. For example, 2012 statistics from Colombia’s Financial Superintendent,⁹ which tracks all complaints filed with or against commercial banks through three different nonjudicial recourse channels, show that 89 percent of all complaints in the recourse system are initially filed with providers.

While some degree of oversight by the financial regulator is needed to ensure that providers have adequate complaints systems, it is neither efficient nor advisable for regulators or other third-party complaints mechanisms to handle most complaints directly. Rather they should aim to complement and reinforce internal recourse through establishing rules and standards for internal mechanisms (see Box 4 for common rules),¹⁰ monitoring and supervision of complaints handling and reporting of data, and making available alternative channels when consumers are not satisfied with the outcomes.

Financial providers should not be the only recourse option for consumers

No matter how well providers handle most complaints, it is critical that financial consumers have another nonjudicial alternative in the event

⁹ <http://www.superfinanciera.gov.co/>

¹⁰ Numerous financial sector regulators in countries around the world have taken these steps in the past decade, including in Armenia (2009), Bolivia (2010), Bosnia and Herzegovina (2010), Botswana (2001), India (2008), Indonesia (2005), Nicaragua (2011), Nigeria (2011), Pakistan (2004), Tanzania (2005), and Uganda (2011), among others.

Box 4. Common requirements in regulations on internal recourse at financial institutions

1. Financial institutions must have an internal complaints mechanism with its own specialized staff (e.g., a client complaint desk or point person) as well as some oversight within the financial institution from someone in senior management or a supervisory body.
2. Procedures governing internal complaints must be documented and available to the regulator and to consumers.
3. Consumers must be affirmatively informed of the right to complain and how to complain (i.e., in disclosure documents and contracts as well as posted in branches and reinforced by staff).
4. There must not be overly burdensome formal requirements to submit a complaint (e.g., complaints can be submitted orally [including via telephone] as well as in writing and in informal or plain language).
5. Receipt of the complaint must be acknowledged and given a tracking number, so that the consumer is kept informed of status and timing throughout the process.
6. The complaints mechanism must comply with certain time limits for acknowledgment, response, and resolution.
7. The complaints mechanism must comply with certain requirements as to handling, i.e., identifying the scope of investigations and fact-finding, providing reasons for decisions, and prescribing remedy.
8. The consumer must be informed of her right to take her grievance to a third-party recourse mechanism or to the regulator if it is not resolved to her satisfaction or within a certain time period and that she is provided with sufficient information on how to do so.
9. The financial institution must have a system for tracking and categorizing complaints to identify frequent problem areas.
10. The internal complaints mechanism must be audited periodically.
11. The financial institution must regularly report complaints data to the regulator, showing categories of complaints (preferably predefined by the regulator), time taken to resolve complaints, unresolved complaints, etc. (Reviewing and checking such reports will then be part of the regulator's normal onsite and offsite supervision practices.)

their provider is unresponsive or unscrupulous, or consumers are uncomfortable or dissatisfied with the resolution of their complaint. It is therefore important that policy makers and industry associations work as quickly as possible to ensure the availability of some form of third-party recourse. The availability of a third-party recourse mechanism should strengthen internal recourse at the provider level. Furthermore, a capable third-party recourse mechanism can identify recurrent problems across providers or market segments and help offer guidance on the root causes and appropriate reforms or policy measures to be taken in response. (For a review of different third-party recourse arrangements across markets, see Annex B.)

Who provides the third-party option, how, and with what exact procedural relationship to internal recourse

will depend on a variety of situational factors. In emerging market and developing economy contexts, for instance, there may be resource and capacity constraints that limit the scope or role of the third-party option. Where, for these or other reasons, third-party recourse is nonexistent or inadequate, the financial supervisor or regulator may end up stepping into this role for a time, whether by design or by default.¹¹

Resource or capacity constraints have made some regulators and supervisors wary of getting involved in direct handling of recourse, especially since many already receive unsolicited complaints from consumers even in the absence of a formal government recourse channel. These policy makers often resist taking a lead on third-party dispute resolution, citing a fear of “opening the floodgates” to a volume of consumer complaints that will not

¹¹ For instance, many regulators in markets that lack any third-party nonjudicial recourse option report receiving and having to find *ad hoc* ways of handling unsolicited consumer complaints.

be manageable. This concern is understandable, especially in jurisdictions with a large and diverse array of BoP providers and consumers and where the financial consumer protection unit is small or recently established.

However, newly established channels are rarely overwhelmed in the first years, often because changes in complaints culture and awareness of complaints mechanisms take time (as discussed in Section III). Many of the government-led call centers and complaints offices in developing economies are actually underused in the first years of operation—they receive fewer complaints than anticipated or than they are capable of handling.¹² Common reasons for such initial underuse are low levels of consumer awareness, limited government budget for outreach, lack of a strong complaints culture, and elements of the complaints procedures established by the government that make it difficult for certain populations to easily use the newly established recourse channels (e.g., limited locations and hours of operation; channel requirements such as submitting complaints in person or in writing; or lack of coverage of all provider types, and particularly those providers serving BoP consumers).

Of course, such limitations hinder the effectiveness of third-party recourse and should be addressed and improved on in the longer term. However, the inability to launch a perfect third-party channel at the outset should not prevent policy makers from establishing the third-party channel at all. Even an imperfect third-party channel demonstrates government commitment to consumer protection, allows for the collection of initial data on common problems consumers face in the market, and provides a third-party nonjudicial option to respond to, at the very least, particularly egregious complaints.

Thus, many countries have started simply—by establishing a hotline, walk-in consumer assistance

center, or online complaints system for clients of the regulated financial sector. Examples include regulators in Azerbaijan, Colombia, Georgia, Ghana, India, Kenya, the Philippines, South Africa, and many other countries, whether as a stand-alone option or in conjunction with other recourse options. Complaints handling here can range from ad hoc to more standardized, but tends to be less “formal” in that complaints may be submitted or handled without overly strict procedures. These options may be a good first step where there are resource and capacity constraints; they can provide useful experiences for policy makers and providers that will help them to understand and resolve consumer complaints.

A more formal option is an in-house ombudsman, mediation, or adjudication service in a separate unit within the central bank or other supervisory body. These sometimes can be organized within the supervisor’s existing mandate. More often, they require enabling legislation that outlines procedures that are deemed fair to both parties affected, especially if the outcome of the process will be binding on either.

In some cases, regulators have begun by establishing in-house channels that are limited in scope, which can be a good option where there are recourse constraints or where certain market segments require urgent consumer protection attention. For instance, in response to rising consumer debt levels in highly saturated urban and lower-middle income consumer segments, Nicaragua’s Superintendent of Banks and other Financial Institutions in 2010 set up a complaints resolution unit for credit-card-related complaints. Because the unit had a legislative foundation, the unit’s recommendations on how to resolve a complaint, including redress for the consumer and possible imposition of fines, can be adopted as binding.

