



## Day 1, Session 6 - New Frontiers in Client Protection

***Kate McKee, Senior Advisor, CGAP***

All right. Thanks so much. That was a really inspiring and terrific panel. We're going to go a little dark now [*Laughs*].

Let me quickly introduce my panel. Then, I'm going to tee up with a few comments. And then, we're going to look at some more survey results, which I'm sure you will be interested to see.

We have on my far left, Nejira Nalić. Nejira is the Director of MI-BOSPO, a microfinance institution in Bosnia, Herzegovina which will celebrate its 20th anniversary this year, which is very exciting. Madalitso Chamba is the Principal Examiner of the Consumer Protection and Financial Literacy Unit at the Reserve Bank of Malawi. This is a stand-alone unit. And, one of the reasons that I was thinking of Madalitso when putting together this panel is that in the case of consumer protection, the Reserve Bank of Malawi has decided to have a single unit that looks across banks, insurance companies, microfinance institutions, SACCOs and even capital market players. So, that's a really interesting approach that I think we'll want to explore. And then, right next to me is Celine Awuor. Celine is a Project Officer at the Consumer Information Network in Kenya, which is 22 years old. About six years ago when Celine joined them, they started to work on financial services. This is a consumer rights and representation organization.

So, two of my panelists think they might be a bit outnumbered in the room. Could I see a show of hands of how many regulators are here? Are there any regulators out there? Stand up, please. Am I missing someone? Okay. So, when Sambu called me up to say, "hey, we want you to put together this panel, and, you know, we've always shied away from having regulators in the room. We thought it might chill the conversation. But now, we think we're ready for it". Actually even the evaluations have said, "you know, they have to be part of solution. Let's get them into the conversation". So, we're very happy for the first time to have a regulator up on the podium, not just in the room.

Now, how many consumer organizations are here? Can we see any consumer rights advocates? There must be one. Yay, there's one in the back there. Excellent. Excellent. So, Celine, you have some company in the room.

This topic, which is also for the first time on the agenda, requires exactly this approach. You really need to have providers speaking together with regulators and with consumer advocates about how do we actually ensure that we're protecting clients as part of customer centricity.

So, we've heard this morning some pretty compelling principles and frameworks and evidence from behavioural science and many insights that have, I think, really practical relevance for our field. I'm thinking yesterday, we had a really lively discussion on digital credit and all the behavioural issues that arise when you get a loan offer instantly without expecting it on your phone completely in the privacy of your home, perhaps. And, who can't think of something that they need that money for? And, it's not surprising perhaps that we see customers sometimes kind of jumping through the screens to get the 'do you want a loan? Click, Yes.' And, this is not to say that this isn't a very valuable service. And, it can be offered in a really customer-centric way. But, I think we should all be challenged to be thinking about those behavioural insights and how they might affect design of products so that they are responsible.

This kind of work really, these insights, affect the way we think about ensuring that reasonable steps are being taken to ensure at least that there's not harm that's happening to customers when they have mistakes and they suffer losses. And, to think also about where does consumer protection fit into concepts, both of customer centricity and of this really powerful concept of total lifetime value that we just heard. So, with the journey that we're trying to support low-income people to take, how fair treatment, management of risks, suitability of offerings, how these affect trust of uptake and usage, the potential for cross-sale and the value for all parties. So, that's what we're going to be exploring.

I also wanted to just very briefly highlight the points that came out of the scarcity discussion. So, let's all of us try to think about the street vendor. We're in that tunnel. We're juggling a lot of things. What do we want from our financial services? While other panels will be speaking and have spoken about relevant, do I have relevant services on offer? But, things like reliability are also important where, for example, 59% of Ugandan consumers who tried to do a mobile money transaction in the last six months had at least one that didn't go through because of network downtime. Functionality. I'm thinking of an example of a South Asian mobile money service where you have to navigate six screens in 90 seconds in English or else the transaction will timeout and you won't know whether your money has been sent. So, we can see how this might feed things that we don't like such as an over-the-counter transaction, or they can undermine trust and usage. Mistakes. The consequences of sending money to the wrong number and potentially losing it. Does the agent have liquidity? Are there surprises? I don't want surprises if I'm juggling a lot of things. Are there extra fees? If the insurance policy actually has exclusions I didn't think about? There are scams. Can I solve problems when they happen? So, this will really be the challenge, I think, for all of us thinking about how preventing or reducing these kinds of experiences happening to consumers in the tunnel can be achieved. I think you'll be inspired by the solutions we're going to hear from the panel.

So, we're going to do this conversation in three parts. I'm first going to ask each of the panelists to speak about the specific risks or concerns they see in their markets. Then, we're going to talk

about whose job is it to address them. So, we'll start with the provider perspective. We'll hear the regulatory perspective and then hear from a consumer advocate. In each case, we're looking for solutions and we're trying to tease out what should be the relationship between regulation and self-regulation in our field.

Finally, then, we will be looking forward to think about what's coming down the road in these very dynamic markets where we work.

So, to start us thinking about the nature of the challenge, let's first share the results from one of the survey questions that I think about half of you in the room answered before coming to Kigali.

