About the FI2020 Roadmap Working Groups

What will it take to achieve a state of full financial inclusion? In 2011, the Center for Financial Inclusion asked this question in a global survey, and over 300 practitioners gave their perspectives on the key opportunities and obstacles to financial inclusion.

Based on the responses, the Center identified five priority focus areas that are key to achieving financial inclusion, which have been used as the basis for a broad consultative process toward a Roadmap to Full Financial Inclusion. Over the course of 2012 and 2013, this process engaged dozens of experts and industry participants in developing an action-oriented blueprint for reaching new and underserved markets. The five focus areas are:

- **Addressing Customer Needs**, chaired by the Consultative Group to Assist the Poor (CGAP), focuses on deepening our understanding of client needs and translating that knowledge into practice while expanding the range of financial services available to underserved markets.
- **Technology**, chaired by Visa, analyzes the potential of new technology-intensive channels to reach new customers, lower operating costs, increase security, and diversify financial products available to low-income clients.
- **Financial Capability**, chaired by Citi, focuses on empowering clients to know their rights as consumers, and have the skills, attitudes, aspirations and confidence to exercise those rights.
- **Client Protection**, chaired by the Smart Campaign, outlines steps to deepen the implementation of client protection measures for the benefit of consumers and stability of markets.
- **Credit Reporting**, chaired by the International Finance Corporation (IFC), promotes extending credit reporting systems in order to expand access for new clients while managing risk for financial institutions.

Each of the five working groups has crafted a roadmap that asks: What is the vision for this topic? What stands in the way of achieving the vision and where are the greatest opportunities? What are the enabling actions and corresponding actors who can advance the vision?

The Main Idea

| With an enormous influx of inexperienced and vulnerable customers at stake, attention to consumer protection is needed now more than ever before. We can build on the strong consensus about the principles of financial consumer protection. | The responsibility to protect consumers is shared by financial service providers, regulators and consumers themselves. | Providers should make client protection a part of the core identity of the banking profession. Providers need to be proactive in applying shared standards and policing their own industry. | Consumers will not be effectively protected without effective regulation. Yet, in many countries, client protection regulation is nascent or weak. There is an urgent need for major investments in effective client protection systems within the decade. | A promising opportunity exists to empower customers to protect themselves, through financial capability building, consumer organizations and means such as publication of complaints data. |
I. Introduction

This paper is part of Financial Inclusion 2020 and is a guide for all stakeholders on how to work towards a state of financial inclusion where clients are protected and have quality options available. As access to financial services expands to more currently excluded people at the base of the economic pyramid, bringing in enormous numbers of first-time clients, any vision for client protection must take into account the inevitability of forces that can trigger an incidence of harm to users.

On the client side, these forces include tendencies, demonstrated through behavioral research, for people to misestimate their capacity to use financial services, to over-value the present relative to the future or to make decisions on impulse. On the provider side, while competition can be a powerful driver for increasing the value and quality of services, it can also have perverse effects, such as the incentive to sell aggressively or to disguise true costs. Information and power imbalances between providers and clients can allow these forces to result in poor outcomes for clients.

Client protection cannot eliminate these forces. It can, however, reduce power and information imbalances that enable harm, by providing incentives or requirements for responsible behavior. A vision for client protection in a state of financial inclusion means that incentives for poor behavior are offset by an environment that gives consumers rights and protections.

This will require providers to act responsibly, policymakers to implement enforceable and practical laws and regulations, and clients to be financially capable.

II. Vision

From the Client’s Perspective

Financial inclusion with client protection will occur when all clients can affirm the following five statements:

• I have a choice of quality and affordable financial services.
• I can get information I need and understand it to make an informed decision.
• I have confidence in my provider, am treated with respect and am not discriminated against.
• I understand the risks involved in using financial services and believe they are offset by the benefits I gain.
• I know my rights and where to complain when problems arise.

What Has to Be in Place? Roles of the Three Major Actors

Full inclusion with client protection requires the interaction of three groups to create a safe and healthy client environment: providers (who follow client protection principles), supervisors (who effectively implement practical and protective laws and rules), and clients (who understand their rights and...

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1 While we recognize that shades of meaning exist, within this document the terms client, customer and consumer are used interchangeably.
responsibilities). What follows in this section is a brief description of the actions and status of these three groups when the vision for client protection is realized.