As experience grows and capacity and resources permit, such initial efforts can be expanded to cover

¹² For instance, from 2008 to 2011, its first four years of operation, the Financial Consumer Affairs Group (FCAG) within the Philippines’ Bangko Sentral ng Pilipinas received approximately 2,000 total inquiries, requests, and complaints per year (BSP “About FCAG” Presentation); in Nicaragua, the unit of the Superintendencia de Bancos y Otros Instituciones Financieras (SIBOIF) mandated to handle credit-card-related complaints received 333 complaints between January and September 2011, more than doubling the number received during 2010, its first year of operation; in its first year of operation (2009), Armenia’s Financial System Mediator received just 378 complaints; in its second year (2010), it received 642 complaints in Ghana, the Bank of Ghana’s department handling consumer complaints received 187 complaints in 2011, its first year of operation, followed by 146 complaints in 2012.

more of the market or to increase use of channels through outreach, awareness raising, etc. Indeed, some consumer protection experts recommend deliberately taking such a graduated or phased approach to building third-party recourse in emerging market and developing economies.¹³ For instance, in 2013 a new consumer protection law in Nicaragua expanded the unit described above to cover all financial products and services provided by institutions supervised by the Superintendent.

The financial supervisor or regulator must play a central role in the oversight of the recourse system

Even where they do not play a significant role in direct complaints handling or consumer outreach, the financial supervisor or regulator is usually best positioned to supervise the recourse system for financial consumers and use complaints data for market monitoring to improve supervision of market conduct of providers. Such supervision includes requiring that financial institutions have internal recourse mechanisms, issue and enforce basic standards for internal recourse, ensure where possible the availability of a third-party option, and collect complaints data from across the system.

In addition to ensuring minimum standards of recourse in terms of access, quality, and efficiency in countries with nascent consumer protection and recourse systems (see Box 4 on page 6), the regulator or supervisor may be uniquely positioned to change the culture of the industry and consumers that will make recourse work more effectively across the financial sector. This position may be due to the supervisor either wielding legal authority to issue binding decisions or merely applying moral suasion to facilitate and enforce resolution of complaints, as observed

in several markets without binding nonjudicial third-party recourse options for the financial sector.¹⁴

While our research points to the need for policy makers to take a leading role in setting in motion recourse systems for BoP markets, including handling consumer complaints if necessary, in the longer term the regulator or supervisor should have the goal to scale back its role and not expend valuable supervisory resources handling large numbers of complaints (Dias 2013). Ultimately, regulators should focus on supervision of financial institutions' compliance with regulations on internal recourse and review and analysis of complaints records coming from both internal and third-party recourse mechanisms.

By receiving such complaints reports, the regulator can ensure compliance with processing time and other requirements for internal recourse, see patterns that may indicate certain consumer protection problems at the provider level, and collate data that are useful for monitoring trends across the market. Ideally, these provider records should be compared and combined with the complaints records from the regulator's own complaints system or another third-party mechanism, if one exists.¹⁵ Even in the absence of a full-fledged third-party complaints system, the regulator can play a role by spot-checking complaints records, provided that they include sufficient information to identify and contact the complainant, or by intervening in complaints that are reported as unresolved. For instance, all Nigerian banks that accept deposits must report to the Central Bank of Nigeria's (CBN) Financial Policy and Regulation Department any complaints that are unresolved two weeks after initial receipt for CBN follow-up, and CBN is currently developing an integrated software system that will automatically identify such outstanding complaints across all providers and notify CBN for follow-up (CBN 2011).

13 Rutledge (2010) proposes a graduated approach to implementing recourse for financial consumers: (1) less developed financial markets may start by issuing rules on internal recourse; (2) medium-stage markets may implement some form of ADR or provide for complaints handling in an existing consumer protection body (if one exists); and (3) more highly developed markets could consider an independent body, such as a statutory or voluntary ombudsman. This graduated approach makes sense in terms of resource allocation, but does not emphasize, as we do, the importance of offering *some* third-party option—even if somewhat *ad hoc*—sooner rather than later. Nor does it allow the possible necessity for the supervisor or regulator playing a greater transitional role in making this available during the course of market and institutional development.

14 For instance, in Colombia, the Financial Superintendent applies moral suasion through its *Punto de Contacto* to ensure prompt handling and satisfactory resolution of complaints.

15 See Box 8 for a discussion of the integrated grievance management system set up by India's Insurance Regulatory and Development Authority (IRDA), which automatically collates and integrates complaints records from providers, the Insurance Ombudsman, and IRDA's own complaints channel.

III. Implementing Recourse Systems for BoP Consumers

Along with institutional arrangements across government, providers, and third parties, for recourse systems to be effective for BoP consumers, special attention must be paid to three issues (*i*) consumer awareness, (*ii*) accessibility, and (*iii*) complaint-handling methods. While these issues are important in any recourse arrangement, there are particular challenges in these areas due to characteristics of BoP consumers and BoP financial products and services that must be taken into account when designing recourse systems.

Consumer awareness

Internal recourse regulation usually requires that consumers be informed about their right to complain and how to do so. This will usually mean informing consumers about recourse options through a variety of different channels—in precontractual fact sheets, in the contract itself, and also in notices posted around branch offices, online, and in other public places.¹⁶ Internal recourse regulations in Armenia additionally require that consumers be advised of their right to recourse orally as well as being advised in writing (Central Bank of Armenia 2008b). More targeted awareness-raising at the provider level could come by way of requirements that consumers be informed about third-party recourse at moments when they are most likely to make use of the information, i.e., at the end of complaints processing through internal recourse or at other moments of possible dissatisfaction. For instance, in South Africa, insurance companies are required to include information about the appropriate ombudsman in every letter denying a claim to a policy holder.

Even strict compliance with such regulatory requirements does not ensure awareness—and later accessibility—when barriers such as literacy, language, distance, lack of technology, and resource constraints may stand in the way. Providers who serve BoP consumers must overcome many of

these challenges to reach their clients in the first place. Thus, they may use the same channels that are used to deliver financial services—loan officers, agents, mobile phone messaging—to convey key information about recourse. For instance, an MFI in Haiti tasked loan officers in far-flung parts of the country to distribute cards to all clients in a pilot district informing consumers of a new, free complaints hotline. Although sensible and cost effective—and perhaps unavoidable where clients live far from and do not come into branches—there are some risks of relying on such a single channel for distribution of critical, but possibly sensitive, information (e.g., when field officers are charged with receiving and referring complaints that have to do with their own performance).

Provider-to-client disclosures can—and often do—function as the primary vehicle for awareness of both internal and third-party recourse options, provided that the proper requirements are in place regarding content and method of disclosure (i.e., mandatory information about complaints channels on all product documents or through signage in branches and at agent locations). Adoption or reform of disclosure rules and standardized “key facts statements” are opportunities to require that information on recourse channels are included in all contracts, key facts statements, and marketing materials.¹⁷

Financial education campaigns are another increasingly prevalent vehicle that can complement provider disclosures and address awareness gaps. Many of the markets with high concentrations of BoP consumers have seen new financial education programs or strategies launched recently, often in a coordinated effort by the government, providers, and civil society organizations. These campaigns should also be leveraged, when possible, to raise awareness of consumers’ rights and recourse channels.

