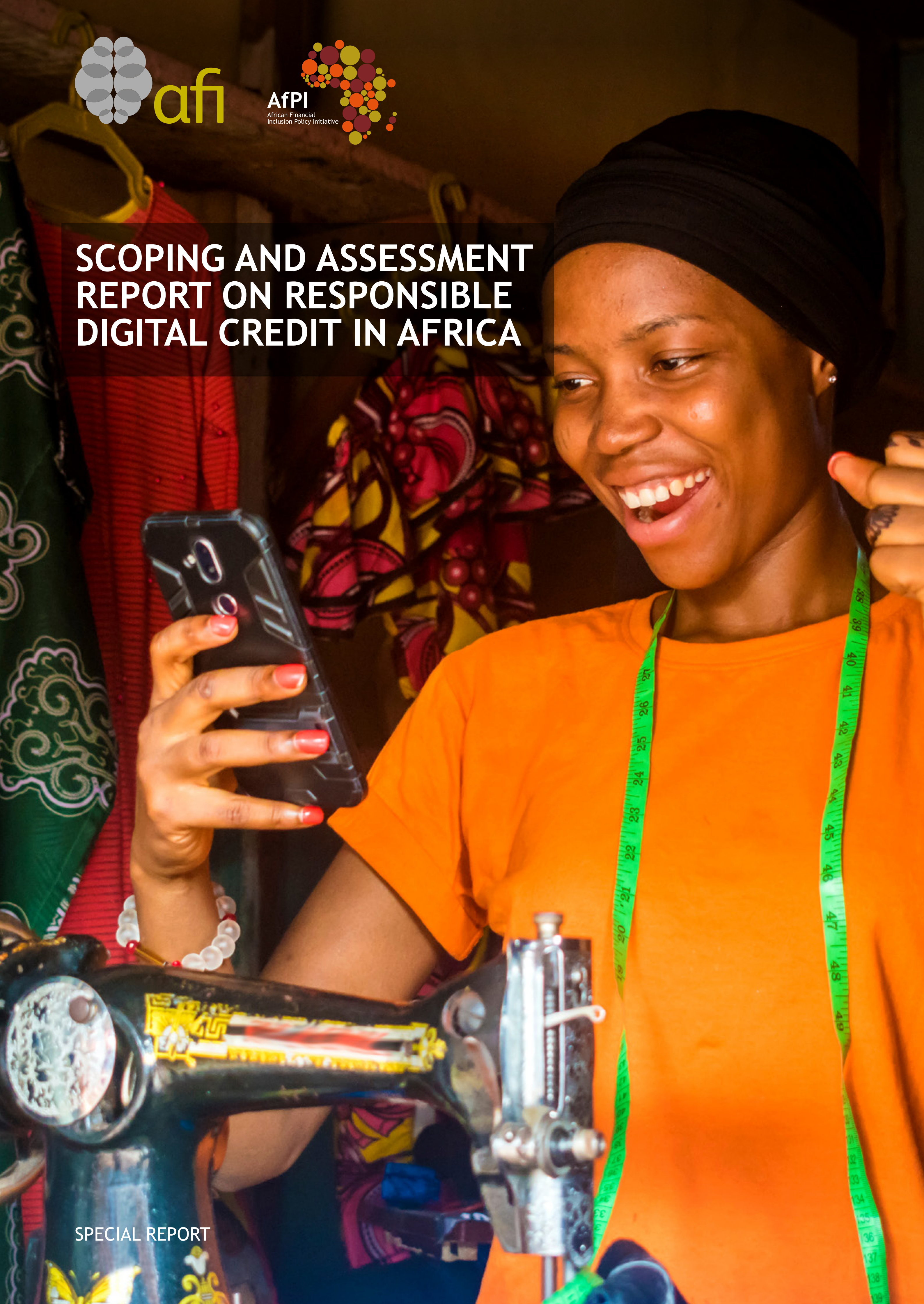

SCOPING AND ASSESSMENT REPORT ON RESPONSIBLE DIGITAL CREDIT IN AFRICA

SPECIAL REPORT

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ACKNOWLEDGMENTS

This Special Report on Responsible Digital Credit in Africa is developed by the Expert Group on Financial Inclusion Policy (EGFIP) of the African Financial Inclusion Policy Initiative (AfPI) under the direction of the AfPI leaders.

Mrs. Carla Fernandes from Banco de Mozambique and Mr. Bernard Dadi from Bank of Tanzania led the work under EGFIP. AFI is also thankful to Mr. John Owens for helping the subgroup conduct relevant research and drafting the document. We would like to thank AFI's AfPI leaders, member institutions and other stakeholders for their contribution and guidance in developing this knowledge product.

Ali Ghiyazuddin Mohammad and Ivan James Ssettimba from the AFI management unit also provided inputs and comments for the framework.

We would like to thank AFI's AfPI leaders, member institutions and other stakeholders for their contribution and guidance in developing this knowledge product.

This report is financed through AFI's Multi-Donor Financial Inclusion Policy Implementation Facility (MD-PIF), with participation of French Development Agency (AFD), the German Federal Ministry for Economic Cooperation and Development (BMZ), and the Ministry of Finance of the Grand Duchy of Luxembourg.

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Young african tailor viewing content on her mobile phone.
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INTRODUCTION

At the 7th Annual Roundtable held in Abidjan, Cote d' Ivoire, the Leaders of The Alliance for Financial Inclusion's (AFI) regional initiative for Africa, the African Financial Inclusion Policy Initiative (AfPI), took note of the need to review developments and challenges in regulating and supervising digital credit markets in Africa.

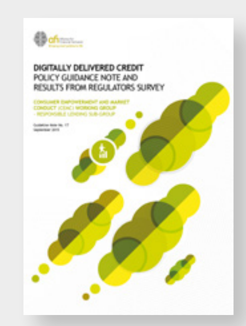
The review is intended to develop an appropriate legal and regulatory framework for responsible digital credit. This report and framework initiative are to ensure that the outstanding success of Digital Financial Services (DFS) on the continent is not undermined by risks introduced through innovative financial services that are delivered digitally.

The AfPI Expert Group on Financial Inclusion Policy (EGFIP) collated information on existing best practices on the continent and beyond and formulated this assessment and scoping report on the various practices for regulating and supervising digital credit.

For the purposes of this report, digital credit is defined as delivery of small loans through digital means.[1] Key features of digital credit in this context include: small value loans, shorter loan tenures, loans offered through digital channels, remote/self-initiated access, and fast processing of loans that includes new/alternate forms of credit assessment.

Africa has witnessed rapid growth in the ownership of accounts over the past decade. The continent is also leading in terms of mobile money deployment. The latest World Bank Findex Report states that over 10 percent of the adults in Sub-Saharan Africa have a mobile money account. However, access to formal credit services remains low.

Digital credit, however, is rapidly becoming one of the fastest expanding solutions to narrow the credit gap, thanks to the rapid growth of mobile adoption in the region. While rapid proliferation of digital credit has been a tremendous opportunity to reach unserved individuals and MSMEs, there have also been several challenges, which regulators are actively attempting to address. These include ensuring an effective legal mandate and regulatory framework; adequate regulatory and supervisory capacity; comprehensive credit reference services and avoidance of over-indebtedness issues; appropriate levels of disclosure and transparency; support for industry codes of conduct; data privacy and protection; cybersecurity and fraud measures; digital financial literacy and education; competition and collaboration; and complaint and redress systems.



1 AFI's Digital Delivered Credit Policy Guidance Note and Results From Regulators Survey

> View here

MSME using the point of sale machine to pay for the goods her customer bought. Nigeria. (Photo by vic josh/Shutterstock)

DIGITAL CREDIT LANDSCAPE

There have been numerous digital credit models that have developed both from existing banks, either directly or via partnerships, as well as the rise of new non-bank digital credit providers. For the purposes of this study, digital credit is the provision of small loans that are accessed via a digital channel either online, a mobile device or a third-party agent that facilitates digital credit processing remotely.

Customer interactions and credit processes are handled remotely and often completely automatically, including loan applications, approvals, repayments and collections. Digital credit across Africa and in other emerging markets are increasingly utilizing a range of alternative data sources, such as airtime and e-money usage, payment information, location and even analysis of mobile phone interactions, such as text data and user contact data.

Digital credit providers/models include:

> **Mobile nano loan providers;**

> **Digital bank models - often times in partnership with mobile network operators or third-party providers;**

> **Digital payday lenders;**

> **Marketplace lenders including:**
  - **Institutional balance sheet lenders**
  - **P2P lending models**

> **Large technology-backed lenders, often connected to e-commerce/payment platforms;**

> **Supply chain lending models.**

Mobile nano lending providers offer very small loans that utilize credit scoring models based on mobile transaction history, mobile e-money usage, credit history, location data and/or text data. Many of these mobile-based lenders are using data from apps running on smartphones that upload SMS messages, emails, metadata from calls, tracking geo-location data of the user. For mobile lenders in Kenya, such as Branch and Tala, even data such as battery recharge frequency, the number of incoming text messages, miles traveled in a day, whether a client gambles, or even how the client enters contact names into the phone (such as entering a last name), can be utilized as alternative data for credit scoring purposes.[i]

Digital bank models include direct mobile lending models,[ii] as well as partnerships between banks and Mobile Network operators (MNOs)[iii] and third-party providers.[iv] While several of these models are similar to the mobile nano lending providers above, they also offer access to a boarder range of banking services, such as savings. In addition, banks that often use the analytical technology provided by third-party providers are able to better analyze banking and other payment transaction histories to enrich credit scoring models.