1. Providers Act Responsibly
The core of client protection is the behavior of providers in their product offerings and interaction with clients. Under full inclusion with client protection, all providers of financial services to the poor (both mainstream and alternative) implement a widely accepted set of financial client protection principles. They approach clients as if guided by a Hippocratic Oath to do no harm and act as follows:

- Provide products that are safe, understandable and relevant for the clients. (For example, they guard against over-indebtedness.)
- Price services responsibly to be affordable while sustaining the provider.
- Incentivize personnel in alignment with preventing over-indebtedness and treating clients ethically and respectfully.
- Communicate clearly with all clients, regardless of disability or special characteristics, and provide full information to allow for informed decisions.
- Install security to prevent identity theft and misuse of data.
- Follow prudent standards to safeguard clients’ savings.
- Offer accessible and responsive complaint resolution processes.
- Use client interactions to reinforce their financial capability.
- Maintain access to a financial infrastructure that supports client protection (i.e., credit bureaus, payment systems and deposit insurance systems).

In this vision of inclusion with client protection, general principles are translated into practice in the form of recognized standards. Such standards are thoroughly integrated into the operations of providers. Commitment to client protection is embedded among all personnel, from board members to frontline staff.

Providers also contribute to client protection by acting collectively. Industry bodies and investor groups establish, promote and monitor norms, standards and codes of conduct. They work constructively with regulators to apportion responsibility for upholding standards.

2. Regulatory Environment Covers All Providers and Is Effective
A competitive market brings benefits to clients in the form of improvement of products and services, as well as competitive pressure for lower prices. Accordingly, competition furthers the overall aim of consumer protection to benefit clients. We envision that specific client protection efforts will be set in a general market framework that promotes competition. At the same time, overly burdensome regulation can encourage shadow banking while unregulated competition can trigger client protection problems.

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2 See Annex 1 for a cross-listing of client protection principles articulated by various parties.
Enlightened market regulators will seek a balance that allows competition among all firms governed in an orderly manner. In our ideal vision:

- Supervisors have the political support to implement and enforce regulations after first consulting with industry and consumers on what is reasonable and useful.
- All providers of financial services, whether prudently regulated or not, are covered.
- Regulators make their best efforts to monitor and mitigate abuse by fraudsters and promoters of pyramids and other illegal schemes, in light of the widespread risks.
- Regulators also address abuse by third parties (e.g., caregivers or guardians), as well as fraudsters, in light of the widespread vulnerability of certain population segments to such risks.
- Regulation is proportionate to the setting, nature and extent of problems observed in the market, and the capacities of both regulators and service providers. Regulation is not overly restrictive, uses common sense and does not impose an undue financial burden on providers.
- Regulation is informed by dialogue with providers and clients, while avoiding “capture” by industry interests.
- Regulators have the means to catch and control rogue players to maintain confidence in the financial system. They also address abuse by third parties (e.g., caregivers, guardians) as well as fraudsters, in light of the widespread vulnerability by certain population segments to such risks.
- Regulators ensure that recourse, dispute and debt resolution mechanisms are available to clients, beyond those offered by individual providers.
- Well-designed deposit and/or insurance guarantee schemes protect small depositors and policy holders while keeping institutions responsible for their actions. Well-functioning credit reporting mechanisms exist.

3. Clients Have Rights as well as Means to Protect Themselves
Effective client protection requires that clients have some degree of financial capability. In this vision, clients:

- Understand enough about the use of financial products and services to be able to make informed choices. They know where to get the information to make such choices.
- Understand their rights and responsibilities as consumers and where to turn if they encounter problems.
- These financial capabilities exist at a basic level even among the most vulnerable client groups, such as those with low literacy, the very poor, and the disabled or dependent.
- To protect the gains they have made, clients have developed ways to raise their voices to protect their interests in the marketplace, making client protection demand-driven.
- At the same time, information needed to protect clients is freely available through multiple channels. There is widespread understanding of and support for client protection among the general public, opinion leaders and media.
III. Current Situation

At present, this vision is not a reality in any country, although progress has been accelerating around the world. This section notes some of the most important barriers to client protection for each of the three major actors.

1. Providers Do Not Always Act Responsibly
In most ways, providers benefit when their clients benefit, especially in the longer term. However, the alignment of interests is imperfect. Some poor practices may provide a competitive advantage, especially in the short term (e.g., provision of too-large loans, non-transparent pricing, or high-pressure sales tactics), and some environments are insufficiently competitive.

Providers display a wide range of attitudes about protecting clients. There are socially motivated providers who will take action once they become aware of problems, and there are enlightened providers who take a long-term view regarding client relationships and their reputation. At the other extreme are fast-buck providers and outright fraudsters. Most providers are somewhere in the middle and will behave according to the incentives and rules they face. In practice, few providers prioritize client protection principles in the absence of regulation.