The question was, from all of you who are consumers, but are mainly thinking from a different perspective in this event as trying to support financial inclusion by low-income consumers, how do consumers perceive client protection? When we look at the answers, we find 37% just don't understand. We'll be getting to that challenge in the markets that we're talking about. Twenty-six percent think about it as being empowered and equipped. This is a pretty inspiring vision we have in our minds. Thirty percent are mainly thinking of protection from overcharging and from over-indebtedness. And then, a much smaller percent of you are concerned about issues of corruption and fraud.

So, again, I think there are, when we think particularly about not understanding being empowered and equipped as kind of two poles here, how do they relate to customer centricity and to client protection?

So, beginning with Nejira. What are the things that worry you most that you see in your market? What do you think are the biggest risks that consumers are facing?

***Nejira Nalić, Director, MI-BOSPO:***

I think we went through a whole loop by now in Bosnia. We have had over-indebtedness crisis. And now, this sector is back, we are recovered. But my worry is still that there is high competition and the clients, even if they are more empowered to negotiate the terms and solutions and the regulator is really tough on those, we still have room for improvement when it comes to real customer relationships, especially because of different understanding of different institutions. What does it mean when it comes to translating the regulator's demands in terms of the client? So, that's still my biggest worry even when it comes to our own service provision.

But, when it comes to a little bit wider look at the market, I'm concerned about the client herself or himself because some of the regulations that we see at the market at the moment might work towards exclusion instead of inclusion. So, we have to provide a lot of documentation even if it's working with low-income people. Women, for example, don't have provable income so we have to work with their husbands. On the other side, in terms of environment for business growth or business registration, we don't have those being as developed as financial service providers.

In terms of debt, that is still the biggest financial remedy or the product in the market, I'm still concerned about over indebtedness and customer's ability to make a decision properly, as we discussed this morning. People are really in intense kind of situations when they decide about credit.

**Kate McKee:**

What's different? I mean, Bosnia, Herzegovina, went through a crisis. What's really different now? Do you think customers are better protected, more empowered now than they were eight years ago when this was going on? What's changed?

**Nejira Nalić:**

I think they are empowered. It has changed that we don't have bad performance anymore in the market. So, they were severely punished by distrust of their clients and the markets itself.

**Kate McKee:**

Can you be just a little more clear about it. So, these were institutions that actually failed?

**Nejira Nalić:**

Yes. They're not competing anymore in the market. They're not present. The institutions that survived have better relationships with the client. It was about client's relationship really. It was about the values of who you are with your client. What did you really want to achieve with your client? Not as the institution, yourself. So, I think that survived, really. The ability of the institutions to really look themselves into what they did and then move forward with their clients; with our clients. So, that was one.

In terms of regulation, that has been really hard in terms of client protection. Clients are empowered now to complain. They have ombudsman as a mechanism. They can complain to the regulator. They can complain internally to our institutions. We have to have a complaints resolution system within the institutions. Even if some of us even previously had those mechanisms, these are even better developed now. Under this pressure to comply, there is more power to the clients. I think that's really something we can even capitalize better on for the future.

The loss of trust was really what we discussed before the panel, something that happened in Bosnia. It's really difficult when you lose the trust as a sector to regain that trust. To differentiate from the others who were kind of, not really, maybe, like fiercely competing, not even maybe having in mind that they want to do harm to the clients. But the harm was done. It doesn't matter whether you come from MI-BOSPO or any other institution within the market. You still have the effect of loss of trust within the market. That has been the result of the crisis. But now, it's getting better and the clients are more empowered.

**Kate McKee:**

Great. And, we'll come back to what are some of the current initiatives you see in the market that are promising. I think you made also a very important point. We need to remember that there are risks of exclusion. For example, when documentation requirements are essentially forcing people to stay in the informal sector, which gives them less choice.

**Nejira Nalić:**

It's important to have anti-money laundering rules and procedures, and definitely compliance in that sense is important for the world. However, if we have a low-income woman who sells milk in the market and she cannot prove the income, and then we have to give the loan to the husband, who's got better provable income, then it doesn't work for the women. And, it's more exclusion than inclusion, in my opinion. We have increase in men using MI-BOSPO loans over the last couple of years because of compliance. Of course, we have to comply, but still the effect of that is excluding low-income women entrepreneurs who are low-income women who are economically active and do bring income home.

**Kate McKee:**

Let's zoom south to Malawi. Madalitso, when you look at the Malawian market, tell us what you find concerning as a regulator.

**Madalitso Chamba, Principal Examiner, Consumer Protection and Financial Literacy, Reserve Bank of Malawi:**

From my Malawian perspective and as a regulator, as already indicated by the moderator, we have the Consumer Protection and Financial Literacy unit, whose work is cross-cutting. We look at microfinance institutions, buying insurance from a market context and consumer protection perspective.

Now, when we look through the tools that we use, like we do sampling and also do mystery shopping of the financial institutions, consumer protection service. One of the key issues that we find in the market is the lack of disclosure of the information or any other disclosure of information. We have some customers, they just rush into a contract with the service provider without understanding the terms and conditions of a product.

