USAID WEE COP March 2023
LEARNING EVENT
BEYOND INCLUSION:
USER PROTECTION FOR WOMEN
IN THE DIGITAL ECONOMY
AGENDA

Welcome and Overview
– Morgan Mickle, Senior Program Officer, USAID WEE CoP, Banyan Global

Remarks and Presentation
– Jamille Bigio, Senior Coordinator for Gender Equality and Women’s Empowerment, USAID
– Eric Duflos, Consumer Protection Lead and Senior Financial Sector Specialist, Consultative Group to Assist the Poor (CGAP)

Moderated Panel Discussion & Questions
– Paul Nelson, Senior Digital Finance Advisor and Acting Team Lead, Digital Finance, USAID
– Pallavi Madhok, Vice President Advisory Services - South Asia, Women's World Banking
– Eric Duflos, Consumer Protection Lead and Senior Financial Sector Specialist, CGAP

Wrap-Up and Announcements
– Morgan Mickle, Senior Program Officer, USAID WEE CoP, Banyan Global
USAID WOMEN’S ECONOMIC EMPOWERMENT COMMUNITY OF PRACTICE

Currently 1,200+ members

Gather and share evidence

Facilitate learning among members

Foster engagement opportunities
LEARNING OBJECTIVES

1. Build awareness of the digital ecosystem and the opportunities and barriers to digital financial inclusion

2. Share existing evidence and data gaps related to digital-related risks and user protections, particularly for women

3. Provide promising approaches to closing the gender digital divide through enhancing the enabling environment for financial service access and uptake
THE EVOLUTION OF THE NATURE AND SCALE OF DFS CONSUMER RISKS
Eric Duflos
Consumer Protection Lead and Senior Financial Sector Specialist
Consultative Group to Assist the Poor (CGAP)
Outline

1. Definitions

2. Why is Financial Consumer Protection (FCP) increasingly important for digital finance users?

3. What are some implications of a lack of protections on women’s economic empowerment?
Definitions
Financial inclusion means that adults use formal financial services in a way that improves their lives and contributes to an inclusive and sustainable society.

Financial Services need to be:

- convenient
- responsibly delivered
- meet the needs of customers
- affordable for customers
- sustainable for providers
Digital financial services (DFS) are financial services accessed through digital devices and delivered through digital channels.

**Products and services include:**

- Payments and transfers
- Credit (disbursement and repayments)
- Deposits and savings
- Investments (money market funds, government bonds)
- Insurance (payment of premia and payout of insurance proceeds)
- And many other products and services

**etc**
Four characteristics of digitally-driven financial inclusion

**Customer profile**
Financially excluded and underserved customers are first-time users of financial services, which makes them vulnerable.

**New providers & business models**
Services are provided by new financial institutions such as: non-banks, FinTechs and BigTechs. The services are provided through new business models, such as: crowdfunding, ICOs, and lenders using BigData analytics.

**Intensive use of digital technology**
Financial service providers extensively rely on technology to improve speed, convenience, accuracy, access, affordability, and security.

**Use of agents**
Agents represent a significant distribution channel and physical point of contact (compared to traditional branches and ATMs).
What do we mean by financial consumer protection (FCP)?

“Financial consumer protection refers to laws, regulations, and other measures generally designed to ensure fair and responsible treatment of financial consumers in their purchase and use of financial products and services and their dealings with financial services providers.”

–G20/OECD High Level Principles on Financial Consumer Protection
Why is effective consumer protection rooted in building a “responsible digital finance ecosystem”? 

A responsible digital finance ecosystem approach takes a holistic and less piecemeal approach to protecting consumers. It means that all of the key actors in the digital finance ecosystem—consumers, providers, policy makers, market facilitators—interact in a way that protects and ensures positive outcomes for customers using financial services, especially women and vulnerable consumers.

Why is Financial Consumer Protection increasingly important?
FIGURE 1.2.10
Unbanked adults lack the confidence to manage an account by themselves
Adults with no account who said they could not use a financial institution account without help (%), 2021

<table>
<thead>
<tr>
<th>Developing economies</th>
<th>Egypt, Arab Rep.</th>
<th>India</th>
<th>Lao PDR</th>
<th>Lebanon</th>
<th>Pakistan</th>
<th>South Sudan</th>
<th>Tajikistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>60%</td>
<td>70%</td>
<td>65%</td>
<td>63%</td>
<td>62%</td>
<td>70%</td>
<td>70%</td>
<td>68%</td>
</tr>
</tbody>
</table>

Source: Global Findex Database 2021.