For third-party recourse options, timing may be particularly important. For instance, providing information about third-party recourse should be mandatory when communicating the final resolution of

¹⁶ For further discussion, see Chien (2012, p. 5–6). As Chien notes, consumer testing of standardized disclosure forms in the Philippines revealed that consumers prefer forms that prominently display information regarding consumer recourse.

¹⁷ For further discussion on integration of recourse into disclosure regulations, see Chien (2012).

Box 5. iMali matters: Pairing community-based recourse and financial capability interventions

From 2009 to 2011 in South Africa, iMali Matters (Money Matters) piloted an integrated community-based approach to linking lower-income financial consumers to recourse, financial information, and advice with support from the Financial Education Fund and African Bank. Specially trained persons in guidance centers based in townships near Johannesburg, Capetown, and Durban offered free walk-in or call-in services for persons facing financial problems requiring advice, counseling, and dispute resolution. Because of baseline low levels of consumer awareness of South Africa's complex recourse system for financial consumers (14 percent), one key service was referring consumers to the appropriate ombudsman or other complaints mechanism and tracking consumer follow-up. Staff members were trained to see consumers' experiences of financial problems as "teachable moments" and to offer not just immediate assistance but also information and lessons aimed at longer-term positive change in money management and use of financial services. In its final evaluation, the project was deemed to have shown improvements in consumers' financial capability.

an internal complaint at the provider level. Even with such requirements, building widespread awareness is an up-hill battle. Consumer data collected through the innovative iMali Matters project in South Africa (see Box 5), for instance, showed that only 11 percent of South African consumers knew where to complain against financial service providers (iMali Matters 2010, p. 18). Elsewhere, where recourse options are newer and less well-established, levels of awareness might be far lower, as in Senegal where only 0.6 percent of consumers surveyed had heard of the Mediator for Banking and Other Financial Services one year after it was established (Brouwers, Mbengue, Lheriau, and Ndiaye 2011, p. 46).

Creative awareness-raising strategies can employ whichever types of media are most appropriate for the target audience. Nigeria's Consumer Protection Council (CPC) offers weekly call-in radio programs where a CPC representative addresses a particular consumer protection theme and answers questions, thereby educating consumers while publicizing

CPC's recourse functions. In Colombia, the head of the Financial Superintendent's public complaints office (*Punto de Contacto*) participates in monthly public services fairs around the country, organized by the government to bring representatives of various ministries and agencies to the people; in a single day, she can give a presentation to hundreds on the role of the *Punto de Contacto* and the Financial Superintendent and thereafter personally handle as many as 50 inquiries and complaints from financial consumers.

The increase in mobile and agent banking in developing countries can help raise consumers' overall awareness of recourse rights and options. Consumer research by FSD Kenya and CGAP in Kenya found that nearly all users of M-PESA—a mobile payments platform—were aware of whom to contact when they had a problem with the service. In contrast, the same consumer research showed users of other financial service providers on the whole "were uncertain about available options for recourse, and were often unsure whether their specific problem had a legal basis or not" (Flaming et al. 2011). M-PESA has prioritized customer service since its launch, and demonstrates how new technologies and banking channels may offer opportunities for more consumer-friendly and efficient recourse systems, as described in Box 7.

Accessibility

The challenge of accessibility of recourse channels is exacerbated by the far-flung location of many BoP consumers and their financial institutions; decentralized delivery models, such as village banking or mobile banking; consumer financial capability, literacy, and numeracy; trust in financial institutions and government agencies; and the varying quality of internal recourse among BoP providers.

To address access barriers for BoP consumers, recourse systems should be available in as many channels and methods possible. For example, walk-in complaints may happen only where there are branches (big cities and, maybe, provincial capitals). While phone lines may exist for consumers

Box 6. How do mobile and agent banking providers approach recourse at the BoP?

Traditional financial service providers can learn some lessons from customer service and dispute resolution approaches used by mobile and agent banking providers. These mass-market operators often invest in high-quality customer service, in part because they expect that effective resolution of problems will provide a quick learning opportunity for consumers who may be unfamiliar with their relatively new products. Facilitating such learning opportunities can in turn help instill trust and boost product use. Experiences from several markets illustrate some key lessons that are broadly relevant to recourse:

- *Convenience and accessibility.* Mobile and agent banking providers offer “in-hand” and “in-village” opportunities for consumers to present issues or complaints, which overcome barriers of convenience, cost (i.e., of transport or phone), and comfort that can limit accessibility and use of recourse channels.
- *Awareness of recourse options.* Mobile and agent banking services have demonstrated success in raising awareness of their recourse options, in particular call centers. They have used marketing campaigns focused on how to operate the products and how to seek immediate assistance, and a range of communications channels, including agent locations and mobile phones to inform consumers of recourse options.
- *Monitoring of operations.* The high rates of call center use have allowed many providers to monitor inquiry and complaint records to identify and address issues such as fraud. Eko in India, for instance, manages a network of third-party agents and uses customer complaints to track and address common agent errors and even improper billing practices. It also employs “agent quality” officers who visit each agent daily.
- *Improvement of products and services.* Tigo, a mobile banking provider in Ghana, has used customer complaints and inquiries to improve its PIN reset function on the mobile platform to make it more intuitive for the user.
- *Trust and uptake.* A study of M-PESA users in Kenya found the ability to quickly test the product via small and frequent transactions and to receive immediate customer support and dispute resolution were key elements in building trust in, uptake of, and thereby loyalty toward the new product line (Collins and Zollman 2011).
- *Different product lines may require different staff capacity.* A recent GSMA study found that a good emerging practice for mobile money providers is to train separate call center staff to handle phone services versus mobile financial product inquiries, as the products and issues arising can vary significantly (Levin 2012).

to call, if these are not toll-free, consumers may not be able to or want to pay for registering a complaint.¹⁸ BoP consumers in isolated areas or far from a branch may incur certain minimum costs—transport expenses and opportunity costs of traveling; the costs of a phone call, etc.—that could be beyond a BoP consumer’s means. To begin to address these challenges, recourse channels should at a minimum allow submission of complaints by phone, in-person, and through any and all channels by which a consumer could transact with the financial institution—including via mobile technology or through agents.

Eko, the mobile and agent-banking provider in India, has recognized the importance of opening multiple

points of entry to maximize access to BoP consumers. Taking advantage of its agent network, consumers have the flexibility to complain through the channel they prefer: through a call center, at a physical customer service point where they transact (often a local store), or to one of the Eko agents who visit and monitor the customer service points daily. In all cases, complainants receive a case number they can track via their mobile phone, which helps them monitor and get updates on the status of their complaint even when they are located too remotely to receive a printed complaints receipt or visit the provider’s offices. In Tanzania, a recent survey of branchless banking customers found they were most likely to register a complaint about an agent not through the call center provided, but rather with another agent in their community.

¹⁸ This scenario was the case in several regulator-backed recourse systems in the Philippines, complaints were handled in person wherever a branch of the regulator existed (in most though not all provinces) and discussions were underway to scope the costs of getting a toll-free line, but without certainty about whether this would be within available budgets for recourse.