Now, it's not an issue at the beginning of the contract. But, in the process of the contract, it becomes a big issue. I will cite an example of a microfinance loan where some customers, they complained that I took my loan about two years ago, but until today, the loan is not fully repaid, yet I'm paying every month. Now, when you look at the contract, we find that most of the terms and conditions are there in the contract. But at the time, when the customer was getting facilitated it was not clearly disclosed to the customer. So, this one is a big risk because when a

customer runs into that situation, they decide to shrink out of the formal financial market. This is not only true for the traditional products and services, it's also quite true for the digital financial services products, which is a good tool for financial inclusion. For example, when you go to the digital market, you talk to the consumers from the digital market. They complain that, for example, I had a failed transaction, but I didn't know what to do. As a result, I decided to quit the market.

When you go to the service provider, you engage the service provider, you find that most of those key information, those key terms and conditions, were not disclosed to the customer. And, in the end, it is now the customer who suffers the consequences. Like, in the case of credit, where maybe the customer is defaulting but the service provider did not disclose that if you default, there will be interest on arrears or this is what we're going to do. Then, the customer starts to complain. Then, finally, it's like the whole market is tainted a black label. So, that's one of the key issues.

When you go to the digital financial service providers or digital financial services, sometimes customers say okay, I bought my product from an agent. My service provider is based in town, now I have a problem. They don't know the route which they have to take, whether they have to go to the agent to complain or they have to go to the service provider to complain. When you go back you find that the key issue is non-disclosure of information. The terms and conditions are clear to the service provider who understands everything. But the customer does not understand. That's a key risk in my market where some customers decide to pull out from the industry due to lack of disclosure of information.

***Kate McKee:***

There are so many things you could work on. You have a small team. So many institutions that you're supposed to oversee of all these different types and problems with disclosure and there are problems with complaints handling and concerns about credit, digital delivery and agents and so on. How do you decide what's important? How do you gain insights about what consumers are doing that might not be in their self-interest? And what are providers doing that might be undermining this kind of longer-run business case that we're hoping to see?

***Madalitso Chandra:***

Looking at the scope of our work, in order to decide which is important so that we focus more of our energy on that, as the nation's only regulator, we do a lot of mystery shopping. I must say too that we're using more to do our work where we go around to financial institutions as regulators, and in some cases, we hire consumers, actual consumers, to assist us with the mystery shopping. So, the results that we get from them, we communicate with their concerned financial institutions. I, then, direct it to the financial institution through direct communication between the regulator and the institution. Or, if the results are so generic that they apply to the whole industry, we communicate through an industry association. We urge the association to say: okay, share the results with your members and please give us an action plan how this is going to be

addressed. Or, if it is a very big problem, we sometimes go onsite examination for that particular institution so that we go deeper into the problem.

**Kate McKee:**

All right. I'm sure everyone would like to hear an example of something you found and how you took it to a provider and you took it to the market. And, you said this is just not working, this needs to change.

**Madalitso Chandra:**

One of the key issues that we found, and this one is the most recent mystery shopping that we did, we went to a microfinance institution where I wanted to buy a product. Because, we go there as customers, real customers. Now, after engaging the service providers, the frontline officers were asking about the terms and conditions. What we were told was that no, we can't give you the terms and conditions until we have come to see your business and you have signed a contract. So, to us, it was like: how can we start with your contract and get the terms and conditions later? So, we insisted. But the service provider could not tell us the terms and conditions. So, we just left. And, we went to another institution for the same service provider, but different branches. We got the same. This is our policy. We have to sign a contract first. We have to see your business and after that, that's when we can disclose the terms and conditions. And that included even the types of credit that the service provider provides. So, that one was a very big issue to us. Immediately, we went to the service provider for an onsite just to get detailed information on the risk.

**Kate McKee:**

So, you went to their HQ and said, we wonder if this practice is affecting repayment, for example?

**Madalitso Chandra:**

We did go there to say: okay, I wonder what their practice is. But, we planned for a full scope, market conduct onsite examination. And, as we were doing the full scope market conduct, this list that we discovered during the mystery shopping, it was part of our areas of concentration. So, later on, we disclosed about the mystery shopping and our findings during the onsite examination. In the end, the Head Office, they understood and they revised their practice and the templates and the like.

**Kate McKee:**

Very interesting. So, the role of evidence in actually, then, making the case and creating the right kind of dialogue with the provider or the industry association. Celine, you come from Kenya. Many in the room are probably thinking, 'what could go wrong in the mecca of financial inclusion in Kenya. How can there be any problems for consumers?' How do you see it?

***Celine Awuor, Project Office Consumer Information Network, Kenya***

Well, definitely, I think Kenya is very much advanced, especially in digital finance, that is known world-wide. But still, there's some issues that I think I worry from the perspective of consumers of financial services, whether digital or microfinance. For instance, I think some of that is similar to what Madalisto shared, is either lack of information or lack of awareness amongst consumers that, as much we see we have a lot of options in the market, a lot of the industry is diverse. But, I don't feel like competition is also at par, that consumers are able to move from if they want to switch from one service provider to another. And, the lack of awareness among consumers and feeling a little bit, not very much empowered and I think that resonates with the findings of the survey that was just shown here.