Digital payday lenders include a number of salary-based lenders that have shifted to online (mostly mobile) platform delivery models.[v] As is the case with traditional payday lenders, digital payday lenders focus primarily on salary workers but also make use of alternative data for credit scoring purposes. The speed and ease of digital lending, along with digital push-marketing techniques, have increased concerns of over-indebtedness, especially for low-income salary workers who have become dependent on this category of digital lender in some markets.

Marketplace lending models include non-bank platform providers who originate loans to clients through intermediary digital platforms[vi] that connect borrowers to individual or institutional lenders. This broad category includes peer-to-peer lending platforms and online balance sheet lenders.

Peer-to-Peer (P2P) lending models provide platforms for borrowers to source loans primarily from individual or institutional investors. An important feature of these models is that both borrowers and lenders are customers of the platform, each with their own individual risks. These risks pose particular challenges since regulations for P2P lending models are only in the early stages of development in Africa. While P2P models can be found in multiple markets, until recently, these models have been active more extensively in China, India, and Indonesia, where regulatory developments are attempting to catch up with the rapid growth in the marketplace. However, P2P lending and crowdfunding platforms are now increasingly expanding in other South East Asian markets, as well as in Latin America, Africa and the MENA region.[vii]

While regulations to address P2P lending models have been developed in the US, UK, EU and now in China,

India and Indonesia, regulators have also been working closely within the industry to develop industry codes of conduct. Some of the notable examples have been the codes of conduct developed by the Marketplace Lenders Association[viii] and the Small Business Borrowers' Bill of Rights.[ix]

In China as well as other emerging markets, P2P lending platforms have utilized a hybrid offline-to-online (O2O) approach to sourcing client data, such as collecting e-commerce transactions and digital payments, as well as analyzing online search histories and social media data. These platforms complement online alternative data with offline credit and background checks by partnering with non-bank financial institutions or by leveraging the platform's own agents or staff to visit the borrower's business to verify their information (for example, by taking pictures of the workplace). In several markets, especially China and more recently Indonesia and the Philippines, various consumer protection issues have arisen, especially concerning abusive collection practices, such as harassing past due customers on social media.[x]

> Due to the risks faced by small investors,[xi] some countries have restricted P2P platforms from raising capital through small individual investors.[xii]

Online balance sheet lenders differ from P2P lenders, mainly in that they retain their own portfolios and collect interest over the life of the loan portfolio. In addition, unlike P2P lending, where investors only earn interest once they are matched with a borrower, for balance sheet lenders, the funds are pooled, and interest starts accumulating immediately. Balance sheet lenders offer lower risk for investors since the online balance sheet lender's capital acts as the "first loss" buffer for investors.[xiii]

Many online balance sheet lenders focus on niche markets such as merchant cash advances or point-of-sale financing. Examples include Kenya-based Kopo Kopo, which facilitated mobile e-money payments for merchants and offered them credit lines and Tienda Pago in Latin America, which provides credit to small merchants who buy from various distributors. Risks associated with online balance sheet lenders are generally easier to manage, since there is usually one key lender and the main credit provider controls all aspects of the lending, unlike P2P lenders where multiple parties may be involved.

Banks are increasingly teaming up with marketplace lenders (both P2P and online balance sheet lenders) or launching their own platforms as a way to facilitate clients, especially SME clients that they initially deem too risky, based on the lack of a credit or business history. Examples include, Beehive by Belgazprombank in Belarus and CUB (Credits for Ukrainian Business) launched by PrivatBank in Ukraine. CUB makes it possible for SMEs to borrow from the bank's clients, with PrivatBank facilitating disbursements and collections. However, because many small investors did not understand the risks, especially the fact that their investments were not guaranteed, the bank discontinued this service in 2017. Examples such as this provide early lessons for regulators in other markets to ensure that small investors are appropriately warned and protected.

Coleagues Discussing statistics. (Photo by Jono Erasmus/Shutterstock)

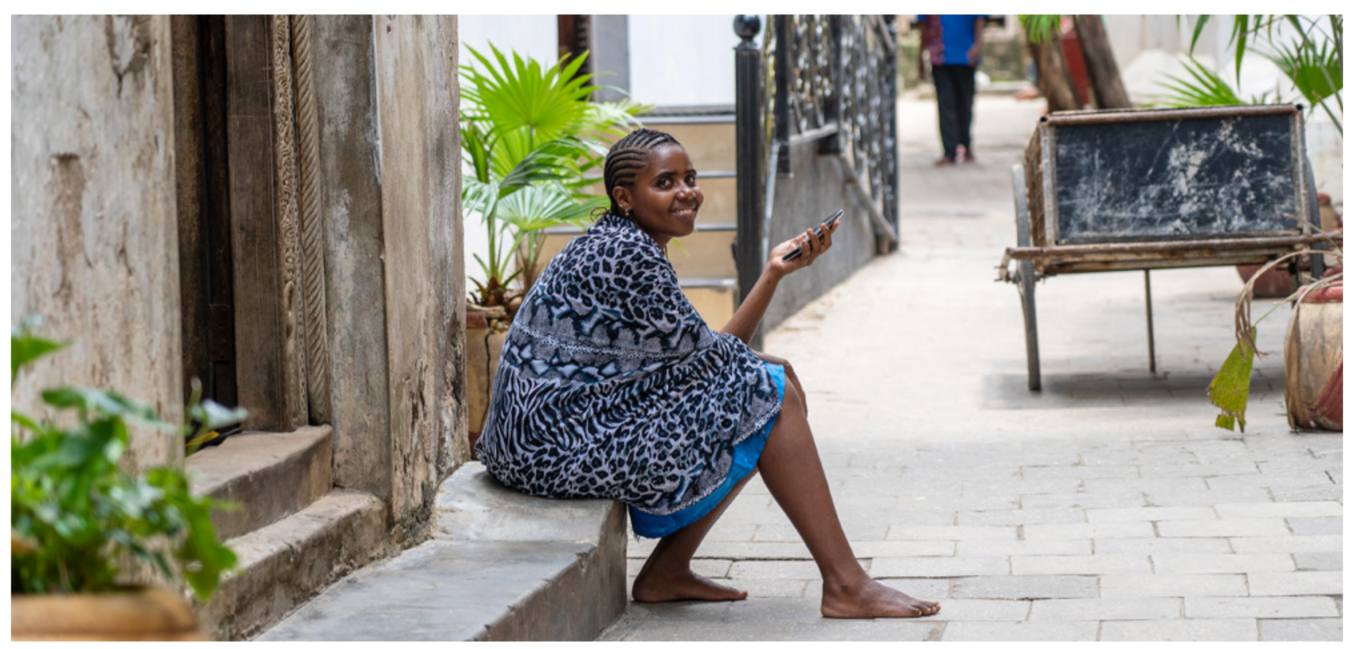
Large **Tech-based Lenders** include subsidiaries of e-commerce, search, payments, social networking technology companies that are leveraging their large user-base and access to client data, either directly or via partnerships, to offer digital credit. These companies include Alibaba, Tencent, Baidu, DHgate.com in China; Amazon India, Flipkart, Lendingart, NeoGrowth in India; and now several multi-country cross-border lending models in other regions such as, South East Asia, Latin America and Africa. While most of these providers focus on easing credit access for their customer base, they also tightly control client data, making it harder for others to access. Debt capacity for most credit customers who sell on e-commerce sites is determined primarily from sales history without a broader understanding of an individual's credit history or overall financial picture. However, e-commerce providers that offer digital credit to those who sell on their platforms, and then automatically deduct repayments from future online sales, have maintained high repayment rates.

Supply chain platforms support SME financing focused around purchase orders, invoices, receivables, and pre- and post-shipment processes between buyers and sellers along the supply chain. Cloud-based digital supply chain platforms gain insights into complex trade flows by digitizing documents and transactions and applying data analytics to make credit decisions. They also leverage the financial stability and strength of bond-rated large corporations (often large department store chains or manufacturers) buying SME products or services to offer faster and cheaper SME financing.

These platforms vary widely (e.g. invoice or receivables discounting, payables financing, dynamic discounting, working capital auctions, factoring, inventory finance, pre-shipment finance, etc.), as do their funding sources (e.g. banks, investors, corporate buyers, lenders, etc.).

For all, digitization provides more efficient SME lending for suppliers, accelerates approval, increases SME credit access, reduces the chance of supplier or procurement fraud, and sometimes lowers the cost of financing for SMEs.

Noteworthy examples include Kickfurther, Tungsten, Basware, Tradeshift, and Kinara Capital. Many of these models work by digitizing the value chain, allowing for such innovations such as contracts that trigger immediate payments and loan disbursements when they are delivered and scanned. Open supply chain models, where different providers may compete for customers, appear to have fewer consumer protection issues, given the competition in their niche markets and relative sophistication of their clients. Issues arise in some older models, where banks linked to large companies have locked in customers seeking credit advances by tightly controlling a client's sales data.[xiv]



African girl rest on the street in Stone Town on the island of Zanzibar, Tanzania. November 2019. (Photo by intek1/iStock)

ANALYSIS OF REGULATORY RESPONSES TO RESPONSIBLE DIGITAL CREDIT

Regulators from Africa and around the world see both the opportunities and challenges around enabling responsible digital credit policies and regulations. Over the past decade, the development of new financial technologies (FinTechs) and related strategic policy and regulatory developments have helped to increase not only access to finance but also greater financial inclusion.