Complaints handling methods

Recourse systems for BoP markets should also aim to ease the process of presenting, receiving information on, resolving, monitoring, and escalating complaints. Certain procedural formalities and consequent delays at different stages of complaints handling may be required by law or otherwise to ensure procedural fairness to both sides. However, in light of the tremendous informational and resource asymmetries between financial providers and BoP consumers, it is critical that handling methods in nonjudicial recourse should aim to offer enough flexibility so as not to bar any genuine complaints on procedural grounds alone.

Submitting complaints

An example of a procedural barrier for access to recourse channels is the requirement that a complaint be submitted in writing, which is very common for many ombudsmen or mediators with formal dispute resolution methods. A second is the requirement that a complaint be submitted to the provider before coming to the third-party recourse mechanism. Both of these are very sensible as a matter of strict procedural fairness; however, both may deter some BoP consumers from reporting genuine complaints.

One solution to these barriers is to have a “soft touch” frontline process in person or by phone that helps would-be complainants put their concerns in writing and offer clear instructions and even certain assistance in navigating initial steps required to follow procedural requirements. When complainants who approach a third-party mechanism must first be sent back to a provider, this step can take place without entirely losing the continuity and consumer momentum to see their complaint through. For instance, the method used by the central bank’s Financial Consumer Affairs Group (FCAG) in the Philippines directs the complainant back to the

financial institution, but FCAG tracks the process to ensure a timely and sufficient response. A slightly less hands-on method that requires sophisticated technology is made possible by an “integrated grievance management system” such as that created by the Indian Regulatory and Development Authority (IRDA) (discussed in Box 7).

Timing and stages of recourse processes

As seen in Box 4 on page 6, internal recourse regulations frequently include requirements for the timeframes in which providers must respond to and handle complaints. Most formal third-party recourse processes also lay out timeframes for other stages, such as a time period in which the financial services provider must respond to complaints or requests for further information relevant to the case. Although meant to be speedy and less burdensome than a court process, the sum of each of these different time allowances may still result in an unfair wait time for the consumer, depending on the situation.¹⁹

Here, perhaps more than elsewhere, policy makers and recourse providers must design complaints handling with special attention to unique features of a particular product or industry. For instance, funeral insurance is a popular product among lower-income consumer segments in South Africa. The main benefit relies on quick payouts to cover funeral costs. Thus, if a claim is wrongly denied and a complaint is filed, it must be resolved very quickly lest the customer lose the entire benefit of the product. South Africa’s Short-Term Insurance Ombudsman, like others currently working to design third-party recourse options specific to microfinance,²⁰ is grappling with how to speed up processing of such complaints.

Beyond handling methods, relationships among different actors in the recourse system can also be simplified. For instance, in Colombia, there are three points of entry into the third-party recourse

¹⁹ A developed-country example is the Irish Financial Services Ombudsman’s Bureau, which was taken to the European Court on Human Rights over burdensome processes that reportedly functioned more like a court than an ADR mechanism.

²⁰ For instance, efforts to design a specialized ombudsman for microinsurance within the framework of new microinsurance legislation are underway in South Africa. A project supported by the German International Cooperation Agency in the Philippines is attempting to implement an ADR scheme for microinsurance through combined efforts of the Insurance Commission and insurance providers. Pakistan Microfinance Network is trying to create an industry-supported hotline for complaints against its MFI members in Pakistan. Arbitration schemes are also envisioned in Codes of Ethics adopted or being drafted by microfinance industry associations in Bosnia, Azerbaijan, and elsewhere.

Box 7. Supervision and market monitoring through integrated grievance management

Consumers in India have three nonjudicial recourse options for resolving their disputes with insurance companies: directly to the company, through the statutory Insurance Ombudsman, or through the Insurance Regulatory and Development Authority (IRDA). In addition to its direct role in complaints handling, IRDA also is responsible for supervising the recourse system and for consumer protection more broadly. As part of its proactive approach to these responsibilities, IRDA began to build a sophisticated web-based system for integrating grievance management across the insurance industry.

Now, all insurance providers, the ombudsman, and IRDA all use the same platform to track consumer complaints as they move through the system. Thus, third-party recourse providers can immediately check whether a consumer has already complained to the provider and, if not, make an instantaneous referral, give the consumer a tracking number, and track the provider's follow-up. If a provider's resolution of a complaint exceeds the prescribed time periods, IRDA is notified automatically. Market monitoring for emerging consumer protection problems is also easier as IRDA now has immediate access to complaints data, and all actors in the recourse system are using the same system for all types of complaints.

system for financial services—the provider, a provider-specific ombudsman, and the Financial Superintendent's complaints system. A complainant can begin at any of the three points, which will invariably begin its handling method with referral back to the provider to allow it to be the first line of defense. This simplified method contrasts with procedural formality of many third-party recourse mechanisms that require the complainant to demonstrate he or she has already approached the provider.

The point about simplifying relationships is also in regard to unique features of the particular industry, especially where reaching BoP consumers is based on innovation and complex partnerships. For instance, many microinsurance products are sold through agents who are closer to market (i.e., funeral parlors

that sell the funeral insurance described above). The consumer may never interact face-to-face with the insurance company that stands behind the product she has purchased. Yet, when a problem occurs, she must issue her complaint to this company, not the distribution agent. Similar challenges will arise in mobile banking that is premised on partnerships between telecommunications companies and financial institutions, requiring policy makers to coordinate among themselves and carefully consider—with regard to consumer perspective and experience—who should be responsible for complaints handling.

More generally, multiple steps or stages in complaints handling procedures can potentially serve as a barrier to reporting genuine complaints. In a recent thematic review of complaints-handling processes by financial institutions in the United Kingdom, the Financial Services Authority found case-based evidence that a two-stage complaints process—i.e., one that requires an internal appeal before the complaint can go on to third-party recourse—“can act as a barrier to fair complaint handling, with potential for detrimental effects on consumers.”²¹ While this study was conducted in a developed-country context, it describes a fairly universal behavioral bias—channel barriers (see further discussion below)—that is at least as relevant to emerging market and developing economy contexts if not even more so.

Staff capability and specialization for complaints handling

Limited experience with formal financial services and lack of trust in financial institutions and government services among BoP consumers make it particularly important for recourse systems in these markets to invest in having well-trained frontline staff for “soft touch” complaints handling. Discussions with recourse providers highlight several critical roles frontline complaints handlers play in making recourse effective or ineffective for BoP consumers:

1. **Host and receptionist.** Putting the user at ease and making her feel heard.

²¹ FSA (2010, p. 7), with further discussion on pp. 14–15. Part of FSA's concern was the effect of a process that “forced complainants to restate their complaint a number of times over a protracted period in the face of ongoing negative responses from the bank.” Such lessons can and should be extrapolated and given additional weight at the BoP, where the threshold at which complex processes may work an injustice or force the would-be complainant to give up may be much lower.