And also, the dynamism within which digital platform in the financial services is evolving. I think it's evolving sometimes too fast that maybe consumers are not able to keep up with. We have to learn on the go. The industry sees that consumers in Kenya are digital-savvy, which I think is a good thing. But, at times, it becomes a worry if you have to learn how to use them, these products and services as you are going on with the service. And also, we have regulations, the policies are very well-regulated. But, the level of consumer protection across all these different sectors within the financial landscape, they are not equal. Like, even recently with the interest rate caps we had, they don't apply to all credit across all service providers. That sort of excludes customer protection or the protection of consumers accessing these products from different service providers.

***Kate McKee:***

So, say that I decide to take a loan from Branch or Jumo. So, these are unregulated entities. Then, I decide to take a digital loan from M-Shwari, or we heard about KCB M-Pesa. What would be different for me now as a consumer in terms of the protections that I have? Now, in Malawi, it wouldn't matter, right? Or, would it? Do you have unregulated lenders in Malawi?

***Celine Awuor:***

We do, but there's an issue. The Central Bank is not involved because we tell customers to always deal with regulated institutions so in a place where there are no unregulated because we advise our customers not to deal with those unregulated. [Crosstalk] Though, indirectly, we still deal with them.

***Kate McKee:***

All right. But, you oversee quite a few of the lenders. In Kenya, you're raising the situation that they're unregulated lenders. And then, also that maybe the Central Bank deals with issues differently from the SACCO regulator or the microfinance regulator. But, really, does that matter



to customers in terms of ... how is it that they are less protected? Maybe you can help us understand.

***Celine Awuor:***

Well, I think the challenge is that low-income and consumers maybe in the first place don't even know. Because, they want credit. They want to access the service. At that point, they are somehow vulnerable. Maybe they don't have the time to really shop around or look around, which is a disadvantage on the part of consumers. But, I think there is an opportunity for the industry and the regulators to come in strongly and find ways of solving these problems, in a way becoming more customer-centric and more customer-facing, and not waiting for complaints to come up before they react. Sort of being proactive in providing these services.

***Kate McKee:***

You mentioned the price cap, or the interest cap, which is controversial. It applies just to banks. Do you think that is going to result in bank customers getting lower prices for their loans? And, what do you think it will do to the other lenders and their prices?

***Celine Awuor:***

First of all, I think it's a good move for consumers that now we can afford credit from banks at a cheaper rate, which is good. But, personally I would be a bit cautious on the long-term effects and sustainability of such a move even though, of course, I'm promoting and protecting consumer interest. Because, already the interest caps are covering commercial banks. Those banks are regulated under the Central Bank of Kenya, which are commercial banks, deposit taking microfinance institutions, it does not apply to SACCOS and there are quite a huge majority of Kenyans who get loans and credits from SACCOS. It doesn't apply to other lenders not regulated by the Central Bank of Kenya.

Already the other industry players are trying to see how they can also, sort of cash, in on this because they're fearing that now banks will take their clients. Remember, the microfinance institutions are primarily providing credit to the low-income earning consumers who are seen as high-risk and cannot get credit from commercial banks. So, they're seeing this as a threat. And, they're already trying to think of, can they also maybe reduce their interest rates, which would be a good thing if that can apply across the board so that the protection for lenders in the commercial banks and MFIs and even digital-based products can be equal or somehow on the same level.

***Kate McKee:***

Great. So, I have a tough question for each of you, but I want to open it to the audience and see if there are a few comments at this point on some key risks that we've missed. The panelists have spoken about lack of understanding, and, this came through in the survey, as well, that it's a key

risk that consumers just don't understand. There are maybe problems in disclosure practices, as you described, Madalitso, that undermine that. You, each, in your own ways, expressed particular concerns about credit products as being especially sensitive. Complaints, knowing where to complain, how to complain, doing it effectively. What's different about digital? These are some of the issues that you raised. What else are you all seeing in markets that you think needs attention if we are going to meet our vision of a more customer-centric industry? Are there any comments? I will take two comments here. Any other comments or questions?

***Renée Chao-Beroff:***

My name is Renée Chao-Beroff from PAMIGA. Hi, Kate. I would like to know if consumer protection is now also covering fintechs? And, I would be very happy to learn more about that.

***Kate McKee:***

Okay. We're going to take all the questions. So, we have two, I think, side by side here.

***Grace Obuya:***

My name is Grace Obuya from Commercial Bank of Africa. In my experience, what I have seen from the regulators is that they tend to be reactive to the issue of consumer protection. And, what I'd like to see more of, or hear anything that you are doing about it, is to what extent are you working pro-actively with the legislators to then inform or provide thought leadership in developing the regulation around consumer protection?

***Kate McKee:***

Great. And, that might mean that next year we'll have to have our first parliamentarian, our first MP will be on a panel, perhaps. So, on the fintech, what are we seeing? Let's start with Madalitso and then we'll go to Celine. Has this issue come up yet for the Reserve Bank of Malawi, these platform lenders, peer-to-peer lenders? What's your perception, Celine, about the issue in Kenya?