In Africa, much of the progress in supporting access to finance, as well as greater financial inclusion, has been due to the development of mobile financial services.[xv] In addition, a new group of digital credit providers are making use of digital data and advanced analytics to offer more transparent, faster, easier, and better-tailored financing solutions for both SMEs and individuals. Both individuals and SMEs are often willing to share their data in exchange for value, that is, access to credit and other value-added tools that help them grow and become more productive. These new digital lenders are no longer restricted by incomplete customer data or having to rely on collateral.[xvi]

These new models also offer the potential to better customize credit offerings for clients with better pricing, as well as help to "re-personalize" credit by remaining in contact with customers 24/7 via chatbots and other FinTech tools.

As noted by AFI, the exciting developments around FinTech have the potential to improve access to individual and SME digital credit via the cost-effective use of alternative data.[xvii]

However, regulators and policymakers within the AFI network have noted that DFS also raise new risks to consumers, especially with the expansion in the type of DFS providers and the various third-party technology providers.[xviii] They noted that for regulators and policymakers, this diversity of business models and new players create new challenges that include:

- **Market conduct,** which is the primary risk for new digital credit providers, even though financial risk is often a concern for banks and deposit-taking institutions;
- **The need to follow digital credit practices** and ensure that appropriate regulations keep up with developments and practices;
- **Incremental strategies** to provide appropriate regulatory and supervisory oversight as new providers enter the marketplace;[xix]
- **Dealing with compliance** and enforcing existing rules for new digital credit providers;
- **Monitoring the business conduct** of a more diverse set of new digital credit products and delivery models.

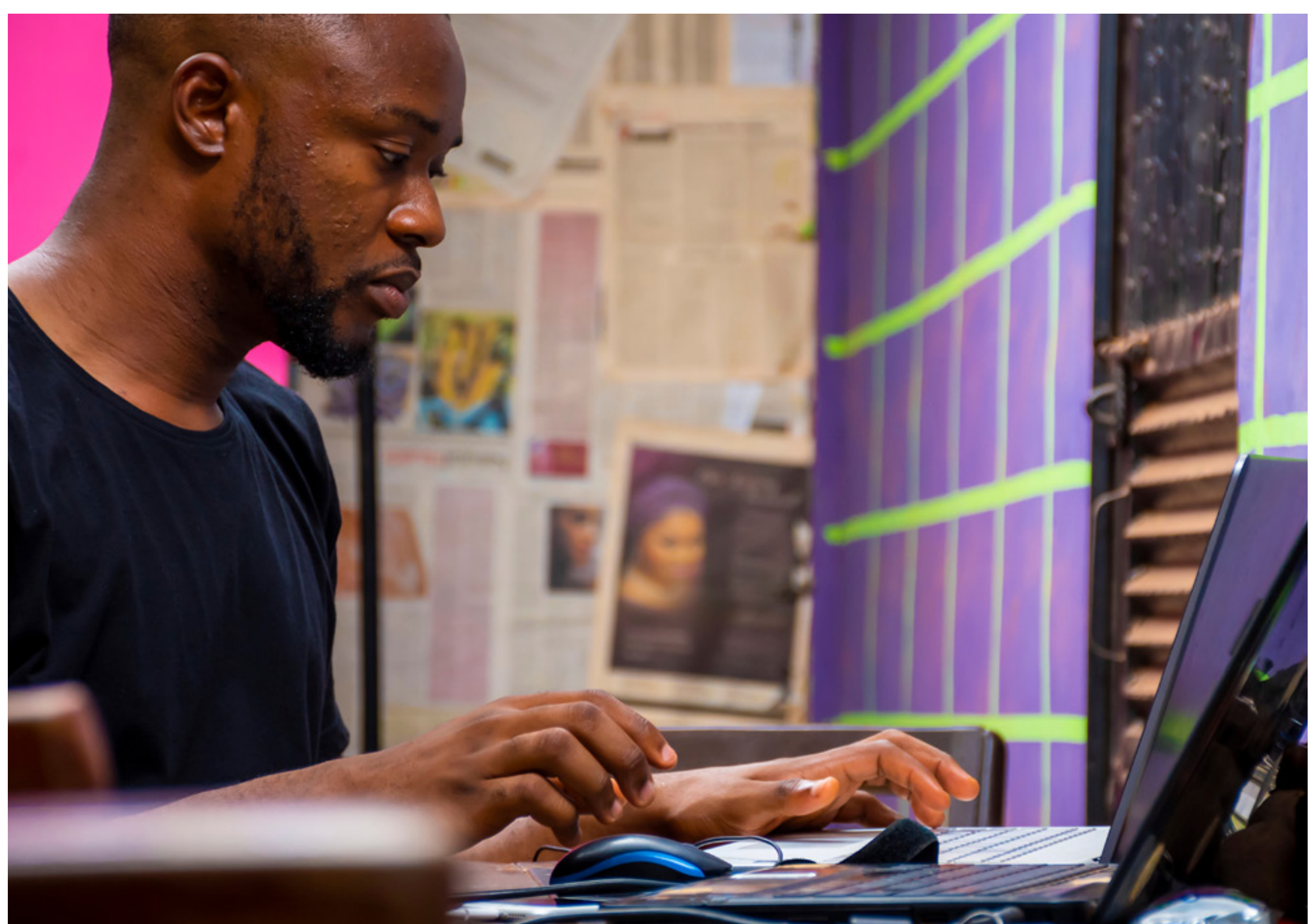
Three African farmers using a mobile application in Kiambu, Kenya. June 2014. (Photo by Victor Karanja/iStock)

In an international survey conducted by the OECD in 36 countries across Africa, Asia, Europe and the Americas, nearly three quarters of the respondents stated that disclosure requirements and fraud/mis-selling represented the most important policy concerns or priorities in their jurisdictions.[xx]

Regulators in Africa expressed concerns on indebtedness due to multiple loans from different lenders and related issues of rising delinquencies, transparency issues on loan terms and conditions (unclear and often high interest rates, hidden fees and a lack of ability for clients to compare rates), aggressive and misleading marketing practices, client data privacy issues (lack of information on data collection practices, the lack of control over client data and in some cases, the misuse of client information), lack of or irresponsible credit reporting, consumer complaint management practices (limited information or knowledge for consumers on how to complain and resolve complaints, as well as confusion about which provider to complain to), and security issues especially related to the utilization of the USSD channel, mobile application security, as well as money laundering issues regarding the source of loan funding.[xxi]

Additional potential risks are being viewed as arising from the design of digitally delivered products (e.g. product unsuitable for the customer or the product is designed in such a way that it promotes over-indebtedness) or from the way the product is delivered (e.g. mis-selling by agents with limited or no knowledge about the product).[xxii] While it was clear from discussions with regulators in Africa and in other jurisdictions that regulations, especially consumer protection rules, applied to traditional credit providers need also to be applied (or be adapted) to digital credit providers and models, there are a few areas where regulators stated that digital credit services may require additional, specific regulations or guidelines to encourage the development of responsible digital credit.

These include the area of disclosure requirements, especially for digital credit consumers who apply via a mobile device. In addition, rules need to be developed to deal specifically with new digital credit providers and the roles of third-parties, including agents, lead generators, brokers, mobile network operators (MNOs), person-to-person (P2P) lenders, marketplace platforms, third-party data analytic companies that offer services to digital credit providers and third-party collection agencies.

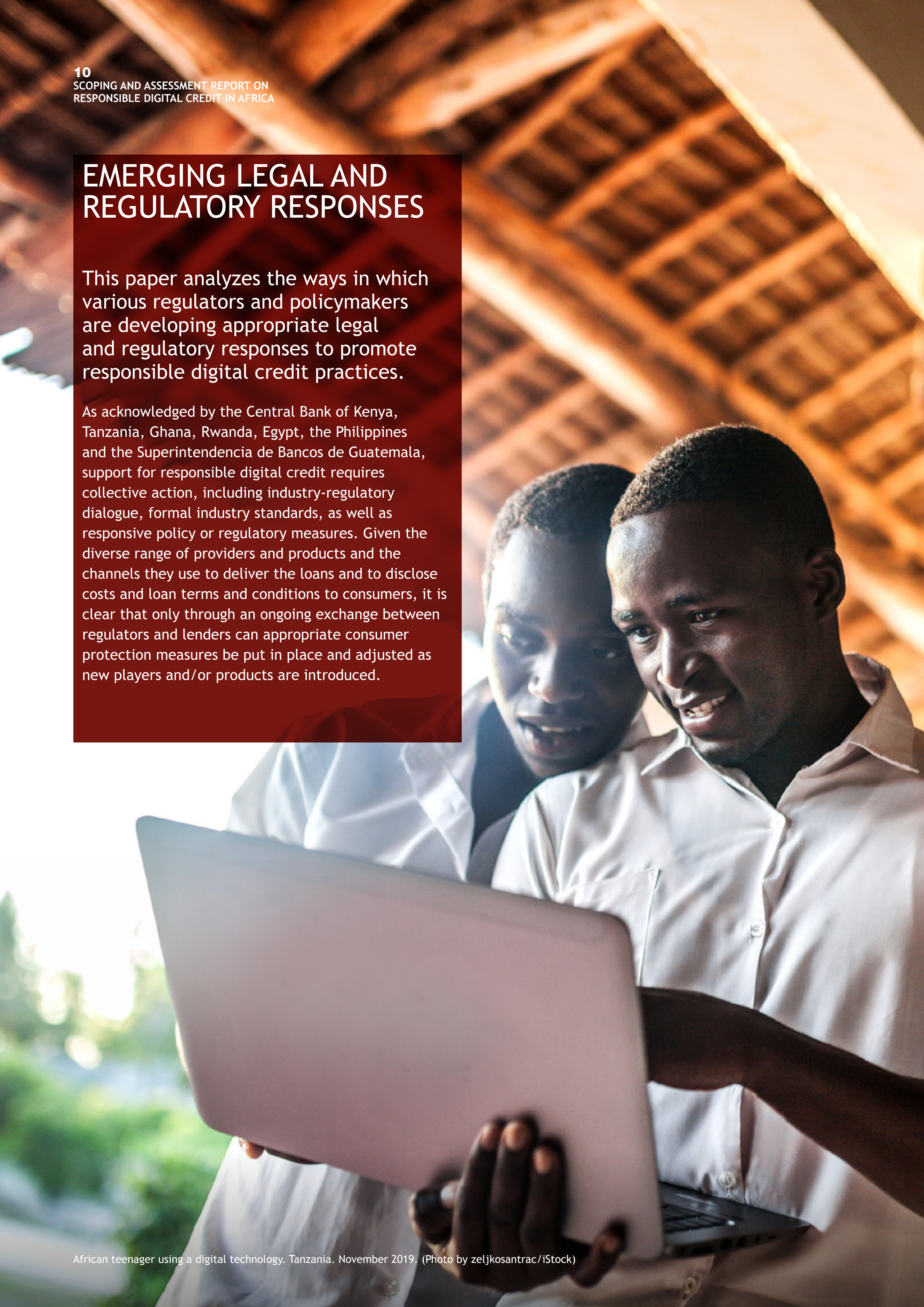


Young black man working in his home office. Nigeria. (Photo by courage007/Shutterstock)