The perception that consumer protections only add costs and detract from revenues may discourage providers from embracing client protection. Providers often see client protection as a regulatory responsibility, which promotes a compliance-based response (i.e., fulfill the letter of the law, and resist more stringent regulation). Providers may also display complacency about their client protection practices.

Many providers to clients at the base of the pyramid simply do not know how to implement client protection principles. This speaks to the absence in many contexts of explicit norms and standards, as well as to weaknesses or competing priorities among industry-supporting bodies.

Vulnerable groups such as youth, the elderly and persons with disabilities are more exposed to the risk of financial abuses from family, friends, guardians, caregivers and fraudsters. From the consumer’s perspective, protection from fraud can be among the most important client protection issues. Providers are often well positioned to help identify and prevent such abuses.

2. Regulatory Gaps
Traditionally, most financial sector regulators have not explicitly addressed client protection and market conduct issues, as their mandate focuses on prudential regulation for financial system stability. This is changing in many countries, particularly

The current regulatory environment is often designed to “protect” youth, for example through “age of majority rules.” However, such rules can be a barrier to youth access. Accordingly, extending current protection regimes may in fact consolidate rules that exclude youth and instead, a more nuanced view should be considered.

– Timothy Nourse, President, Making Cents International
following the 2008 global financial crisis. Nevertheless, historical antecedents continue to shape laws and regulatory institutions, with the result that financial services client protection regulation often faces a confused or incomplete legal and regulatory mandate. Consequently, financial sector supervisors often lack the powers needed to effectively protect consumers. In larger and more developed countries, multiple agencies often have overlapping or unclear jurisdiction, while in many of the least developed countries, a single financial regulator still gives little regulatory attention to consumer protection. In many countries, those protections that exist do not apply to all types of providers. Practical challenges, such as the cost of supervision and the lack of supervisory capacity, create roadblocks to progress, as does the lack of a focal advocacy group or single coordinating champion for consumer protection in a country.

At a global level, there is little information about the status of client protection by country, in part because there are no recognized standards for measuring it. The roles of the standard-setting bodies in this area are not clearly defined, and there are few examples of effective, prudent market-conduct supervision of services aimed at low-income clients. The political economy of client protection is often challenging and can run the gamut from regulators “captured” by industry to politicians “out to get” industry. More generally, a shortage of sufficient political will to make client protection a priority can be an issue.

3. Clients’ Voices Are Often Missing
In addition to the educational and experiential differences that make many clients vulnerable to abuse, clients often have difficulty advocating for themselves and recognizing that they have financial rights due to information imbalances. This is especially true for poor, illiterate and/or rural clients who may be appreciative of getting access for the first time – regardless of quality. Clients are rarely organized or represented in ways that allow their collective voice to be heard. Consumer groups are thinly stretched in many developing countries, are often focused on physical products, and are only recently starting to develop capabilities to address financial services.
IV. Recommendations

In 2011, partly at the urging of consumer groups, G20 leaders endorsed high-level principles on financial consumer protection and called for work to support the principles. In 2012, the World Bank developed comprehensive guidance for regulators on good practices, and in 2013, the Smart Campaign, a microfinance-focused client protection effort, introduced a third-party certification program. These actions are reinforced by policy efforts in many developing (e.g., Rwanda, Peru and the Philippines) and developed nations (e.g., the United Kingdom, the United States and South Africa) that are creating or refreshing national strategies for consumer protection and financial capability. With an increasing number of initiatives, the global stage is set for progress on financial client protection.
However, a great deal of ground is left to cover, and in many countries, the journey is only starting. Success requires the three main groups of actors to commit to do their part. We envision a massive campaign to build political and stakeholder will and capacity to implement client protection within the decade.

The following recommendations are divided into four key action areas for achieving client protection: build provider capacity and commitment to implement; improve regulation and market environment; empower clients; and additional actions to build political will.