***Celine Awuor:***

Yeah. Fintechs are there in Kenya. I think in they are going to be even bigger in the role they are playing in providing solutions to financial institutions in order to roll out these services. How they are regulated, I might not be very sure where they would fall under the Central Bank because in Kenya the regulation is a bit fragmented. There are those regulations that fall under Central Bank of Kenya and they fall under SOCCO, they have their own microfinance, they have their own telcos and all that. I think it's going to be an interesting move as we move forward to see how much of regulation and where they'll be regulated.

***Kate McKee:***

I flagged, Renée, from your question, two distinct concerns perhaps, which is, what are the issues; what are the consumer protection issues that arise in the context of fintechs which are mainly involved, at this point, in the small dollar, the small value credit space. And, if they are regulated differently or not at all from other financial service providers. And then, the question about how can we actually achieve a more level playing field where, as a consumer, I can expect the same kinds of rights and treatment depending on which provider I have.

Let me turn to Nejira and ask you a tough question that might apply to some other people in the room. How customer-centric can you be if you're selling only credit? And, what are the steps you've taken—we're moving to solutions now—the steps you've taken to deal with the fact that the only product you have had so far for regulatory restrictions, is credit? And, I will come back to Grace's question in a moment.

***Nejira Nalić:***

It's a very important question and we haven't been able to move away from credit at all. Even if we were aware that there are other needs, especially savings and insurance for retirement, for the clients that we serve. There are other providers in the market but they are not concerned about the same issues with the client. We tried to communicate that but it wasn't really possible. So, what we did was more trying to figure out the needs. We are not so big, we don't know much about how to crunch the data and to how to really follow up. But, you know, we did a lot of training internally: how to understand the clients and their needs and how to shape the product for their needs and channeling it through different ways and I think this morning we heard about radio adverts, how to market towards women. So, we did a lot of that.

But, we did a lot of empowerment in terms of financial education and we did women in business metrics, we went to the market. We fundraised from USAID to ensure that women have the way to network and the way to understand the product that they use. We actually promoted savings and we promoted the insurance as a product so they can go out there and shop themselves. In that sense, we were trying our best to be with clients in their journey so they can understand other products.

From the sectoral kind of point of view, it was very difficult through the crisis not to think about the client in the crisis as well. So, it was like, how does she, how does he feel if over-indebted and what can be done from the sectoral level or, you know, environment level. We did a lot of initiatives in terms of financial education, debt advisory. We were supported by USAID and IFC in that sense, so this has become a real good example of this type of initiative. And, I think it is putting the client in the centre from the whole lifespan of the product, actually. Not the life needs of the client but actually, if the client is getting into trouble, how can that client actually get out of the trouble and what are the remedies? So, this is something we did out of MI-BOSPO.

You know, these were the initiatives that we tried to also advocate for in the sector with the banks. Now the debt advisory is being done through municipalities. It's being supported by IFC and there is an NGO that is consulting municipal consultants or lawyers on how to do this pro bono for anyone who can come. I think that's a little bit different client-centric approach but it was kind of borne out of the crisis. We looked at that kind of lifecycle of the product that cannot

always go good because clients will take some, another loan to repay the other loan. This is where my worry is, actually. If there are many competitors and they are competing for one client and they sell the cheaper product, yes, but they still give the debt to that person. I think there is a lot to be done in that kind of area.

Yes, we are empowered to complain. We know where to go to complain, we know that the regulation for provision is high but still, I need that loan. So, you know, I will go shop around when I need that loan and I really don't have any protection. You know, to education. So, we were thinking a lot about how to educate children from school to our age, how to actually save, how to use the debt as a tool, not as a prison kind of, as many of the people feel when they go through credit-only kind of cycles. Because we see clients for 20 years and we are proud of them, but should we really be? Should we be proud of the clients who get out and, you know, are proud that they were clients once upon a time. I'm really struggling with that.

**Kate McKee:**

A total customer value perspective if you still have them, you've gotten rid of them in so many years.

**Nejira Nalić:**

No, but our first client, it was there for our 20<sup>th</sup> anniversary celebration and she was really proud. She was out of debt and she was really happy that she was with us all those years, though she was critical about our work and everything. So, it's really great to see them but she's retired and, you know, she's got two sons who went through the education. We had all the beautiful stories, of course. But there are those who don't go out of this cycle. So, how do they really earn? How do they earn enough so they can get out of loan debt and they can actually save? It's a little bit simplified, I know, I'm sorry, but it's like that's really, it's also important to simplify it so we can actually, you know, react and educate ourselves.

**Kate McKee:**

I'm going to come back to you a little later. Be thinking about three things you did differently. You've been certified twice by the Smart Campaign. I want to know three things you did differently. But, each in one in 30 words or less when we get to it. It'll be a Tweet. There will be the "Tweeted" version of certification.