CONSUMER PROTECTION POLICY AND REGULATORY ISSUES FOR DIGITALLY DELIVERED CREDIT MODELS

<table>
<tr><th></th><th>MARKET CONDUCT SUPERVISION</th><th>EQUITABLE TREATMENT</th><th>DISCLOSURE</th><th>REDRESS</th><th>DATA PRIVACY AND PROTECTION</th></tr>
<tr><td>MNO-led</td><td>Limited regulatory oversight and authority of financial sector authority to enforce market conduct; need to coordinate with Communications Authority.</td><td rowspan="3">Depending on which provider is issuing the credit, consumers' rights and protections may vary for similar products in the same market.</td><td>Insufficient disclosure of terms via mobile handset and limited internet access hinder consumer ability to obtain product terms and conditions available online. Lack of interface with lender staff or agents for questions and further product information.</td><td rowspan="3">Where products are marketed by an MNO, but reside on the balance sheet of a partner company, consumer may not have clear channels to raise concerns to the lending institution or may not be aware of the lender's role in the product. The liability for resolving customer queries and complaints may be unclear.</td><td>Mobile voice, data and mobile money data often used for credit scoring. Use of data should be clearly communicated to consumers in advance of its usage. Typical informed consent procedures may be inadequate (including in terms of consumer comprehension) or absent.</td></tr>
<tr><td>Bank-led</td><td>Existing regulatory oversight by financial sector authority.</td><td>Existing digital credit products often do not comply with disclosure requirement for bank products, and authority of regulator to enforce may be unclear, absent or not enforced.</td><td>In markets where credit information systems exist, banks may not fully report all positive and negative information from digital loans to bureau despite being required to do so.</td></tr>
<tr><td>Non-bank lending institutions</td><td>Often unregulated lenders, leading to no regulatory oversight.</td><td>Outside of jurisdiction of credit disclosure rules in many markets.</td><td>Where third party lenders (and banks) purchase mobile data from MNOs, consumer privacy and informed consent may be inadequate.</td></tr>
<tr><td>Unsecured mobile money-based loan</td><td>High interest charges due to short term and unsecured nature of loan; potential high initial default rates with bulk "push" offers to consumers via mobile phone.</td><td></td><td>Insufficient disclosure of terms via mobile handset and limited internet access hinder consumer ability to obtain product terms and conditions.</td><td rowspan="5">Need for recourse information and access to complaints mechanism to be available through all channels by which products are accessed.</td><td></td></tr>
<tr><td>Social media scored loan</td><td>Risk of higher default rates as scoring models are refined.</td><td></td><td>Insufficient rules in place for disclosure of terms for internet-based loan products in most markets.</td><td></td></tr>
<tr><td>Savings-linked loan</td><td>Need for rules and clarity on permissibility to freeze or strike savings balance to pay down loan balance.</td><td></td><td>Link between savings and loan obligations not always properly disclosed to consumers at point of enrollment or acceptance of loan offer.</td><td></td></tr>
<tr><td>MSME loan</td><td></td><td>Consumer protection provisions may not extend to MSME firms due to classification as a business not an individual.</td><td>Need for clear disclosure of use of collateral and/or transaction values as collateral or repayment mechanisms.</td><td></td></tr>
<tr><td>Peer to Peer lending</td><td>Risk borne by individuals providing capital to on-lend needs to be clearly articulated.</td><td>Firm facilitating lending needs to ensure sufficient protection of identity and protect against improper conduct by lenders and borrowers towards each other.</td><td>Relationship and responsibilities amongst individuals providing capital, borrower and firm facilitating loan needs to be clearly articulated to all parties.</td><td></td></tr>
</table>

Source: AFI (Sept 2015) Digitally Delivered Credit: Policy Guidance Note and Results from Regulators Survey



EMERGING LEGAL AND REGULATORY RESPONSES

This paper analyzes the ways in which various regulators and policymakers are developing appropriate legal and regulatory responses to promote responsible digital credit practices.

As acknowledged by the Central Bank of Kenya, Tanzania, Ghana, Rwanda, Egypt, the Philippines and the Superintendencia de Bancos de Guatemala, support for responsible digital credit requires collective action, including industry-regulatory dialogue, formal industry standards, as well as responsive policy or regulatory measures. Given the diverse range of providers and products and the channels they use to deliver the loans and to disclose costs and loan terms and conditions to consumers, it is clear that only through an ongoing exchange between regulators and lenders can appropriate consumer protection measures be put in place and adjusted as new players and/or products are introduced.

African teenager using a digital technology. Tanzania. November 2019. (Photo by zeljkosantrac/iStock)

CHALLENGE 1: ENSURING APPROPRIATE REGULATORY AND SUPERVISORY OVERSIGHT

Power to monitor and supervise the market: Policymakers and regulators should constantly monitor the development of the digital credit players and models and ensure that all credit providers and related third-parties are properly licensed, regulated and fall under the financial supervisors' oversight, in order to avoid 'regulatory gaps'. Supervisors should also seek to ensure that consumers are adequately protected, regardless of the provider they use to access digital credit.[xxiii]

Institutional Setup: An appropriate Financial Consumer Protection department or authority, which regulates the offering, sale and provision of consumer financial products and services, as well as providing oversight regarding the conduct of financial service providers is essential. This supervisory department/authority should have exclusive rulemaking authority for all Consumer Financial Protection Laws, including but not limited to, protections related to all consumer financial products and services.

This has been a challenge in some markets, where some non-bank DFS providers are outside of the jurisdiction of the financial regulator. While deposit-taking financial service providers are generally required to obtain bank licenses, several countries have no license for non-deposit taking, lending-only financial service providers, such as in Kenya[xxiv] and the Philippines.[xxv] This omission is generally a reflection of the low risk that such providers pose from a prudential perspective. However, to ensure a level playing field from a client protection perspective, all financial service providers should be subject to regulation.[xxvi] A registration requirement ensures that the supervisory department/authority is aware of all financial service providers operating in the market and that they all meet certain minimum requirements. Financial service providers not subject to prudential supervision should register directly with the financial supervisory authority, even if they currently only have to register with a securities and exchange authority.[xxvii] The Supervisory department/authority should coordinate with prudential and other regulators and government agencies to minimize duplicative filing requirements and allow licenses and other regulatory approvals to satisfy the registration requirement of this section. Registration requirements may be tiered depending on the provider type, but there should be no material difference with respect to market conduct rules. In some markets such as Tanzania, modifications to the definition of non-bank microfinance providers under the recent Microfinance Act has allowed the financial regulator the authority to provide oversight for new digital credit providers and models. This new Act and the regulatory issuances, effectively enable the financial regulator to license, regulate, supervise, and enforce effective market conduct oversight over new non-bank digital credit providers.

> The Microfinance Act provides a comprehensive definition for the term microfinance business to include receiving money by way of deposits or borrowing, providing micro credit, micro savings and micro insurance services, as well as providing loans and credit facilities to small enterprises and low-income households. The aim is to capture all formal and informal micro credit / finance service providers without exception. This included the mandate to license all non-deposit taking lenders which included non-bank digital credit operators.

In addition, issues regarding the potential for regulatory arbitrage should also be avoided. Authorities need to look at ways of developing coordination with other regulatory agencies that have oversight of non-bank financial service providers or essential third-party providers such as MNOs. Relevant agencies may involve developing agreements with Information and Telecommunications authorities (especially as they relate to access and security for the mobile financial services channel), competition authorities, data privacy agencies, securities and exchange commissions (often relevant for the registration and oversight for non-bank credit providers, such as marketplace lenders, P2P lenders and crowdfunding platforms).

Examples of effective inter-regulatory coordination include Tanzania, Kenya and the Philippines.[xxix]

RECOMMENDATION 1:
Authorities should have a clear legal mandate for licensing, regulating and supervising market conduct for the provision of digital credit.

CHALLENGE 2: ENSURING THAT THE REGULATOR HAS ADEQUATE CAPACITY IN TERMS OF TECHNICALLY TRAINED STAFF AND APPROPRIATE TOOLS TO OVERSEE DIGITAL CREDIT PROVIDERS.

Ensuring adequate regulatory capacity: In addition to developing appropriate structures to oversee digital credit providers, regulators have also tried to keep up with new FinTech models both from an institutional, as well as technological capacity.