2. **Detective.** Questioning to identify both immediate and underlying problems, especially where BoP consumers may be less able to articulate the heart of the complaint.
3. **Filter.** Determining whether the user really has a complaint that needs elevation to a more formal resolution process, or simply needs information or an explanation.
4. **Educator.** Making use of an immediate opportunity to improve financial capability through immediate provision of information and explanation in a vast majority (60–80 percent) of incoming matters that will likely be a matter of misinformation or misunderstanding.²²
5. **Referral and advice office.** If a complaint is outside of the recourse provider’s mandate or jurisdiction, offering the user a referral or initial assistance in redirecting the complaint to where it can resolved.²³

These multiple overlapping roles point to the importance and value of adequate training for complaints-handling personnel as well as sufficient staffing. Adequate staffing will allow staff to take the time to provide higher-quality service to increase customers’ understanding of the various stages in the process, instill trust, and where relevant educate the consumer. Both adequate training and staffing have cost implications, but recourse providers tend to emphasize that these up-front investments in staff capacity make complaints handling more cost effective overall.

One important lesson from experiences in recourse systems for BoP markets is that frontline staff need not have higher education to be well-trained. Indeed, the former head of the Micro Finance Regulatory

Commission and National Consumer Regulator in South Africa cautions in favor of hiring frontline personnel with strong skills but a background that will allow them to connect with and understand the average consumer (including, but not limited to education levels and diverse language competency).²⁴ Then, on-the-job training can consist of targeted education modules, along with robust mentoring and supervision.²⁵

Another argument for investing up front in building staff capacity to handle consumer complaints is the savings that can be realized if complaints handling doubles as a financial capability intervention. As noted, many recourse systems report high volumes of inquiries that are more informational or educational in nature rather than actual complaints. Well-trained staff can use these opportunities to inform and educate consumers at a moment when they are particularly receptive to financial education messages. Recent evaluations of financial education interventions argue that financial education messages delivered in real-world settings, at “teachable moments,” may have more resonance with consumers than comprehensive curricula delivered in a classroom setting. Using recourse channels to deliver these key financial education messages not only has promise for increasing their resonance and impact on consumer behavior, but also represents a more economical approach to consumer education than larger financial education programs.

This is not to say that financial capability enhancement integrated into recourse channels is a replacement for other types of financial education, but the potential impact relative to cost of such an approach makes it worth considering as an alternate approach to complement more intensive financial education

22 For instance, recourse providers in Nicaragua and elsewhere report that many complaints about being overcharged in fact stem from client misunderstanding of how interest rates function. Taking time to explain and educate on applicable interest rate structures can resolve many complaints and immediately improve the consumer’s future financial capability.

23 For instance, in South Africa’s complex system of multiple ombudsmen and other recourse providers, frontline staff at the National Credit Regulator’s hotline and at the Short-Term Insurance Ombudsman are trained on the different recourse schemes so they can immediately provide complainants with the name of the appropriate office and contact information. To further help consumers navigate this system, a centralized hotline was recently initiated to serve as a single entry point and switchboard (although this is reportedly underused to date, illustrating the importance of maintaining existing channels even while new ones come into existence). In Colombia, the Financial Superintendent’s *Punto de Contacto* has one officer in its walk-in complaints office whose job is to help consumers who need to be redirected to other complaints systems.

24 This point is in effect seconded by the experience of iMali Matters in South Africa, finding that the bulk of community-based assistance to financial consumers need not be provided by lawyers and that staff with formal legal training may, in fact, provide services that are less appropriate to the consumers’ needs (iMali Matters 2011, p. 42).

25 For further discussion of training, mentorship, internal knowledge sharing, and oversight within the United Kingdom’s Financial Ombudsman Service, see Kempson, Collard, and Moore (2004, pp. 31–33).

interventions. There is a clear opportunity for providers and governments to experiment with the integration of basic financial capability messaging and approaches into their training of recourse staff and monitor the utility these messages have for consumers in improving decisions and outcomes.

IV. Cultural and Behavioral Issues in Recourse Systems

The most important measurement of effectiveness is whether and how consumers actually use a recourse mechanism and system—and whether they are satisfied with outcomes. While institutional relationships and design considerations are important, consumers' comfort with and likelihood to use available recourse mechanisms are also critical. Two aspects of consumer culture and behavior in particular merit deeper consideration and, integration into, any recourse approach:

1. Understanding how certain behavioral aspects can impact consumers' propensity to complain and can be taken into account when designing recourse systems for those at the BoP.
2. Building a positive "complaints culture" based on trust and positive experiences by newer financial consumers or in newer financial markets

Consumer behavior, usage, and propensity to complain

Research on consumer behavior in financial decision-making offers important insights that should be incorporated into the design of any recourse system. Two of the most important are the gap between intention and action and how seemingly small barriers can prevent people from doing things that carry great benefits, such as saving for retirement or shopping around to find more affordable insurance policies. Resolving a problem or dispute with a financial service provider is often a multi-stage process that requires inquiries through multiple channels and sometimes submitting the same complaint to multiple actors or in multiple stages. Each of these steps serves as a built-in barrier or "hassle point" that can limit the likelihood that financial consumers will follow through on their complaint to their full satisfaction.

This is further complicated for BoP consumers due to "channel barriers" (such as requiring a written complaint when many consumers in the market are illiterate), "location barriers" (such as complaints desks located only in the capital or major cities), and "psychological barriers" (such as lack of trust in financial or governmental institutions—leading consumers to default to the "what good will complaining do anyway?" conclusion at the first sign of difficulty) (Kempson 2012). The goal of policy makers, therefore, should be to design recourse systems that minimize the likelihood that a consumer with a legitimate grievance will not receive proper redress due to any of these barriers that are common among BoP consumers.

To reduce these barriers, policy makers must first understand how consumers currently use the different channels available, and whether any particular aspects create unnecessary barriers for complainants. Recourse providers can then use this initial mapping to identify better customer service approaches that will also assist—or "nudge"—consumers toward better usage and outcomes. In Colombia, for example, the Financial Superintendent generally refers all complainants back to the financial services provider first before proceeding with its own complaints-handling process. To reduce the potential for consumer inertia, the complaints office has computers next to the desks of the representatives who receive initial inquiries, who can then help the consumers immediately submit their complaint to the financial institution. This reduces the risk that complainants will not follow through once they leave the Superintendent's office and contact the financial institution on their own.

Beyond barriers in system design, channels, or processes, there may be inherent personality barriers that can determine a consumer's propensity to use recourse channels. The United Kingdom's Financial Ombudsman Service, in a survey of consumers who had presented or not presented complaints when they had problems with banks, found that individual personality characteristics—i.e., "am I a person who feels control over my life" or "am I the type to complain until I get what I want"—were stronger determinants of likelihood to complain

than demographic characteristics, including socioeconomic status (Kempson 2012). This finding points to the need for different marketing or process designs that speak to these diverse personality types, so that who complains is determined less by their personality type. It is, however, also possible that socioeconomic or demographic characteristics in BoP markets with greater class or social stratification may mean that these characteristics will have a greater influence on propensity to complain than they did in the United Kingdom. This calls for testing of the findings from the United Kingdom in a BoP context, which is a subject of ongoing CGAP field research.