Madalitso, we got a somewhat pointed question from CBA in Kenya that I think was partly asking, you know, what's the responsibility, actually, of the regulator to be proactive in engaging with parliamentarians, for example, on what is the best way to approach a problem of perceived, maybe actual, high cost of credit in a market? This is, maybe, the most stubborn issue that's really a problem for regulators and for media, and for parliamentarians, that prices don't seem to come down. So, what do you think is the role, if any, of the Central Bank in helping to have the right kind of dialogue?

**Madalitso Chamba:**

Thank you, Kate. As indicated by Grace that regulators are most of the time perceived as being very reactive, not being proactive. Yes, that might be true but it would also be not to be true. Now, like in our case in Malawi, we are slightly different from what Celine has said about Kenya where they have a debt-capping law which only applies to banks. In Malawi, our consumer protection and market regulations, they are cross-cutting. They are applied to all institutions, all banks, all microfinance, all SACCO's as long as they're licensed by the Registrar of Financial Institutions. Now, these regulations that we develop, normally, we develop together with the service providers. We are always together on the journey. As indicated earlier on, our regulations, especially regulations on consumer protection, they are informed by the Consumer Protection Service that we do at the Central Bank and in some cases we do it with the regulators, I mean, with the service providers themselves.

Some of the findings or the data that we use, it comes from the mystery shopping. Which in some cases, we called for all financial service providers to share the results of our consumer surveys and to share the results of our mystery shopping. Later on, we started developing the policies, the regulations or the laws which helped to promote consumer centricity in the market.

Now, these laws or regulations, they're normally passed by parliament. Like, for example, we have a financial consumer protection law, which is about to pass in parliament. We have other regulations which have already been gazetted by the Malawi government. Now, all of these laws, they are developed together with the stakeholders. Who are the stakeholders? It includes the service providers because there is never a regulation which the Central Bank can just wake up and say we have this regulation in place. If we draft it later on, we do it in consultation with the market players. They give us their input. Sometimes we can be a bit softer but the market players themselves, they could say no, that one is too soft, can you change it so that it addresses this risk which is in the market? So, in terms of collaborations, in terms of partnership with the service providers, the parliamentarians, I think we are moving together on this journey for consumer protection.

**Kate McKee:**

So, I have a follow-up question. If we look around, we see in the Francophone, the BCEAO region, we see in Kenya, we see it happened in Zambia, we see other places where it's being prepared, price controls on loans. Are the MPs in Malawi satisfied with the cost of credit? And, if not, what are you doing about it?

**Madalitso Chamba:**

Our MPs in Malawi, they're not happy with the cost of credit. We have a law which is about to be gazetted, which is similar to what Celine has as talked about it, the Injupin law. Which is also looking at issues of carding and others. But, before the Injupin law, we already have a fair treatment of consumer's regulation which we have also have included issues of credit assessment so that customers should be properly assessed. In our regulation, we have said if a customer is given a credit without proper assessment and there's a problem, that product will become invalid, it cannot be enforced against the customer because there was no proper procedure which was followed.

That also includes issues of interest where we have said that when a customer, the interest have accumulated and they have maybe, the interest which have been accumulated against the loan at the same amount as the place from which was taken, that has to be capped. And, the customer has to pay just that double the interest amount which has accumulated. So, that has been included in the fair treatment of customer's regulation which has also been developed. That's in addition to the Injupin law which we are about to.

**Kate McKee:**

So, you have rules on disclosure, rules on complaints-handling, but then, this overarching fair treatment principle, which actually, as I understand it, shifts the liability to the provider if they don't take care of the lender.

**Madalitso Chamba:**

Exactly. If they don't take care of the customer it goes to the service provider.

**Kate McKee:**

Very interesting. Okay, we have one more tough question and then we're going to open it to the floor again. Celine, and I could really put this question to anyone of you: financial education. Do you do a lot of it? Does it work? As you look forward in terms of what really is going to be practical and what's going to work for empowering customers, what do you think are the most essential elements?

**Celine Awuor:**

Well, financial education is important. I think, there are benefits and gains that consumers can and get from it in terms of understanding products better, making better choices, being informed, being empowered, and all that. As you say, I had a lot of engagement, especially with women groups and youth groups giving them information, education on various financial aspects, be it credit, savings, budgeting. We even had a one-on-one counseling services for free for low-income earning consumers. Specifically on credit issues so that, you know, helping them not to be over-indebted and all that. But the problem faced several challenges.

I think this is something that has been raised before, whether the financial education is actually working. Whether it is sustainable in the long-term. And, among them, of course, the first thing is that it is quite costly. In our context, it was even more so because, being a non-governmental organization that does not receive any financial support from within the industry or government, the long-term sustainability of such a program becomes difficult.

Also, the other challenge is how these benefits can be scaled at a bigger level. In my case, I was forecasting on low-income earning women and youths in informal settlements in Nairobi. Even though we had some very good results, it was only for a small group of people. So, how can this be scaled in a way that it can actually benefit the consumers across the board?

You know, the same also translates to the industry because I believe that an industry that has clients who are empowered and informed would make them also profitable in a way. Because they would have reduced complaints and all that. I think, it would be like more of a concerted effort. I think there have been proposals to even have these sorts of problems included in the school curriculum, right from primary school. I don't know if that would be better than providing it at the level of adulthood because, in our case, we saw that we could no longer continue with the program, the sustainability was a big issue.