Institutional structure and planning: In some markets such as the Philippines, the regulator has an annual plan and a specialized department in place to ensure that they have the appropriate capacity to supervise FinTech providers, as well as focus on hiring staff with appropriate information and telecommunication (IT) backgrounds within their FinTech department.

DIGITAL CREDIT IN KENYA

M-Shwari (meaning 'calm' in Kiswahili) is a combined savings and loans product launched through a collabo¬ration between the Commercial Bank of Africa (CBA) and Safaricom. M-Shwari was launched in January 2013 and by the end of 2014 it boasted 9.2 million sav¬ings accounts (representing 7.2 million individual cus-tomers) and had disbursed 20.6 million in loans to 2.8 million borrowers. Since that time, over one hundred mobile app-based FinTech lenders have appeared in the Kenyan market. By September 2018, the two main app stores had approximately 110 mobile apps, provided by 74 unique developers listed as offering digital credit. As at April 2019, 65 of these apps had been pulled down from the app stores, while 47 new ones developed by 43 unique developers had emerged. As noted by a recent report issued by FSD Kenya, "These numbers demonstrate how easy it is to enter, and indeed, exit the market." (FSD Kenya Case Study)

As digital credit is fast developing and can expand rapidly in markets, the ability to better oversee digital credit providers also requires Authorities to invest in new regulatory and supervisory technologies (RegTech/SupTech) to monitor, oversee and supervise digital credit providers.

RECOMMENDATION 2:

Authorities should have adequate capacity in terms of technical skills, resources, supervisory tools, and systems.

CHALLENGE 3: AVOIDING OVER-INDEBTEDNESS

Rapid digital credit leading to over-indebtedness: AFI's guidance recommends that regulators develop market monitoring mechanisms to review the levels of debt on a continuous basis, both from demand-side data, as well as conduct portfolio-at-risk reviews of digital credit portfolios.[xxx] The Central Bank of Kenya, the National Bank of Rwanda and reports on digital marketplace P2P lenders in Indonesia have documented some of the issues resulting from multiple digital credit providers with aggressive marketing and limited repayment capacity analysis that are leading to increasing levels of over-indebtedness among digital borrowers.[xxxi]

CHALLENGES IN KENYA'S DIGITAL CREDIT MARKET

Limited Coverage for Non-Regulated Digital Credit Providers: Only regulated credit providers, such as banks and microfinance institutions are required to report to the three credit bureaus in the country. While some FinTechs, such as Tala and Branch are voluntarily sharing credit data, many new players are not yet participating in the credit reference bureaus, either in submitting or using data for credit decision-making.

Lack of Notice to Customers Prior to Blacklisting: Credit Reference Bureau regulations require that credit providers notify customers one month before they are considered as a non-performing loan and update the credit reference bureau but this practice has not been consistently followed.

Mismatch of reporting frequency and product features: With the increasingly digital nature of credit, characterized by its instant approvals and shorter tenures, the existing monthly reporting cycles do not allow for up-to-date information. It should be noted however, that this issue is now being addressed to allow for daily updating rather than monthly.

Expanded credit reference bureaus: As a means to mitigate over-indebtedness, regulators and policymakers should ensure that all digital lenders also report to crediting reporting and information systems.[xxxii] In several markets, alternative credit providers are either not required to access credit reference bureaus or are not allowed to make use of credit reference bureaus. This creates gaps in coverage of and compliance with credit reporting regimes, which may have a negative impact on over-indebtedness.

However, a balancing act is required in how alternative credit providers both access and use credit reference bureaus, especially as they relate to very small loans. In order to address these concerns, policymakers could consider a range of options, such as ensuring that existing rules for sharing both negative and positive credit information are enforced, enacting new rules on reporting requirements for a specific subset of credit products, using moral suasion for noncompliant lenders, disclosing consequences of nonpayment more clearly to consumers, and undertaking financial capability and consumer awareness efforts.

As noted by several digital credit providers, especially those providing very small loans, the costs of checking credit reference bureaus have been a challenge. This issue should be carefully considered when attempting to require all digital credit providers to access and use these bureaus. One exception has been Kenya, where the three credit reference bureaus have been able to bring down costs to make it cost effective, even for very small loans.[xxxiii]

P2P LENDING GUIDELINES: RESERVE BANK OF INDIA

The Reserve Bank of India has developed comprehensive regulations covering various Non-Bank Finance Companies including P2P lenders.

Requirements for NBFC-P2P lending platforms include:

- Undertaking due diligence on the participants;
- Undertaking credit assessment and risk profiling of the borrowers and disclosing this information to their prospective lenders;
- Requiring prior and explicit consent of the participant to access their credit information;
- Undertaking documentation of loan agreements and other related documents;
- Providing assistance in disbursement and repayments of loan amount;
- Rendering services for recovery of loans originated on the platform consistent with appropriate collection practices.

Source: https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=11137

SUPTECH APPROACH: NATIONAL BANK OF RWANDA

The National Bank of Rwanda (BNR) uses an electronic data warehouse (EDW) to "pull" data directly from the IT systems of more than 600 supervised financial institutions, including commercial banks, insurance companies, microfinance institutions, pension funds, forex bureaus, telecom operators and money transfer operators. Data are automatically pulled from these institutions every 24 hours or even every 15 minutes in the case of mobile money and money transfer operators. For this purpose, a data dictionary was developed, and each financial institution was required to write data scripts that would map the data dictionary to the information in its own systems. The mapped information is then input into a "staging area" where BNR can pull the information it needs. The encrypted data runs over a VPN channel and through data integrity check mechanisms. In this way, the data pull approach delivers timely, consistent and reliable data to the BNR. It has also led to improvements in financial institutions' data, which they now also use for internal risk management purposes. The EDW reduces errors and inconsistencies. To this end, the BNR has built quality and integrity rules into the system. If data do not meet certain standards, they are rejected, and an automatic email alert is sent to examiners within the BNR and the supervised institution. Furthermore, historical data cleaning from the data supply side is currently in progress. Next to improving data quality, the EDW also offers flexibility and the ability to quickly analyze large amounts of data. The BNR can adapt its supervisory processes and methodologies to fully leverage the collected data and allocate supervisory resources more efficiently. The BNR has not ended manual reporting completely due to data gaps on the part of external stakeholders. The BNR is also streamlining internal business processes to ensure that information is completely captured.

Source: BIS and National Bank of Rwanda

RECOMMENDATION 3:

Authorities should implement comprehensive and effective credit referencing systems that incorporate a wide range of sourcing information, including from non-bank financial service providers.

CHALLENGE 4: LACK OF TRANSPARENCY AND APPROPRIATE DISCLOSURE OVER LOAN TERMS AND CONDITIONS

Digital credit transparency and disclosure issues: Digital credit is often provided via a mobile phone. Clients are often not provided with details on complete loan terms and conditions, as well as all fees, due to the limitations of the mobile screen size. In addition, surveys of different products and providers have demonstrated that key loan terms and conditions are provided in a variety of ways, making comparisons between products difficult to make. In addition, collection practices, redress and how consumer data is being used are often unclear.

Product-specific disclosure requirements: Regulators should consider issuing product-specific disclosure requirements to implement these principles by mandating specific disclosure practices for specific categories of credit products or delivery models, especially those offered via the mobile channel. Some regulators are actually changing regulations to promote and support more interactive forms of digital disclosure for digital credit and other DFS users.

ENABLING DIGITAL PRODUCT DISCLOSURE: THE CASE OF AUSTRALIA

Australian regulators decided to remove barriers that previously favored paper-based disclosures and instead allowed for innovative digital product disclosure statements, which use methods that are better suited to digital credit clients, such as interactive web-based disclosures, apps, videos, games and audio presentations.

Source: https://www.legislation.gov.au/Details/F2015L01187/Explanatory%20 Statement/Text

AFI's working group noted that there is a need for the market conduct regulation to require comprehensive disclosure of costs of digital credit to allow for comparison with other credit offers, both digital and non-digital, with a view to promote transparent and comparative pricing. To address this concern, regulators should require that all credit providers publicly post their current fees, rates and other terms and conditions, in a standardized and comparable manner and to immediately update these terms and conditions whenever there is a change.

RECOMMENDATION 4:

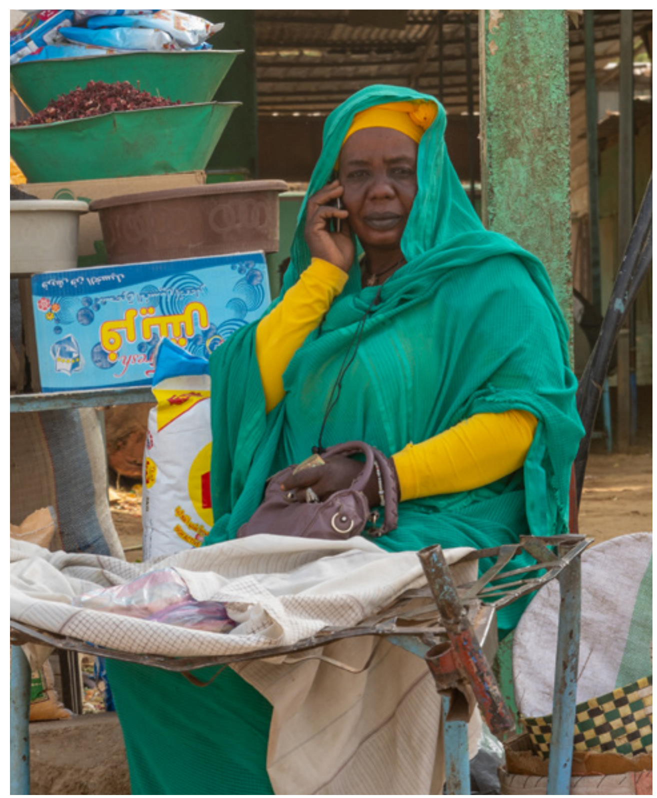
Authorities should ensure DFS are offered with appropriate levels of disclosure of terms and conditions.