“Complaints culture,” trust, and buy-in to recourse systems

All too frequently, low complaints numbers are attributed to the belief that complaining is not part of a given culture. Although the word “complain” can have a negative connotation the world over, the raising and resolution of legitimate grievances should not. It may take sustained and systemic efforts far beyond the financial sector to cultivate an environment in which a healthy “complaints culture” can exist and thrive, particularly at the BoP, where legacies of exclusion and disempowerment persist.²⁶

Recourse providers are taking some creative steps to cultivate trust and buy-in from a range of stakeholders. In Senegal, for example, the Mediator for Banking and other Financial Services at the outset of its mandate launched a sensitization campaign uniquely tailored to local circumstances, intended to build awareness of and confidence in the new system for diverse populations. In more rural areas this includes organizing town hall meetings of community members, local leaders, and financial services providers. The Mediator issues formal invitations to the financial services providers and local leaders, and publicizes the event through local radio and other appropriate channels. The day before, he meets only with local staff of the financial institutions

to explain his mandate, dispute resolution procedures, and the purpose of the meeting, and to answer any questions. During the meeting itself, community members and leaders are encouraged to raise their questions and publicly air any problems they may be having with local financial institutions, which are then given an opportunity to respond. The Mediator may then offer his views or suggestions. Not only does this help to air and resolve generalized grievances—an easier starting point than individual complaints—it serves as a public example of the way mediation will function and demonstrates the Mediator’s own fairness to both sides.²⁷

Legacies of mistrust from consumers’ past experiences—with service providers or government—should be taken into account. The Financial System Mediator in Armenia describes trust challenges it faces, particularly due to people’s negative experiences during and after the collapse of the Soviet Union. Moreover, consumers in Armenia tend to believe that if a service is free (as this one is), the quality will be inferior. So, while we might assume that free services are an incentive, the Armenian case demonstrates that cultural, political, and historical context can confound our assumptions about consumer behavior and use of recourse services. To address this challenge, the Financial System Mediator conducts frequent awareness campaigns and consumer outreach across the country.

Creating a complaints culture does not start and end with consumers. Financial institutions and their staff may fear the shift in power that accompanies an effective recourse system, in particular those staff directly serving clients. Fonkoze in Haiti, for example, designed and launched its complaints hotline to address these staff concerns and gain their buy-in. Because of its decentralized operations, Fonkoze relied on individual loan officers to hand out cards informing existing clients about the new toll-free hotline. However, loan officers expressed concern that the hotline would undercut their authority

²⁶ These legacies can be complex and deeply ingrained and must be understood before they can be addressed. Consumer research can be a useful tool. For instance, a CGAP-FSD study in Kenya looked at (among other things) access to recourse for victims of pyramid schemes: “Of those that lost money, 25 percent did not complain because they did not know who to complain to and 34 percent did not complain because they did not think it would do any good. Most [focus group discussion] participants who had been taken advantage of reported that they were too ashamed to admit having participated in a pyramid scheme.”

²⁷ Although the *Observatoire de Qualité des Services Financiers* Mediator describes its approach as “uniquely African,” variations of the “town hall” method are used, among others, by the Reserve Bank of India in its approach to advancing financial inclusion in “unbanked villages” and in many other parts of the world as part of financial education campaigns.

with clients and undermine repayment discipline. Fonkoze management realized that a free, potentially anonymous hotline could benefit field staff as well, and decided to open the hotline to staff as well as clients. Senior management visited the participating branches to explain the hotline’s purposes and reassure staff that the complaints handling and investigations procedures would be fair.

Since recourse systems often begin in BoP markets with only a voluntary, not a binding, third-party recourse option, building trust and a proactive complaints-handling culture among financial institutions is especially important to help the recourse system succeed. Returning to the case of Senegal, the Mediator for Banking and Other Financial Services—who relies on voluntary cooperation from and compliance by financial institutions—has achieved better results by informally consulting with providers rather than sending formal notification letters, allowing him to pursue a more personal approach to industry outreach, including delivering in-person year-end reports and recommendations to the heads of each major financial institution.

Even in markets where there is full enforcement and mandatory compliance with recourse mechanisms, building industry buy-in can have a positive impact on both consumers’ experiences and outcomes as well as on reducing the direct burden on government to handle complaints and inquiries. One approach used in markets such as the Philippines, among others, is to create positive reputational incentives by giving an annual award to the financial institution with the best track record of handling complaints. Several countries in Africa have also launched or are developing software that would use official complaints data to measure and score institutions’ quality of services based on factors such as volume, timeliness in resolution, and customer satisfaction with recourse channels.

V. Implementation Challenges in BoP Markets

Regulatory coverage and other political realities

Policy makers in countries the world over, but particularly in many emerging market and developing

economies, face significant market coverage challenges, in part, because they lack authority over some of the broad spectrum of providers serving BoP consumers. This may include MFIs, consumer lenders, informal providers, and branchless banking providers. These challenges may create situations where policy makers do not have the authority to set standards of internal recourse channels, impose sanctions, or issue binding rules or decisions on consumers’ cases. Similarly, in markets where there are innovative financial service models that are partnerships of financial institutions and other sectors, such as telecommunication companies, policy makers should pay particular attention to how they determine which party should be responsible for handling complaints, and set rules for how customers are made aware of the responsible party where third-party agents or vendors are used.

Beyond market coverage, another challenge for third-party recourse can be lack of legal authority or political clout to compel compliance with decisions. In some circumstances, other third-party recourse providers—industry-backed mechanisms or other government bodies—may not in practice be able to obtain the cooperation of financial services providers that is necessary for any nonjudicial resolution process. For instance, in one African country, a single banking ombudsman appointed to resolve disputes for members of a voluntary banking association seemed to lack the independence and resources to be an effective complement to internal recourse. Elsewhere, a statutory consumer protection council received large numbers of complaints against banks, but it did not have the legal authority or practical capacity to get banks to respond to its inquiries or participate in a mediation process. Instead, it ended up referring such complaints to the Central Bank, which had the political clout if not the precise mandate.

Cases such as these point to the important role “soft power” or “moral suasion” plays where authority is limited or unclear. It may also be necessary to coordinate even more closely with financial institutions and their associations to establish strong, if voluntary, internal recourse mechanisms, and to demonstrate the potential benefits effective recourse systems can have on their business cases.

Resource and capacity constraints in implementing recourse systems

Building a well-functioning recourse system that works for a broad range of BoP consumers and providers can pose significant resource and capacity challenges for policy makers in emerging market and developing economies. In contrast to other consumer protection priorities, such as design and enforcement of disclosure and pricing transparency rules, recourse is a time- and resource-intensive activity that requires monitoring and enforcement of industry compliance, direct attention to consumers, and in some cases mediation or dispute resolution. For many understaffed consumer protection units within central banks and other regulatory authorities, these activities may consume too much time.

However, the alternative—purely industry-run recourse systems—has not proven successful in providing consistent, quality, and wide-reaching recourse systems in these kinds of markets. Therefore, a good argument can be made that even in cases of severe resource constraints, regulators must play an active, even if limited, role in the recourse system to ensure quality of services and adequate protections for a diverse range of consumer types.

