

# Protecting Consumers in Mobile Finance

## *Regulatory Issues and Options for Promoting Responsible Financial Access*

Denise Dias

Policy Specialist and Manager for Latin America

CGAP

# Policy goals, mobile finance and protection

## What do you look for?

- **Systemic stability**
- **Increased financial access**
- Mobile finance is a hot topic for both service providers and regulators
- Enabling regulations are being issued all over the world to allow and expand mobile finance
- Regulations vary, but policy goals and concerns, not so much

# Policy goals, mobile finance and protection

Consumer protection is embedded in promotion of financial stability **AND** healthy financial access, for it may help:

- Keep risk-taking by providers at prudent level
- Keep undesirable players out of the market
- Nurture confidence in institutions and the system
- Foster informed consumer choices

**Consumer protection is the convergence of healthy access and systemic stability goals but it is not a precondition for access**

# Branchless banking: New ways of doing business

Client-provider (bank or nonbank) relationships are:

- **Remote** – distance between point of service and provider's headquarters or branch
- **Indirect** – use of third parties (nonbank agents)
- **Technology-based** – mobile phones, prepaid cards, POS devices, biometrics, internet...

*How do these features relationships affect consumer protection?*

# Does mobile finance bring value for the consumer?

- Access to previously unreachable services?
  - proximity, costs, cultural and other barriers
- Less risky than existing alternatives?
  - carrying cash can be dangerous in some places
- More suitable services?
  - price, convenience, tailored products
- Improved transparency?
  - Alerts, real time pricing
- Other advantages?

# What can go wrong? Evidence and perceived risks

- Client is not able to transact for different reasons
- Client's personal information is stolen or wrongfully accessed or shared
- Agent charged unexpected fees
- Fees and prices are not fully and clearly informed to the client
- Lack of cash at cash-out point
- Client is required to buy another product to conduct the financial transaction

# What can go wrong? Evidence and perceived risks

- Client was not able to file a complaint or complaint was not adequately treated
- Provider did not assume responsibility for agents
- Client was deceived by a “fake retail agent”
- Client is treated poorly by agents, or agents do not know how to perform the service
- Client lost funds (deposits) due to the provider’s weak financial health or fraud

# What should be the regulator's priorities?

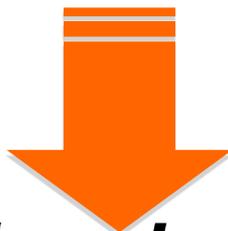
1. Protecting clients' deposits (bank- and nonbank-based);
2. Ensuring security, reliability and availability of electronic channels and transactions;
3. Protecting clients' personal information;
4. Reducing opportunities for agent frauds and misbehavior;
5. Ensuring agents deliver good and fair service;
6. Ensuring clear and comprehensive disclosure;
7. Ensuring liability for the services provided;
8. Ensuring the client knows and has access to effective redress and compliant filing mechanisms.

# Before protecting, ask yourself

*What are the current alternatives to mobile finance? (e.g. informal services)*

*What risks consumers face today without mobile finance?*

*How does mobile finance change the risks? (e.g. money laundering risk)*



***What is a proportional regulatory approach in your case? (Promotion x Protection)***

# Principles for protection through regulation

- Seek proportionality and balance
  - Rules to address identified risks
  - Consider different regulatory and non-regulatory options
  - Weigh against your financial inclusion objectives

Some regulations may protect consumers out of the formal market or towards less suitable services

# Remember that regulation is not enough





The MasterCard Foundation



BILL & MELINDA GATES foundation



FORD FOUNDATION





Advancing financial access for the world's poor

[www.cgap.org](http://www.cgap.org)

[www.microfinancegateway.org](http://www.microfinancegateway.org)