CHALLENGE 5: ENCOURAGING THE DEVELOPMENT OF A FAIR AND RESPONSIBLE DIGITAL CREDIT INDUSTRY

Need for digital credit standards: Given the rapid development of digital credit providers and models, it is often difficult for regulators to keep up. In addition, as it takes time to develop rules to cover all players and all models, regulators alone may not be in a position to provide sufficient oversight or to police all players.

Industry codes of conduct: In several markets, regulators have successfully engaged with industry to encourage the development of a more fair and responsible digital credit market through industry codes of conduct. In the US, UK, China, India and recently Indonesia,[xxxiv] digital credit providers are being encouraged to develop codes of conduct and, in some cases are becoming self-regulating bodies that complement regulatory oversight.

Examples of industry codes of conduct include rules for fair client treatment, as well as principles of transparency, disclosure, complaints handling, and ethical debt recovery procedures. These codes of conduct extend beyond the direct digital credit providers to third-party agents, lead generators, data analytic/credit scoring providers and collectors.



Elderly woman calling her mobile phone in green Abaya at a sales booth. Dongola, Sudan. February 2019. (Photo by geogif/iStock)

It should be stressed that industry codes of conduct and potential self-regulatory roles for the industry should never replace active regulatory oversight, but this can complement and strengthen the ability to better ensure a responsible digital credit market. This can also enhance consumer confidence, as well as quality provision of digital credit services.

THE ROLE OF SELF-REGULATION IN THE P2P LENDING MARKET IN THE UK

Self-regulation played an important role in the digital peer-to-peer credit market in the United Kingdom. In 2011, the largest P2P lenders established the Peer-to-Peer Finance Association (P2PFA) in close coordination with the Financial Conduct Authority (FCA). The association had early on lobbied for regulating the industry but initially adapted their own standards (operating principles) that required members to:

- Avoid claiming returns are "guaranteed;"
- Standardize loan disclosure documentation;
- Ensure fair client practices, including collection procedures;
- Facilitate and raise standards for complaint-handling practice.

Source: P2PFA Operating Principles https://ec.europa.eu/transparency/regexpert/index.cfm?do=groupDetail.groupDetailDoc&id=27029&no=7

RECOMMENDATION 5:

Authorities should ensure all financial service providers including non-banks providers ascribe to an industry code of conduct for provision of financial services.

CHALLENGE 6: DATA PRIVACY, DATA USAGE AND DATA RIGHTS

Lack of clarity on data privacy: Given the nature and delivery of digital credit products and services, AFI's survey among regulators noted that there may be a need for an explicit regulation or guidance to clarify that digital credit providers are required to take sufficient measures to protect the confidentiality and security of a customer's information against threats and against unauthorized access to, or use of, customer information, including sharing of consumer data to third parties, without clear and explicit prior authorization.[xxxv]

In several jurisdictions, forms of spyware and the uploading of client data including contacts, messages, transactions and even geo-locational data are tracked and used by digital credit providers. While this alternative data is increasingly being utilized to enhance digital credit scores, clients are unaware of how data is being used and shared. In multiple cases, client's data were shared and used by providers in ways that were ultimately considered abusive.

DATA PRIVACY VIOLATIONS IN DIGITAL CREDIT: THE CASE OF THE PHILIPPINES AND INDONESIA

Over 400 complaints of alleged harassment and shaming by various digital online lending operators were documented by the Philippines National Privacy Commission (NPC) in 2019. The Privacy Commissioner Raymund Enriquez Liboro reported handling a total of 485 complaints against operators of online lending applications that allegedly misused the borrower's information, including the disclosure of unpaid balances to other people.

"Over the past few months, we received almost identical complaints that pile up by the day from individuals accusing online lending apps of rude practices. Complainants say the harassment and shaming started when they failed to pay their balances on time. The people behind the lending app called or texted their contact list about their inability to return the money, causing them embarrassment and emotional stress," Liboro said.

The standard practice of mobile app-based digital credit providers in the Philippines that are available and promoted primarily via the Google Playstore, requires interested borrowers to first access their contact information, photos, files and other documents saved in the borrower's phone, before processing of their digital loan application. If a borrower fails to pay on time, all of his or her phone

CONTINUED

contacts receive a collection text message or call stating the borrower's full name and outstanding balance.

Similarly, in Indonesia clients have complained not only of their contacts receiving harassing collection calls but several delinquent borrowers also received threats to post compromising images to social media sites.

Source: Interviews with regulators and industry associations in the Philippines and Indonesia.

See also https://www.privacy.gov.ph/2019/05/npc-conducts-hearings-on-48-online-lending-apps-after-over-400-harassment-complaints/

https://www.aseantoday.com/2019/11/a-few-bad-apples-how-illegal-lenders-are-abusing-consumers-in-indonesias-p2p-lending-sector/

THE UGANDA DATA PROTECTION & PRIVACY ACT (2019)

Uganda's Data Protection and Privacy Act follows international principles as set forth in the just UK Data Protection Act, the GDPR & the African Union Convention on Cyber Security and Personal Data Protection by focusing on several principles concerning data protection.

It requires that:

1) A data controller/processor is to be accountable for the data it collects on consumers;
2) Standards must be maintained based on how data is collected, processed, held and used. This includes:
   a. the requirement that there should be full disclosure about how data is collected;
   b. the requirement that collection must take place in a fair manner;
   c. that all data must be maintained in a secure manner;
   d. that all data must not be kept or used longer than necessary; and
   e. all data must only be used for the purpose for which it is collected.

> **See the full act here:** https://ulii.org/system/files/legislation/act/2019/1/THE%20DATA%20PROTECTION%20AND%20PRIVACY%20BILL%20-%20ASSENTED.pdf

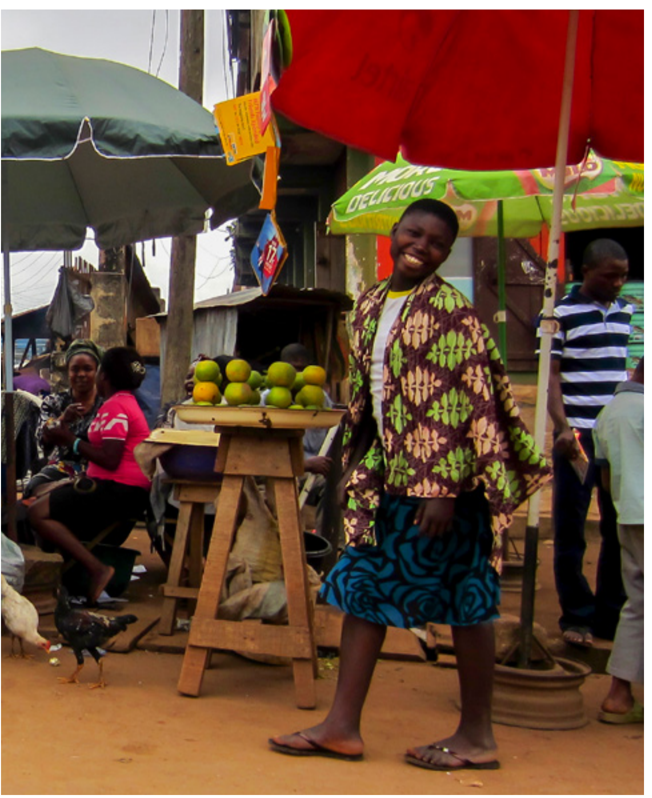
Enforcing data privacy and protection: In interviews with regulators, it was noted that the ability to enforce data protection does require specific legislation that ensures the protection, security and integrity of client data. Specifically, rules should:

- Mandate restricted access to consumer data;
- Require consent to use/process the data;
- Ensure that the usage and sharing of personal and business data is provided after informed consent and is conducted in a fair and transparent manner that ensures the confidentiality of the customer.

Given the importance of cross-border use of data for financial and other services, regional data privacy initiatives should be encouraged and implemented on the basis of common principles, such as the ones initially proposed by the EU and the African Union (AU).[xxxvi] The AU, recognizing the need to regulate data protection, in 2014 introduced the Convention on Cyber Security and Personal Data Protection.[xxxvii] At this time only a few member states, such as Uganda and recently Kenya, have enacted local data protection regulation consistent with international standards.

AFI members also contributed to the ITU Focus Group on DFS, which also set several guidelines that are relevant to issues on data privacy, data rights and related security measures to protect data privacy that regulators should consider as they relate to digital lending.[xxxviii]

RECOMMENDATION 6:
Authorities should ensure consumer data is protected effectively, in accordance with legal requirements.



People selling different goods in the street. Lagos, Nigeria. August 2012. (Photo by agafapaperiapunta/iStock

CHALLENGE 7: PROTECTING AGAINST DIGITAL FRAUD AND RELATED CYBERSECURITY ISSUES

Cybersecurity and fraud issues: Since many digital credit providers are either new financial service providers or provided via partnerships, cybersecurity and fraud prevention are particular challenges in the new digital credit landscape. In addition, many clients are also borrowing via a digital channel for the first time and are more vulnerable to cybercrime and fraud. Cybercriminals also tend to exploit weaknesses across multiple players in the same market; hence, there is an importance not only to report incidents to regulators quickly but also to share specific threats with other digital financial service providers so that incidents do not recur.