Low trust:
Among the unbanked, almost ¼ do not trust the financial system.

High costs:
In Latin America, nearly 60% of unbanked adults indicated high costs of financial services as a reason for not having an account.

Vulnerable adults - most likely to be unbanked:
54% are women.
Almost 1 in 2 of the unbanked belong to the poorest 40% of households.
Almost 2 in 3 have only primary education or less.
Experience of existing financial customers

- Lack of trust and need for help in using an account re-appear as major causes of inactivity:
  - India: ~50% of people who have an account and don’t use it cite lack of trust as a reason and ~30% cite discomfort using an account on their own.
  - Sub-Saharan Africa: 31% of mobile money account holders can’t use their account without help from family or an agent.
- This need for external assistance indicates potential customer exposure to risks, e.g.:
  - Person helping may offer misleading information on fees or in the worst case, steal their data or money.
  - Indicates low digital finance capability of customers.
- First time that Findex collected data on unexpected fees collected from workers receiving wages through a formal account – see chart.
Digital finance is creating new opportunities and challenges

- Findex 2021 showed a major increase in the number of people in developing countries who have access to a formal financial account, in great part thanks to digital finance.
- There have been many improvements in terms of regulatory frameworks as well as key initiatives to make digital finance responsible.
- But there is no strong evidence that the quality of financial services has increased.
- Recent CGAP research shows that the nature of existing DFS risks is evolving and growing in number and scale.
- Multiple DFS providers are joining the ecosystem, bringing new opportunities and risks.
- While new regulators have emerged, there is often a lack of effective regulation and supervision of new providers.

Source: The Evolution of the Nature and Scale of DFS Consumer Risks, CGAP, 2022
We see increase in scale for most DFS risks

<table>
<thead>
<tr>
<th>Risk type</th>
<th>Global</th>
<th>Regions*</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Fraud*</td>
<td>🟥orthy</td>
<td>🟥orthy</td>
<td>🟥orthy</td>
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<tr>
<td>2. Data misuse</td>
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<td>🟥orthy</td>
</tr>
<tr>
<td>3. Lack of transparency</td>
<td>🟥orthy</td>
<td>🟥orthy</td>
<td>N/A</td>
</tr>
<tr>
<td>4. Inadequate redress mechanisms**</td>
<td>N/A</td>
<td>N/A</td>
<td>🟥orthy</td>
</tr>
</tbody>
</table>

Red arrow: Available data show an overall increase in value or volume.

Orange arrow: Literature suggests an increase in value or volume without supporting data.

N/A: Reliable information and data are not available or sufficient to determine increase or decrease of the risk.


**In some countries, there is evidence of improvements after government intervention (e.g. China and India).

Source: The Evolution of the Nature and Scale of DFS Consumer Risks, CGAP, 2022
Implications for women’s economic empowerment
Women’s financial inclusion can be a pathway to women’s economic empowerment

• DFS help consumers save, borrow, and receive remittances – reducing negative coping mechanisms.

• One study found that women who received a microfinance loan on their mobile money account experienced 15% higher business profits and 11% higher levels of business capital (Riley 2019).

• In Mexico, when the Oportunidades program (which targets poor female heads of households) switched its payment system from cash to electronic disbursements, remittance reception frequency increased and participation in informal saving decreased. The change also reduced the use of negative coping strategies such as reduced food consumption (Masino and Niño-Zarazúa 2014).
CGAP research on the evolution of DFS consumer risks: low-income women are more likely to be exposed

CGAP has identified **66 risks** and grouped them **into four broad risk types** and **two cross-cutting risks**.

