

**Emerging
Approaches to
Consumer
Protection
Regulation and
Supervision in
Lower-Access
Environments**



Kate McKee
Senior Advisor, CGAP
Alliance for Financial Inclusion Summit
Bali, September 29, 2010

Protecting financial consumers: The three-legged stool

**CONSUMER
PROTECTION
REGULATION
AND
SUPERVISION**



**CONSUMER
AWARENESS
AND
FINANCIAL
CAPABILITY**

**INDUSTRY
CODES OF
CONDUCT AND
STANDARDS**

Lower-Access Environments

- Overall level of financial sector development and inclusion is low
- Majority of population has limited experience with (and sometimes, trust in) formal finance
- Many regulatory priorities and capacity is overstretched



Must take care not to set the bar so high that no one can serve the poor profitably . . .

Basic FCP Package for Lower-Access Environments

Three core objectives of basic consumer protection

TRANSPARENCY

Disclosure requirements:

- product pricing, terms and conditions
- plain language, local language
- simple (and possibly standardized) formats
- test with consumers to find what works

FAIR TREATMENT

- marketing and selling practices
- fair collections
- basic governance/staff ethics
- data privacy
- product regulation? (try disclosure 1st)

EFFECTIVE RECOURSE

- require FSPs to offer internal dispute resolution – regulation sets standards
- workable for low-income and inexperienced consumers: accessibility, cost, literacy, intimidation factors
- complaints/resolution data valuable to regulators for market monitoring

CP tools for regulation and policy

- **Country diagnostic tools** (CGAP, World Bank, GTZ): **Brazil, Cambodia, India, Kenya, Malaysia, Peru, South Africa** (*Mexico, Philippines, Senegal next*)
- **CGAP consumer research toolkit**: how-to manual on using Focus Group Discussions, surveys, consumer interviews (Brazil, Kenya, Mexico, S. Africa, Tanzania)
- **Policy analysis/publications**: reports on **CP regulation in low-access environments, CP regulation for branchless banking**. *In the pipeline: financial education, consumer credit regulation, recourse, disclosure, supervision*

More CP tools for regulators

- **CGAP Financial Inclusion Regulation Center**: links to key laws/regs from 50+ countries incl. 20 CP profiles www.cgap.org
- **Financial Access report**: data on access, laws & regs from 147 countries -- detail on CP laws + financial education policies www.cgap.org
- Russia Trust Fund for Financial Literacy (World Bank) → standard country-level metrics + rigorous evaluation of financial capability interventions **insert link**



Country diagnostic
example: Kenya



Kenya diagnostic process

- **Clients:** Ministry of Finance + Financial Education & Protection Program (multi-stakeholder Task Force)
- **Scope:** mass-market services (basic credit, deposits, payments, credit life insurance)
- **Methodology:** quick-scan diagnosis of key issues/actions, incl. legal/reg. review, 50+ key informant interviews, consumer research (FGDs + national survey)

Kenya -- Key findings and recommendations

1. **Lack of transparent pricing/terms** → standard credit disclosure requirements (Total Cost of Credit + Repayment Schedule)
2. **Patchy and inconsistent recourse** → regulators set standards for internal dispute resolution, require reporting
3. **Mobile fin. services huge and growing in #/scope** → introduce basic regs (disclosure, recourse, agent conduct and liability)
4. **Multiple financial sector regulators = uneven protection** → need for consistent rules and coordination
5. **Improving consumer awareness & fin. capability is essential**
6. **Pending cross-market CP and competition laws** → potential for greater CP coverage and 3rd-party recourse

Uses of consumer research for CP regulation/supervision

- **diagnosis** (Kenya, Mexico)
- **testing potential solutions** — for example
 1. TCC vs. APR?
 2. Does new disclosure format work?
- **market monitoring** — for example
 1. Are providers employing prohibited practices?
 2. Are consumers aware of and using Ombud?
 3. What new problems are cropping up in the market?

THANK YOU!

Kate McKee,
Senior Policy Advisor
CGAP, kmckee@cgap.org