Addressing cybersecurity and fraud prevention: Practical recommendations for fraud and digital security that are quite relevant to digital credit providers include:

> Ensuring that appropriate security measures are in place and regularly tested;
> Ensuring due diligence practices are in place for digital credit providers, their staff, and relevant third parties, such as agents, contractors, lead generators, and collectors;
> Ensuring that digital credit providers are responsible for the actions of their third parties (agents, contractors, lead generators, brokers and collectors);
> Ensuring that consumers are aware of the potential for fraud and that they should be encouraged to report suspected cases. This includes the recommendation of consumer awareness campaigns on the most common incidents of fraud (via the internet, SMS alerts, signage at agents, etc.).[xxxix]

AFI's guidance to regulators on dealing with the potential for fraud and security related concerns for digital credit include:

> Proactive engagement with providers and their partners that are offering or planning to offer digital credit products, in order to understand more clearly the specific product features and models being used for marketing, distribution, scoring, loan management, and collections, with an eye towards identifying the key consumer protection vulnerabilities and risks and how they will be mitigated;
> Considering whether pre-approval of new products or business arrangements can and should be required;
> Ensuring that appropriate customer redress mechanisms are in place, especially in digital credit offerings where multiple parties may be part of the credit value chain;
> Analyzing the available information on current customer experiences or collecting or commissioning studies (e.g. mystery shopping, surveys, focus group discussions, etc.) to prioritize and size these risks;
> Analyzing the extent to which existing regulation and guidance covers and treats the products, and the models and risks in the market, in order to identify gaps and provide practical plans to assess compliance;
> Supporting peer-to-peer networking with regulators in other jurisdictions, in order to stay abreast of new developments and emerging good practices.[xl]

One particular concern raised by financial regulators in Africa was the security concerns around the use of the mobile channels, especially the vulnerabilities around USSD and mobile applications where weaknesses have been identified.[xli] However, standards have been developed to limit some of the inherent issues with USSD channels.[xlii]

RECOMMENDATION 7:
Authorities should ensure there are effective fraud prevention and cybersecurity measures to protect the digital credit services.

Young man using digital payment at the market. Nigeria. (Photo by Abugrafie/Shutterstock)

CHALLENGE 8: DIGITAL FINANCIAL CONSUMER AWARENESS AND LITERACY

Low levels of digital financial literacy: In addition, while it is not a matter of regulation/supervision, regulators also highlighted the importance of encouraging the industry to improve digital financial consumer literacy, understanding and behavior over time, through awareness campaigns and financial capability interventions.

Most consumers are naïve and unsophisticated, especially so with the dynamic changes in financial services delivery through digital innovations. Financial literacy and education are daunting tasks that require national and industry-wide collaboration.

Improving digital financial literacy: National financial education strategies offer effective and systematic implementation of industry-wide financial education to enhance consumer capabilities. These campaigns should also include a gender-focused digital financial literacy initiative as well.

Concrete challenges and recommendations to consider, with regards to digital financial literacy focused on credit include:

- Consumers' rights and duties in relation to credit provided through digital channels;
- The features and stages of the borrowing process of credit provided through digital channels;
- The risks for consumers of taking out digital credit and the specific risks related to the provision through digital channels;
- The interest rates, fees and other costs of digital credit;
- Warnings about unlicensed/unregistered entities, fraudulent schemes or security risks;
- Consumer complaints and examples of supervisory findings and enforcement actions related to the provision of credit through digital channels;
- Encouraging other parties to provide tools and materials to facilitate comparison of characteristics or alternative credit products (e.g. Price comparison websites) and to assist the consumer in assessing her/his debt situation and financial capacity (e.g. Budgeting simulators and debt-to-income calculators). [xliii]

RECOMMENDATION 8:
Authorities should institute digital financial service consumer awareness, education, and literacy programs.

CHALLENGE 9: THE ROLE OF COMPETITION AND REGULATORY COORDINATION TO ENSURE RESPONSIBLE DIGITAL CREDIT

Competition and regulatory coordination issues: One of the most important lessons learned in several of the markets in Africa is the importance of competition in the market and the need for good regulatory coordination. This is also true in the advent of responsible digital credit where multiple parties are involved, as well as the challenges around dominant players that may disproportionately control channels to reach clients. It is also essential that financial regulators closely coordinate in order to avoid regulatory arbitrage, as well as ensure the development of an appropriate competitive marketplace.

Competition policies and effective regulatory coordination: In conversations with regulators in Ghana, Tanzania and Kenya, Memoranda of Understandings (MOUs) play an important role in supporting an appropriate framework for regulatory coordination. CBK noted that they have entered into Memoranda of Understanding (MOU) with other regulators, namely: the Capital Markets Authority (CMA); the Insurance Regulatory Authority (IRA); the Retirement Benefits Authority (RBA); and the SACCOs Societies Regulatory Authority (SASRA), as well as the Kenya Deposit Insurance Corporation (KDIC), under the Domestic Financial Sector Regulators Forum. The regulators work jointly under the Forum to address issues of mutual interest on Kenya's financial system development, reforms, regulatory regimen and implications of changes in the financial landscape to financial stability, as well as facilitating regular information sharing, SMART regulation to foster stability of the financial system, and effective consumer protection.

Competition policy in DFS should also consider the impact of competition issues on consumer welfare, and especially planned or actual limits on choice. Competition authorities and/or regulators should conduct and publish periodic assessments of competition among emerging financial players, as well as engage with the industry to make recommendations on how competition among digital credit providers can be optimized.[xli]v

RECOMMENDATION 9:
Authorities should ensure fair market competition and enhance collaboration to make provision of digital credit more efficient.

CHALLENGE 10: COMPLAINT RESOLUTION PRACTICES

Weak consumer redress practices: Given the challenges of digital credit models and the remote contact with digital credit customers, many regulators highlighted the challenges around improving effective consumer complaint resolution practices. AFI's guidance recommends that digital credit providers must ensure that appropriate recourse mechanisms are in place, even when products and services are offered via a third-parties such as a telecommunications provider (or online broker).[xlv]

Improving complaint resolution practices: Some best practice guidance for regulators to consider includes, ensuring that:

> All digital credit providers have a complaints policy and procedure in place;

> The complaint and resolution policy are effectively communicated using multiple channels (such as in branch, online, mobile, leaflets, verbally by agents, etc.), and the policy is made available in common local languages;

> Clients should have access to a variety of channels to lodge complaints, such as toll-free numbers, local agents, app-based, social media, SMS, and branches;

> Consumers who are not satisfied with how their complaint was handled by their provider should be able to access alternative or external channels to seek redress. Information on how to use alternative methods should also be readily available; and

> Timeframes for how long consumers should expect to wait for a response should be reasonable and clearly communicated to consumers.[xlvi]

In addition, regulators should be cognizant of the financial service providers' size, complexity and the number of clients they serve. A tiered approach to consumer protection might involve requiring larger digital credit providers to have a robust process with dedicated employees, while smaller digital credit providers might be given more discretion to develop efficient and cost-effective complaint-handling mechanisms.

Consumer complaint resolution can also benefit from close coordination between regulators (such as telecommunication and financial system regulators) in order to address complaint issues when lead generators come from a different sector (such as an MNO that is providing digital credit on behalf of a bank).

Best practices also included ensuring that financial regulators report on the resolution (or non-resolution) of customer complaints on a regular basis. This should include clear requirements that digital credit providers share complaints data with the regulator, as well as ensure the availability of information during onsite audits.

KCB - SAFARICOM COLLABORATION TO IMPROVE CONSUMER REDRESS

KCB and Safaricom shared their challenges in dealing with consumer complaint management for their jointly supported digital credit product, KCB MPESA loan. Initially, clients complained directly to Safaricom, as loans were associated with MPESA or in some cases, complained about Safaricom-related issues to the bank. However, transferring consumer complaints back and forth between the two providers created undue delays and frustrations with borrowers. To better support and improve consumer complaint management, Safaricom and KCB developed a shared consumer complaint management system that updated and tracked all consumer complaints, regardless of whether they were raised with the MNO or the bank. This helped improve consumer complaint management and dramatically reduced previous delays.

Source: KCB

RECOMMENDATION 10:

Authorities should ensure there are appropriate, accessible and efficient consumer complaint and redress systems in place for digital credit services.

Young woman working in a call center. Nairobi, Kenya.
(Photo by Paolo Bona/Shutterstock)

CONCLUSION

Digital credit is emerging as one of the main channels to expand access to credit across Africa and in other markets around the world.

Digital credit is emerging as one of the main channels to expand access to credit across Africa and in other markets around the world. With both new and existing credit providers adopting innovative digital credit models to reach unserved individuals and MSMEs, regulators and policymakers are faced with several challenges. These include ensuring that:

1. An effective legal mandate and regulatory framework for digital credit providers are in place;
2. Adequate regulatory and supervisory capacity are developed or enhanced;
3. Comprehensive credit reference services and avoidance of over-indebtedness policies cover the unique issues created by digital credit;
4. Appropriate levels of disclosure and transparency cover digital credit providers;
5. Support for the digital credit industry codes of conduct is available;
6. Data privacy and protection measures are in place;
7. Cybersecurity and fraud measures adequately cover digital credit models;
8. Digital financial literacy and education efforts are implemented;
9. Appropriate competition and collaboration are in place; and
10. Enhanced complaint and redress systems are required for all digital credit providers.