Strategies for efficient and cost-effective recourse systems in limited-resource environments

These resource and capacity constraints impact the design and implementation of internal recourse among BoP financial services providers as well as the extent of available third-party recourse options in countries characterized by lower levels of financial inclusion. Several first-step approaches and cost-reducing strategies help even the more resource and capacity-constrained providers and policy makers get started.

In situations where mechanisms such as toll-free hotlines or call centers are beyond the means of providers or financial sector regulators,²⁸ very

good internal recourse systems can be set up with far less sophisticated technology. For instance, the Indian MFI Mahashakti received praise for its systematic and diligent handling of complaints that were recorded in ledgers at each branch office and reviewed regularly by branch managers as well as the head of the organization.²⁹ Also, nonprofit financial institutions may be able to leverage donated resources to implement consumer protection measures such as recourse mechanisms. Such was the case when Fonkoze had two toll-free lines donated by Haiti's two largest mobile phone operators, which were essential to enabling the launch of its complaints hotline. Other creative means can be used to reduce the costs of effective recourse. For instance, Mexico's financial consumer protection agency operates a very active call center that handles an average of 4,000 complaints per day; the call center phones are staffed in part by young Mexicans doing a year of compulsory civil service as one of the requirements for their university degree.

In implementing a new recourse regime in a world of resource constraints, providers and policy makers can also build on existing pathways and channels for more effective and efficient results, if individuals and institutions have ways to solve problems. Rather than reinventing the wheel, a few initial focus groups with financial consumers at the BoP, financial institutions, and existing regulatory or consumer protection bodies may reveal where informal channels may already exist. For consumers, there may be local (not necessarily governmental) leaders or structures that already help with dispute resolution and problem solving. There may also be existing social services—such as community-based paralegals or advice centers—that could help to connect BoP consumers to new structures. Within financial institutions or regulatory bodies, there may also be particular persons who have naturally come to play the role of trusted problem solver.

Identifying, formalizing, and building on such existing channels may reduce start-up costs, particularly for outreach, and improve outcomes.

²⁸ For instance, two financial-sector regulators and one consumer protection structure offering consumer recourse in the Philippines explained that they are scoping the costs of setting up a toll-free hotline and call center, but doubt such an option would be within available resources.

²⁹ This relatively low-cost system was implemented by Mahashakti in India and received praise from its international funding partner Kiva, which reviewed the internal recourse mechanism as part of its pilot social scorecard system.

Targeted consumer research provides a good starting point. For instance, microfinance consumers in the Philippines who participated in CGAP-run focus groups did not view resolving disputes with financial institutions as a priority consumer protection concern, often citing easy access to a Barangay Captain, a local community leader common in communities across the Philippines. While Barangay Captains do not have an official role in financial recourse in the Philippines, they appear to be a preferred, and potentially effective, method for resolving financial disputes for low-income Filipinos. Using this information, financial services or third-party recourse providers could potentially improve awareness, accessibility, and suitable recourse methods by offering information through and linking to Barangay Captains in communities they serve—all with the possibility of built-in efficiencies and cost savings.

In markets where some financial services providers may have resources to support comprehensive recourse, but others will be challenged to do so, an approach worth considering is **financing third-party recourse mechanisms through compulsory industry contributions that take into account diversity among financial service providers' ability to pay**. A highly developed model is the Armenia Financial System Mediator's mechanism that mixes levies and case fees. The levy is calculated based on a given financial institution's market share (a good proxy for ability to pay), while case fees take into account the number of complaints filed against a given provider. However, there is no fee assessed for the first two cases each year, which assists smaller firms.

VI. Using Data to Monitor and Maximize Effectiveness of Recourse at the BoP

Numerous examples cited above illustrate different ways that policy makers and financial services providers have maximized the impact of their investments in recourse. There are several important ways in which data generated by recourse systems can be used to monitor and maximize the effectiveness of recourse at the BoP, including the following:

- **Oversight and improvements to the recourse system.** As discussed, data gathered through

reporting from internal and third-party recourse enable financial-sector regulators or supervisors to oversee and monitor the consumer recourse system. Ideally, systems can be set up to supervise compliance with key standards easily. For instance, once a complaint is registered in IRDA's integrated grievance system, the system automatically flags complaints that are not reported as "resolved" within the required time period for resolution of complaints. Complaints data can also help to identify shortcomings and needed improvements in the recourse system.

- **Expanded coverage and outreach to BoP markets.** Once reaching and providing effective recourse for consumers at the BoP has been identified as a goal, it is important to build in ways of measuring or testing progress toward this goal. Complaint management systems capture tremendously useful information for a variety of purposes. If this information includes certain demographic information about the complainant, it can be made anonymous and used to track progress in reaching target markets. Nondemographic data can also be used as a proxy for BoP characteristics, for instance, location of the complainant, his profession or income sources, or the types of financial products used.
- **Market monitoring and consumer-protection supervision of individual financial institutions.** Recourse data can be analyzed for trends in complaints that help identify problem areas—whether high-risk providers or products or a market-level issue of concern—and possible policy responses. Such analysis of consolidated complaints data can benefit policy makers, providers, and consumers. For instance, a review of the first six months of IRDA's integrated grievance mechanism identified a pattern of complaints in which insurance policy holders in certain rural areas were not receiving important policy bond documents due to problems with India's mail delivery system. IRDA identified particular areas and providers of concern and recommended the use of a courier service to deliver policy documents to new customers in those traditionally underserved areas. The providers, who had not previously had access to or analyzed marketwide data, were grateful for the recommendation, which helped them improve insurance coverage and customer satisfaction.

The availability of effective recourse is an essential component of consumer protection and responsible market development. While some of the measures recommended above can be resource-intensive, there are numerous examples of financial services providers, industry associations, and policy makers taking important steps to improve available recourse within the limits of available means. They do so generally because they firmly believe in the long-term benefits of investing in effective recourse for the development of healthy and responsible financial services and markets.

The best approach works step-by-step, first tackling issues of *effectiveness*, then *efficiency* and *scalability*. Human resource-intensive methods that can be deployed only on a small scale can do a lot to build the trust, buy-in, and culture of accountability that is a precondition for growing demand for recourse. Beginning in such an incremental way can also allow recourse providers to identify specific opportunities that can be leveraged to build in efficiencies in the longer term. Once such groundwork is laid, new technologies—from those that have allowed the expansion of financial services to BoP markets (such as mobile platforms) to integrated online management systems—can be the key to efficient and effective scaling up and expansion of recourse to the entire BoP market.