<table>
<thead>
<tr>
<th>Four broad risk types</th>
<th>FRAUD</th>
<th>DATA MISUSE</th>
<th>LACK OF TRANSPARENCY</th>
<th>INADEQUATE REDRESS MECHANISMS</th>
</tr>
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<tbody>
<tr>
<td>Example:</td>
<td>Example:</td>
<td>Example:</td>
<td>Example:</td>
<td></td>
</tr>
<tr>
<td>• Ponzi schemes</td>
<td>• Algorithmic bias</td>
<td>• Complex user interface</td>
<td>• Social norms/fewer female agents</td>
<td></td>
</tr>
</tbody>
</table>

- **Women are more likely to suffer losses in a Ponzi scheme, according to one study in China.**
- **Due to skewed data, women are more likely to experience algorithmic discrimination.**
- **More women have access to smart phones, but few have appropriate digital skills to read contract terms and pricing information.**
- **E.g., women may fail to complain about DFS issues when they find a male agent.**

**AGENT-RELATED RISKS**

- Agent fraud – E.g., female customers are more likely to suffer misconduct, according to evidence from Ghana.

**NETWORK DOWNTIME**

- Due to lower digital and literacy skills, women are more likely to engage in risky customer behavior e.g leaving phone with other people, including agents, when the network is down.

*Source: The Evolution of the Nature and Scale of DFS Consumer Risks, CGAP, 2022*
Social norms and agent misconduct pose challenges for women

<table>
<thead>
<tr>
<th>Country</th>
<th>Proportion of Female Agents</th>
<th>Proportion of Male Agents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>37%</td>
<td>63%</td>
</tr>
<tr>
<td>Tanzania</td>
<td>47%</td>
<td>53%</td>
</tr>
<tr>
<td>India</td>
<td>91%</td>
<td>9%</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0%</td>
<td>100%</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>1%</td>
<td>99%</td>
</tr>
<tr>
<td>Nigeria</td>
<td>78%</td>
<td>22%</td>
</tr>
</tbody>
</table>


Source: The Evolution of the Nature and Scale of DFS Consumer Risks, CGAP, 2022

- **Social norms**: In many countries, social norms discourage women from engaging freely with male agents, preventing them from asking questions about product features.
  - In Bangladesh, the IFC found that 52% of women expressed a clear preference for female agents despite a 99% chance of finding male agents.

- **Agent misconduct**: In Ghana, based on a census of the mobile money market across 166 low-income communities, female agents are 37% more likely to overcharge both male and female clients.
Women are targets of fraudulent schemes and online abuse

Anecdotal evidence reveals that women are more likely to experience social shaming and higher losses in Ponzi schemes:

• **Female DFS users may be asked to provide “naked collateral”:** In 2016 and 2017, media reports in China indicated that female students were told to submit images of themselves naked or performing lewd acts as collateral for app-based digital loans. The lenders then threatened to post the photos on social media if the women failed to repay their debt.

• **Female Ponzi investors are more susceptible to investor affinity:** A 2021 study in China found that female investors who are introduced into a Ponzi scheme by other female investors are more likely to suffer losses when the scheme –whether digital or not –collapses.

Source: The Evolution of the Nature and Scale of DFS Consumer Risks, CGAP, 2022
Women could be more exposed to DFS risk due to low digital finance literacy

Source: The Evolution of the Nature and Scale of DFS Consumer Risks, CGAP, 2022
Women experience higher DFS risks—what does CGAP’s latest research in Côte d’Ivoire show?

Women are more likely to:

- Face difficulties **navigating** a DFS menu (25% v 17%)
- Have issues **understanding** a DFS offer (22% v 18%)
- Lose money following a scam (16% v 12%)
- **Not contact** the provider when there is a problem (73% v 63%)
- **Not know** how to contact the provider (16% v 11%)
- Have an **agent** not act on a complaint (20% v 11%)

*We also found that female customers do not necessarily prefer female agents

Source: CGAP survey on DFS risks in Côte d’Ivoire (n=1045), 2022. People who have used DFS with an agent (n=340)
Thank you

To learn more, please visit
www.cgap.org
PANEL DISCUSSION

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**WRAP UP AND ANNOUNCEMENTS**

**Participant Poll**

**Call for Member Spotlights**
Want to feature your activity in a future USAID WEE CoP monthly communication?
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3/30/2023
Email the USAID WEE CoP with questions at: fundcop@banyanglobalgita.com