**BUILD PROVIDER CAPACITY AND COMMITMENT TO IMPLEMENT**

Providers must take active responsibility for implementing client protection, both as individual firms and collectively as an industry. We recommend that financial services providers and their support organizations take the following steps:

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<th>1. Embrace Client Protection as a Core Part of the Financial Services Profession</th>
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<td>Developing a culture of client protection inside provider organizations requires actions motivated both by client and employee loyalty. Employees like to work for responsible organizations; global and national rankings and awards can provide incentives and clear step-by-step guides can show the way. Courses taught by associations and training programs for banking, insurance and microfinance can also play an important role.</td>
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<td><em>Action Point:</em> A corollary of this effort could be a “Financial Consumer Bill of Rights” for clients based on the client protection principles (detailed in Appendix 1).</td>
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<th>2. Drive Client Loyalty by Implementing Client Protection Standards</th>
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<td>Broadly accepted principles must be translated into specific standards of responsible practice that are seen as client loyalty-building. Industry bodies are important focal points for standard-setting, and it is up to every financial service provider to integrate accepted standards into operations, including through policies, marketing, staff training and/or reward systems.</td>
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3. Promote Credible Certification and Self-Regulation

Provider groups should develop certification programs and/or self-regulatory systems in associations, governed by sustainable certifying bodies, to provide third-party opinions of compliance with client protection principles and to improve practices while bridging the gap with formal regulation. This is especially important in jurisdictions without strong regulation. Ensure that certification becomes a trusted tool for microfinance and mainstream investors and even clients.

4. Develop Systems to Spot Abuse of Vulnerable Clients by Third Parties

Train staff on fraud or exploitation warning signals. Implement electronic fraud detection systems to recognize unusual patterns of behavior (such as those already in place for credit card companies).

**IMPROVE REGULATION AND MARKET ENVIRONMENT**

The single most important focus for improving client protection is the implementation of effective client protection regulations and supervision by financial services authorities in every country.

5. Make it a Global Commitment

We call on the global community to adopt as a high-level public goal the implementation of standards for financial client protection in every country by 2020. Individual nations can publically commit to their particular intentions in banking via the Maya Declaration sponsored by the Alliance for Financial Inclusion (AFI) and insurance with the International Association of Insurance Supervisors (IAIS).
6. Implement National Client Protection Regulatory Frameworks

Every country should implement a regulatory framework based on globally accepted principles (see Appendix 1). Characteristics of good frameworks are:

- Adapted to national contexts, emerging technologies, client needs, and legal, regulatory and institutional frameworks, following the concept of proportionate regulation.
- Cover all providers of financial services.
- Based on evidence identifying the most important problems and what works to protect clients.
- Developed in dialogue with financial service providers and consumers.
- Minimize costs of compliance to avoid restricting the availability of services while contributing to genuine protection.
- Includes deposit and insurance guarantee schemes structured in line with the Core Principles for Effective Deposit Insurance Systems developed by the Basel Committee on Banking Supervision and International Association of Deposit Insurers (IADI).
- Backed by effective supervisors with legal enforcement bodies that have real teeth and that allow for an appeal process by providers.

7. Ensure That Clients Have Access to Effective Recourse Systems

Every country needs to have in place redress systems or ombudsman that specialize in financial services and has jurisdictional power to act. These systems must be widely available, free to use and known to clients and must have a means to assist clients with abuses coming from third parties. Regulators should also monitor the market by proactively looking for patterns that suggest scams and schemes.
8. Build National Capacity to Design and Implement Client Protection Regulation

Global and national support organizations should allocate resources at a significantly increased pace to aid development of regulatory and supervisory capacity for client protection. While current efforts, such as those of AFI and the Toronto Centre are of high quality, their scale and coverage is insufficient. All supervisors who need training should receive it by 2016. The types of supporting resources needed include:

- Guidance and toolkits relating to each of the client protection principles.
- Case studies of how client protection has been implemented.
- Model legislation, manuals and monitoring and evaluation frameworks.
- Technical assistance for assessing the current status of a country’s consumer protection environment, developing legislation, policy and regulations and setting up enforcement mechanisms. (Example: expansion of the World Bank’s financial consumer protection assessment process.)
- Exchanges among regulators for peer-learning.

9. Ensure Client Protection Keeps Pace With Technological Developments

Regulators must keep pace with changes and ensure that new technologies are allowed to develop and emerge while closely monitoring new developments and their usage to ensure clients rights and data are protected. As demonstrated with online commerce, once clients feel they have protections and recourse, the mass market of consumers are more likely to adopt innovations.
**EMPOWER CLIENTS**

While lower-income clients can be effective advocates for themselves, a range of actors can assist them in raising their voices. Some such efforts are among the most innovative possibilities in the realm of client protection. With that in mind, we must:

10. **Develop Means for Clients to Raise Their Own Voices**

Providers should incorporate the client voice at the board and senior management levels. Client protection problems might be minimized if decision-makers regularly hear clients’ perspectives. This could be accomplished through such means as client ownership (as with credit unions) or use of regular client opinion research and can be supported by an ombudsman’s publishing of complaints and positive data that clients can use to choose providers and that incentivize providers to become more client-responsive.