**Kate McKee:**

So, sustainability, effectiveness, challenge of scale. But, other than that, it's great. Sorry, you were the one that I chose to, because you're so nice and no one wants to be mean to a consumer advocate, but just to sort of bring out this point. So, Madalitso, if you had to choose, what, from your perspective as the regulator, you can fix the consumer or you can fix the provider and the products? What percent would you put on each of those options?

**Madalitso Chamba:**

I think, in my case, we are in the middle.

**Kate McKee:**

You're in...50%? So, half. The poor people in the tunnel have to be fixed with 50% and then, the providers get the other half.

**Madalitso Chamba:**

For the consumer, just like what Celine has said, we say apart from having the enabling policies in the market, or the laws and regulations, a consumer also has a responsibility. Because that does not mean that that consumer should go Scott-free because, for example, if the consumer has obtained a loan, a loan is not a gift. A loan has to be paid back. So, we always educate our consumers that they have to understand their rights and obligations. Where they have an obligation, they have to make sure that they do it. And it's through the same process, financial education.

In our case, we have integrated financial education in the school curriculum, which has rolled out in all secondary schools. It's mandatory. Any student in the secondary school is learning financial education as we are talking about this now. And, apart from that, we also have targeted programs whereby we look at a certain segment of the population we created a special financial education program for them in addition to the long-term financial education programs.

We also work in partnership with the financial service providers because we say financial education is sometimes warranted but when it is integrated with the product itself. So, as the service providers are providing financial education, we have a national financial literacy strategy which also demands the service providers to include financial education in their programs. And, through that, we have at least assured that our customers, they will be empowered with skills and knowledge. Now, on the other hand...

**Kate McKee:**

I'm going to stop you there, actually. Oh, well, on the other hand. *[Audience laughs]* Now, you've piqued my...you get a short "on the other hand."

**Madalitso Chamba:**

On the other hand, the other responsibility goes to the service provider. As indicated in our laws and regulations, where the service provider is not complying with our regulations in consumer protection and market conduct, there are always the penalties. You always go on-site to verify what is happening on the ground. We also handle financial consumer complaints which have not been adequately dealt by the service provider as the Reserve Bank or as the Central Bank. So, where issues are not adding up properly due to the service provider's negligence, there is also something, an incentive for the service provider to make sure that they do it the way it is supposed to be done.

**Kate McKee:**

I think from the previous panel though, also, that we're hoping that it's more than compliance and the fear of penalties that might be leading to better practices. We're going to do a voting question. That will take us looking a little bit forward and then we'll let the audience think a little bit. And then, we'll take a round of comments from the floor. And then, a quick wrap-up from our panelists.

So, when you think about our field as a whole and its reputation, which Financial Times headline should we fear the most? Is it "The Failure of Paymentopia Leaves Millions of Freedonia Pensioners in Limbo"? Is it that "A \$1.2 Billion Loss and a Government Enquiry is Following a Massive All-in Pay Data Breach"? Actually, today there was a huge data breach reported from India about having to do with debit cards, millions of debit cards. So, this is not, maybe completely speculative. Is it that "Mystery Shopping Results Found that 2% of Insurance Customers Even Knew that They Had Coverage"? Is it "Street Protests of Insta-Credit Borrowers Because of Reporting to the Credit Bureau"? Or, is it that "Zoom Mobile Money Wallets Suddenly Empty and it was Due to Malware on the app"? So, you have 20 seconds to vote your favourite worse-case scenario and then we'll take some comments from the floor.

**Kate McKee:**

Are we ready with the tabulation? Voting is closed. Wow! So, it's the malware on the app, the one that we're most concerned about. Not so much about credit blacklisting. Am I reading this right? Not so much about insurance customers. And then, a fair amount of concern about whether we might have failures of institutions and data breaches. So, just something for us to think about going forward. Who would like to make a comment from the audience? Comment or question to the panel?

**Hedwig Siewertsen:**



My name is Hedwig Siewertsen. I work for the Alliance for a Green Revolution. My question is about data privacy. We've been discussing on data collection and the use of alternative data in the previous session. I've heard many people saying our revenue model is selling data. So, my question is, what is the role of the regulator, the consumer protection and the institutions having the data in making sure that data is not used for uses that people did not intend to become a customer. I mean, I become a customer in MI-BOSPO and then you're going to sell my data to whoever, without me knowing. Whose role is it to look into that issue and protect consumers?

**Kate McKee:**

Thank you. Over here.

**Nelly Otieno:**

Thank you. Mine is a comment to the regulators. I will say that it is not yet the disclosure with permission that is a problem. But the language used is also a big problem given that a number of people, like women, are either illiterate or mostly illiterate. But, if you look at the language used, actually it should be that of lawyers. And, at the time when someone needs a loan, again, it's about in some cases, about four, five pages and it takes the time to read. And, also thinking, therefore, is it possible for you people to work on notes, targeted messages to the different segments? Say that when you talk of women then we know the kind of message you are sending. When you talk of people of different, higher level, maybe in the medium and at the upper side then I give you also...the language that you can use. And, even when you talk of youth we need to have different messaging for the different people and then improve of the languages that we use.