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Annex A. Comparative Table on Institutional Arrangements for Recourse in Emerging and Developing Market Economies

Country	Regulation of Internal Recourse	Third Party Recourse (Nonjudicial)	Regulator Role in Recourse
Armenia	✓	✓Financial System Mediator (statutory)	Supervision
Azerbaijan		✓Hotline at Central Bank of Azerbaijan	Direct Provision
Bangladesh	✓Mobile financial services only	✓Consumer Interest Protection Centre at Bangladesh Bank; Microfinance Regulatory Authority (email complaints only)	Direct Provision & Supervision
Bolivia	✓	✓Claims Center at ASFI	Direct Provision & Supervision
Bosnia and Herzegovina	✓Microcredit organizations only	✓Banking System Ombudsman within Banking Agency of RS	Direct Provision & Supervision
Botswana	✓	✓Banking Supervision Department at Bank of Botswana; NBF Regulatory Authority; Office of Banking Adjudicator (private)	Direct Provision
Chile	✓	✓Chilean Insurance Ombudsman; National Consumer Service Agency (Sernac); Superintendency of Banks and Other Financial Institutions	Direct Provision & Supervision
Colombia	✓	✓Contact Point at the Financial Superintendent; "Consumer Defender" Ombud System	Direct Provision & Supervision
Georgia	✓	✓Hotline at National Bank of Georgia	Direct Provision & Supervision
Ghana		✓Investigations and Consumer Reporting Office at Bank of Ghana	Direct Provision
Kenya	✓Agent banking and credit bureau only	✓Insurance Regulatory Authority; Cooperatives Tribunal (for SACCOs)	Direct Provision & Supervision
India	✓Commercial banks	✓Banking Ombudsman, Insurance Ombudsman, Reserve Bank of India; Insurance Regulatory and Development Authority (IRDA)	Direct Provision & Supervision
Indonesia	✓	✓Consumer Dispute Settlement Board at Bank Indonesia; National Consumer Protection Agency; Consumer Dispute Settlement Board	Direct Provision & Supervision
Malaysia	✓	✓Financial Mediation Bureau; Bank Negara Malaysia's BNMLink	Direct Provision & Supervision
Mexico	✓	✓National Commission for the Defense and Protection of Users of Financial Services (CONDUSEF)	Direct Provision & Supervision
Nicaragua	✓MFIs only	✓Superintendency of Banks and Other Financial Institutions; National Microfinance Commission	Direct Provision & Supervision
Nigeria	✓	✓Central Bank of Nigeria	Direct Provision & Supervision
Pakistan	✓	✓Banking Mohtasib (Ombudsman) Pakistan	Direct Provision & Supervision
Peru	✓	✓Financial Consumer Defender; INDECOPI; Superintendence of Banks, Insurance and Other Financial Services	Direct Provision & Supervision

Country	Regulation of Internal Recourse	Third Party Recourse (Nonjudicial)	Regulator Role in Recourse
Philippines	✓Credit cards only	✓Financial Consumer Affairs Group at Bangko Sentral ng Pilipinas	Direct Provision & Supervision
Senegal		✓Mediator for Banks and Financial Services & Mediator for Insurance under the Financial Services Quality Supervisor (OQSF)	Direct Provision
Serbia	✓	✓Banking System Ombudsman established by National Bank of Serbia	Direct Provision & Supervision
South Africa	✓	✓Office of the Credit Ombud; Ombudsman for Long-Term Insurance; Ombudsman for Banking Services; Office of the Ombud for Financial Services Providers; Ombudsman for Short-Term Insurance; Pension Funds Adjudicator; National Credit Regulator	Direct Provision & Supervision
Swaziland		✓Insurance and Retirement Funds Adjudicator	Direct Provision
Uganda	✓	✓Bank of Uganda; Insurance Commission	Direct Provision & Supervision

Annex B. Developing Third-Party Recourse Arrangements for BoP Markets

The number of emerging market and developing economies with third-party recourse arrangements either in place or in development has increased significantly in recent years. A third-party option for recourse,³⁰ even if limited at first, is an important component to recourse systems in BoP markets, where quality of internal recourse mechanisms may vary considerably across different provider segments and regions of the country.

One of the more significant decisions in developing third-party recourse arrangements is determining

the institutional model to use as a base. Review of practices in emerging markets and developing economies points to three primary models: “government-backed,” “industry-backed,” and “hybrid.” Even within these three main typologies there may be significant variations in terms of a given mechanism’s mandate and powers, the portions of the financial market it covers, its procedures and methods for resolving disputes, its level of independence and the ways accountability is ensured and to whom, etc. Table B-1 compares different country examples that use one of these three models, and shows the key factors that affect institutional arrangements for third-party recourse systems.

³⁰ There are various terms used for third-party recourse providers—“mediators,” “ombuds,” and “complaints boards” are each common—but the meaning of these terms is not fixed.

Table B-1. Comparison of key factors in different third-party recourse mechanisms

Country – Mechanism	Typology	Market Coverage	Procedures and Methods	Enforceability of Outcome	Funding	Accountability and Independence
Bosnia and Herzegovina Banking System Ombudsman	Government-backed (created by legislation)	Banking	Mediation for amicable resolution	Outcome only binding and enforceable if agreed to by both parties	Government (within Banking Agency's budget)	Legislation establishes principle of independence, but does not prescribe particular measures for its actualization
Nicaragua Customer Service Office, Legal Department, SIBOIF	Government-backed (explicit legislative mandate)	Credit cards since 2010, expanded in 2013 to cover full range of products offered by regulated providers	Formal adjudication procedures	Recommendations can be binding if adopted by Superintendent	Government (within SIBOIF budget)	Under full control of the financial Superintendent
South Africa Ombud for Financial Services Providers	Government-backed (created by legislation)	Any financial services providers not covered by an approved, voluntary Ombud scheme	Aims to have outcome accepted by parties; if not, Ombud can dismiss or issue final decision	Final decision is enforceable as a decision of High Court	Government, but complaint-handling costs charged to providers	Appointed by Financial Services Board; provisions to preserve independence
Botswana Office of the Banking Adjudicator	Industry-backed (voluntarily established)	Banks that are members of the Banking Association of Botswana	Give bank 14-day opportunity to resolve complaint; then adjudicate	Decision is a recommended resolution that Bank is meant to comply with	Banking Association of Botswana	Reports directly to Banking Association; no financial independence
Malaysia Financial Mediation Bureau	Industry-backed (but set up with support from the central bank)	All financial services providers who are members	Mediator first attempts to facilitate communication; if unsuccessful, will issue own decision	Outcome binding on provider, not on consumer	Started with the central bank's support, but now fully independent, funded through annual levy on providers	Board overseeing FMB includes majority independent directors, consumer association representative
Armenia Financial System Mediator	Hybrid (created by legislation; financed by financial institutions)	All financial services providers	FSM receives written submissions and adjudicates/issues decision	Outcome binding if accepted by the consumer (only)	Statutory contributions by financial services providers, determined based on market share	Board overseeing FSM has diverse members, but majority are from financial industry
Colombia Ombudsmen (defensores) for Financial Consumers	Hybrid (required by legislation; appointed and financed by provider; approved and regulated by Superintendent)	All supervised financial services providers must appoint a defensor	Mediation for amicable resolution	Outcome binding only by agreement of both parties, except if provider makes pre-election that defensor decisions will be binding	Individual financial services provider	Defensores must meet certain qualifications to be approved by Superintendent and reports cases to Superintendent; but providers can freely fire or change defensor

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