This assessment and scoping report, which collected and analyzed information on existing best practices in Africa and other markets on regulating and supervising digital credit, addresses these important challenges. The report also resulted in a recommended Policy Framework for Responsible Digital Credit, which should be read in connection with this document.[xlvii]

SME making digital payment with her card on her mobile phone. Nigeria. (Photo by courage007/Shutterstock)

FOOTNOTES

i Dwoskin, Elizabeth. “Lending Startups Look at Borrowers’ Phone Usage to Assess Creditworthiness.” Wall Street Journal. November 30, 2015. http://www.wsj.com/articles/lending-startups-look-at-borrowers-phone-usage-to-assess-creditworthiness-1448933308.

ii Equity Bank’s EazzyLoan in Kenya https://ke.equitybankgroup.com/index.php/business/products/business-loans/eazzyloan

iii Commercial Bank of Africa’s M-Shwari Kenya https://ke.equitybankgroup.com/index.php/business/products/business-loans/eazzyloan and M-Pawa in Tanzania https://vodacom.co.tz/en/mpawa/

iv Partnership between Fidelity Bank, Tiaxa, and Airtel in Ghana https://airtel.africa/media/ghana-partners-fidelity-bank and MyBucks partnership models with Opportunity Bank in Uganda and Mozambique http://corporate.mybucks.com/partnership

v Paylater in Nigeria https://qz.com/africa/1568373/dozies-paylater-to-convert-to-digital-bank/

vi It should be noted that the digital platforms used by marketplace lenders are being increasingly accessed primarily via the mobile channel in emerging markets while still being available via computer in more developed markets.

vii See Cambridge Centre for Alternative Finance, 2018, “The Second Annual Middle East & Africa Alternative Finance Industry Report” https://www.jbs.cam.ac.uk/fileadmin/user_upload/research/centres/alternative-finance/downloads/2018-06-ccaf-africa-middle-east-alternative-finance-report.pdf

viii Marketplace Lending Association. 2018. http://marketplacelendingassociation.org.

ix Responsible Business Lending Coalition. “The Small Business Borrowers’ Bill of Rights.” 2015. http://www.responsiblebusinesslending.org.

x Business and Human Rights Resource Centre, 2019 “Indonesia: Online loan sharks intimidate and harass borrowers; activists call for better regulations” https://www.business-humanrights.org/en/indonesia-online-loan-sharks-intimidate-and-harass-borrowers-activists-call-for-better-regulations. http://www.crowdfundinsider.com/2015/05/68460-its-a-lot-of-money-enough-for-us-to-build-what-we-wanted-to-build-dianrong-com-ceo-on-new-valuation-of-about-1-billion/.

xi “Ezubao.” Wikipedia. Last updated March 5, 2018. https://en.wikipedia.org/wiki/Ezubao.

xii OJK Issues New FinTech Regulation, 2017 https://www.ojk.go.id/en/berita-dan-kegiatan/info-terkini/Pages/OJK-Issues-New-Fintech-Regulation.aspx

xiii Swersky, Hadar. “P2P and Balance Sheet Lending: Same Same but Different…” Finance Magnates. December 28, 2015. https://www.financemagnates.com/fintech/bloggers/p2p-and-balance-sheet-lending-same-same-but-different/.

xiv Owens, John, Center for Financial Inclusion (July 2018) Responsible Digital Credit https://content.centerforfinancialinclusion.org/wp-content/uploads/sites/2/1970/01/Responsible_Digital_Credit_FINAL_2018.07.18.pdf

xv AFI (Sept 2018) Fintech for Financial Inclusion: A Framework for Digital Financial Transformation https://www.g24.org/wp-content/uploads/2018/09/G-24-AFI_FinTech_Special_Report_AW_digital.pdf

xvi GPFI Report on Alternative Data Transforming SME Finance https://www.gpfi.org/publications/gpfi-report-alternative-data-transforming-sme-finance

xvii AFI (Sept 2018) Fintech for Financial Inclusion: A Framework for Digital Financial Transformation https://www.g24.org/wp-content/uploads/2018/09/G-24-AFI_FinTech_Special_Report_AW_digital.pdf

xviii AFI (Sept 2015) Digitally Delivered Credit: Policy Guidance Note and Results from Regulators Survey https://www.afi-global.org/sites/default/files/publications/guidelinenote-17_cemc_digitally_delivered.pdf

xix Some complaints have been raised by banking institutions regarding differences in treatment of banks and MNOs in terms of KYC requirements, with requirements being more stringent for banks rather than those offered in via an MNO. Regarding digital finance providers, conditions can become more stringent to regulated FSPs (e.g. the case of M-Pawa in Tanzania, which is offered through a regulated bank teaming up with MNO vs Timiza, a non-regulated Micro-credit Provider which teamed up with an MNO in Tanzania, and is not under the jurisdiction of the financial sector regulator).

xx OECD/G20 GPFI Report (2017) Ensuring Financial Education and Consumer Protection for all in the Digital Age http://www.oecd.org/daf/fin/financial-education/G20-OECD-INFE-Report-Financial-Education-Consumer-Protection-Digital-Age.pdf

xxi Discussions and feedback from the Central Banks in Egypt, Kenya, Rwanda, Tanzania, and Zambia. See also the ITU-T Focus Group on Digital Financial Services (May 2016) Commonly Identified Consumer Protection Themes for Digital Financial Services https://www.itu.int/en/ITU-T/focusgroups/dfs/Documents/09_2016/ConsumerProtectionThemesForBestPractices.pdf

xxii GPFI (2016), Global Standard-Setting Bodies and Financial Inclusion: The Evolving Landscape. http://www.gpfi.org/sites/default/files/documents/GPFI_WhitePaper_Mar2016.pdf

xxiii FinCoNet (Feb 2019) Digitalisation of short-term, high-cost consumer credit Guidance to Supervisors http://www.finconet.org/Guidance_Supervisors_Digitalisation_STHCCC.pdf

xxiv Some digital lenders are not regulated by the Central Bank of Kenya. In general, digital credit providers are not defined as financial institutions under the current Banking Act, the Micro Finance Act or the Central Bank of Kenya Act. (see http://theconversation.com/mobile-based-lending-is-huge-in-kenya-but-theres-a-downside-too-124195).

xxv P2P lenders and mobile app (balance sheet lenders) are not licensed by the BSP in the Philippines and only require a registration with the Securities and Exchange Commission.

xxvi The Central Bank of Kenya noted challenges with providing oversight to certain non-bank digital credit providers however the Bank of Tanzania noted that they worked with the National Assembly to enact the Microfinance Act of 2018 which expanded the authority of the Bank of Tanzania to license, regulate and supervise all "microfinance" business. In order to cover all consumer lending, the definition of microfinance was left broad enough to effectively cover all digital lenders (see https://www.bot.go.tz/Adverts/PressRelease/NOTICE%20TO%20THE%20PUBLIC%20-%20m.pdf).

xxvii This is especially the case with various person-to-person (P2P) lending models which have traditionally been viewed as gathering investments and are often registered to securities and exchange commissions in various markets. See https://en.wikipedia.org/wiki/Peer-to-peer_lending

xxviii See https://www.bot.go.tz/Adverts/PressRelease/NOTICE%20TO%20THE%20PUBLIC%20-%20m.pdf

xxix The Philippines formed the Financial Sector Forum, which is composed of four financial regulators in the country, namely the Securities and Exchange Commission (SEC), the Insurance Commission (IC), the Philippine Deposit Insurance Corporation (PDIC) and the BSP. This also included the formation of a FinTech Committee aimed at harmonizing regulatory responses to FinTech innovation in the financial sector. Among the priority agenda that the FSF-Fintech Committee undertook was identifying the numerous Fintech use cases and the scope of authorities of each regulator. Through clear understanding and increased collaboration, financial regulators can quickly anticipate changes, assess technological trends across different sectors, and optimize the potential of digital innovations to provide more convenient, and efficient financial services. The cross-cutting nature of FinTech developments has also magnified the importance of shifting to activity-based regulations. The FSF-Fintech Committee is also crafting a Cooperative Oversight Framework which will institutionalize the collaboration and clarify regulations to all supervised and would be supervised entities.

xxx AFI (Sept 2015) Digitally Delivered Credit: Policy Guidance Note and Results from Regulators Survey https://www.afi-global.org/sites/default/files/publications/guidelinenote-17_cemc_digitally_delivered.pdf

xxxi Interviews with the Central Bank of Kenya and the National Bank of Rwanda. See also Indonesia's online P2P loan sharks are driving people to suicide https://www.scmp.com/week-asia/economics/article/2188185/indonesias-online-p2p-loan-sharks-are-driving-people-suicide.ana. Note, however that in other markets, most notably Tanzania and Ghana, issues of over-indebtedness among digital credit borrowers has not yet reached a level that concerns regulators.

xxxii AFI (Sept 2015) Digitally Delivered Credit: Policy Guidance Note and Results from Regulators Survey https://www.afi-global.org/sites/default/files/publications/guidelinenote-17_cemc_digitally_delivered.pdf see also G20 GPFI Report (2017) Use of Alternative Data to Enhance Credit Reporting to Enable Access to Digital Financial Services https://www.gpfi.org/sites/gpfi/files/documents/Use_of_Alternative_Data_to_Enhance_Credit_Reporting_to_Enable_Access_to_Digital_Financial_Services_ICCR.pdf

xxxiii Presentation and panel discussion by Credit Information Sharing Association of Kenya Chief Executive Officer Jared Getenga

xxxiv See This Year AFPI Wants to Fix the "Code of Conduct" for the Implementation of P2P Lending https://translate.google.com/translate?hl=en&sl=id&u=https://dailysocial.id/post/rencana-kerja-afpi-2019/&prev=search

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Alliance for Financial Inclusion
AFI, Sasana Kijang, 2, Jalan Dato' Onn, 50480 Kuala Lumpur, Malaysia
t +60 3 2776 9000 **e** info@afi-global.org www.afi-global.org
Alliance for Financial Inclusion AFI.History @NewsAFI @afinetwork