*Action Point:* An especially promising area is to create forums for clients to voice kudos and complaints regarding financial services providers (e.g., a “Trip Advisor” for financial services).

11. **Develop Client Financial Capability Through Multiple Channels**

In this context, the focus is to ensure that consumer rights and responsibilities receive emphasis throughout financial education programming, whether provided by government, independent organizations or providers.

12. **Continue Base of the Pyramid Client Research to Inform Client Protection Policymaking and Program Design**

Particularly important are:

- Research that reveals client views and concerns,
- Behavioral research,
- Development of national-level client protection indicators.

The latter holds particular promise for crafting effective interventions.
ADDITIONAL ACTIONS TO BUILD POLITICAL WILL

13. Articulate the Benefits of Client Protection for Clients, Providers and General Economic Stability

Building business and social cases for client protection requires metrics for monitoring client protection effectiveness, micro-level research on client outcomes, data on the costs and, potentially, revenue growth via increased loyalty for providers that implement the standards. Supervisors can use consumer protection as a forward-looking indicator of risk.

14. Build the Capacity of Media and Consumer Advocacy Groups to Focus on Financial Consumer Protection, and Ensure that Political Leaders Hear All Voices Before Enacting Legislation

Consumer groups, together with fair media educated on financial issues, can generate political will to improve client protection.

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Annex 2. Initiatives We Endorse

**Alliance for Financial Inclusion (AFI)** – As a convener of financial inclusion regulators and sponsor of the Maya Declaration, AFI has a unique role in building regulatory commitment to and knowledge about appropriate client protection regulation. AFI’s working group on consumer empowerment and market conduct is a focal point for these efforts.

**Consumers International** – An independent, global campaigning voice for consumers with over 220 member organizations in 115 countries, CI began a campaign on financial consumer protection in 2011 and helped move the G20 to action.

**Consultative Group to Assist the Poor (CGAP)** – A World Bank resource for donors, policymakers and providers for financial inclusion, CGAP is an implementing partner of the GPFI and a thought leader on consumer protection, among other areas of financial inclusion.

**Global Partnership for Financial Inclusion (GPFI)** – An inclusive platform for all G20 countries, interested non-G20 countries and other relevant stakeholders to carry forward work on financial inclusion, including implementation of the Financial Inclusion Action Plan, GPFI was endorsed at the G20 Summit in South Korea.

**Countries Leading in Consumer Protection** – Perfection in consumer protection is not an attainable goal, but the idea should help us design a core set of protections. High-income countries including Canada, the United Kingdom, Australia, the Netherlands and the European Union as a whole have some strong consumer protections in place. Lower- and middle-income countries with reasonably strong consumer protection for financial services include South Africa, Mexico, Malaysia, Peru and Armenia.

**InfoNET** – A global network of 54 national-level financial sector ombudsman from 36 countries, InfoNET provides training and support to its members and emerging market ombudsmen.

**Microfinance Transparency** – Promotes microfinance pricing transparency by publishing pricing data and promoting public disclosure and education.

**Organization for Economic Co-operation and Development** – A forum for governments to develop policies that will improve the economic and social well-being of people around the world, the OECD developed 9 principles on financial consumer protection that were endorsed by the G20. The organization is also playing a lead role in establishing the International Financial Consumer Protection Network (FinCoNet).

**Smart Campaign** – A global effort to unite microfinance leaders to embed a set of client protection principles into the fabric of their industry, housed at the Center for Financial Inclusion.

**Treating Clients Fairly** – A principle of the UK Financial Conduct Authority whereby financial service providers must demonstrate that they are consistently delivering fair outcomes to consumers, this approach requires senior management to take responsibility for ensuring that financial service providers establish an appropriate culture backed by operating norms applicable to staff at all levels.
World Bank – The World Bank has established a community of consumer protection and financial literacy practices, including a comprehensive 2010 survey on the status of consumer protection regulatory frameworks and 39 good practices for financial consumer protection at a national level.

This working paper was created through a series of consultations with an experts’ working group on Client Protection. We wish to express our gratitude to the Client Protection Working Group members for their active participation in group discussions and thoughtful contributions.

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The Center for Financial Inclusion accepts responsibility for the views expressed in this paper. Those views do not necessarily reflect the views of individual working group members or their organizations.

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