**Kate McKee:**

Right. And, I think there was someone right behind you.

**Participant:**

Thank you. Kind of as a follow on to Nelly's comment. You know, there is a risk, and we mentioned it earlier, about regulating women out of the market, poor people out of the market, illiterate people out of the market. Over-regulation can also cause cumbersome KYC requirements for perhaps, you know, savings groups and women, and low literacy levels of clients. So, what are you proposing, or actually doing, in your sectors to perhaps counter that trend?

**Kate McKee:**

Great. So, I'm going to Celine. I'm going to ask you to speak—and this will be your closing remark—to speak to how do we really empower customers to make better choices? The questions raise the issue of complexity of documents, of length, of understanding and the risk of actually people not understanding what they're doing, and knowing their rights. And, then Madalisto, I want you to address that from a regulator's perspective. Can we really make

disclosure work? And then, if you would give your response on the Smart Campaign certification. And, I'll take the data question. And, we'll wrap-up. Celine.

***Celine Awuor:***

Thank you. I agree with you, really, that the issue of providing not just all the information but information in a way that is actually useful to consumers is important. I would also like to relate it to some of the work we have done. It's also an issue that we saw was actually increasing the challenges that low-income earning consumers, women and youth mostly were facing and resulting into cases of default and indebtedness because they are not able to understand. And, among the proposals that we made in the project with the financial institutions working within the regulator, was that there should be some sort of minimum requirement of information that should be provided across the board by all industry players to enable consumers. The information should be accurate, comparable, to enable the consumer to make informed choices so that if industry A, or service provider A, is providing the same information, service provider B should also provide similar so that the consumer is able to make informed choice because now they then can compare that, based on this service I'm getting, and product and this information, they can make an informed choice.

We even went ahead and proposed that, can this information be provided in a language that's apart from English? As you say, most of them, in our case, in Kenya, we speak English and Swahili. But, you'll find some don't speak either, they would speak the mother tongue. Is it possible to go that extra mile? At least provide for those that critical information that can either make this consumer make a good or bad choice to be provided in...so that they're able to make the informed choice.

***Kate McKee:***

I'm going to stop you there because Madalitso is going to tell us exactly how they've done that in Malawi. But in one minute please.

***Madalitso Chamba:***

Thank you so much. Just to add to what Celine is saying, yes, it's indeed difficult in some cases for customers to understand what is being disclosed to them because of the way the disclosure is made. Now, as Celine has said, in Malawi we have a standardized format how disclosure has to be made. And, the issue of technical language and on top of using technical language there's also an issue of font size where in some cases, the disclosure is done in a very, very small font which cannot be read by a customer. Even that customer with a normal sight there's that problem.

So, there's an issue of language where we say, we have said in our regulations, that in amplified language. Yes, there could be so many languages which are spoken in a particular country. Like in my case, we have two formal languages, which is English and a vernacular language. So, we said their disclosure has to be done in the customer's preferred language, simple and easy to understand, and summarized in a key fact statement. Where the key fact statement that I can

get from this service provider should be the same as what I can get from another service provider. Because the minimum disclosures, they are actually stipulated in our simple regulations so that we have the same information being disclosed.

**Kate McKee:**

So, Nejira, one thing you changed from your Smart certification?

**Nejira Nalić:**

First of all, we were a guinea pig organization back in the beginning of 2009 and we were really concerned about what did we do? Did we do any harm and how much of it? And, it was a real good exercise. So, I think that re-certification was harder than certification because we were in a phase of growth. So, we had to really discipline ourselves. So, I think discipline is something we learned through this.

**Kate McKee:**

In the face of growth.

**Nejira Nalić:**

Re-certification process. So, that's one thing. I'll stop here. I'm sorry I hadn't mentioned it before, but Smart certification was the tool for us to differentiate ourselves in the market. We were really trying to promote to the others as well to do the same so we would be able to build trust amongst institutions in the market as well.

It helped us make a dialogue work amongst institutions and helps us now. But, it was first of all, an internal kind of checklist that we know, that we don't do harm, that we actually do protect clients through these principles. And, it's a very thorough, very inclusive exercise when the raters come to work with you and staff and the clients. So, we are very proud that we have gone through this and we still think we should repeat it. But, it's also very...

**Kate McKee:**

Strenuous.

**Nejira Nalić:**

Yeah.

**Kate McKee:**

So, final two comments. Data protection. Think how excited we were listening to that terrific panel this morning on all the ways that better use of data could enable financial inclusion. I think now is exactly the time for us to be asking the questions you're asking. What's a balanced approach to the consumer's rights to issues on both privacy and security, and how can that then

be accommodated within the business models and the really valid use cases that we see how there?

And, final thought. It's impossible to wrap this up. But, I was struck, Madalitso, by the fact that you have a fair treatment directive. I wonder if we should study that example and that kind of approach in thinking about how can we create the right kinds of incentives for customer centricity and the long-term customer value proposition that we're all seeking.

Thank you all very much and thank you to the audience.

*[Audience applause]*