Digital credit for mobile money providers

A guide to addressing the risks associated with digital credit services

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GSMA Mobile Money

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Introduction

The extensive uptake of mobile money in recent years, and the subsequent creation of transactional data, has spurred access to short-term loans for individuals who, lacking a credit history, had been previously excluded from formal credit markets. By offering instant loans and advances, these products can help individuals and MSMEs (micro, small and medium-sized enterprises) to meet their household needs, handle financial shocks and capitalise on business opportunities.[1] The remote nature and speed of these services makes them a safer, more convenient option compared to informal lending sources, and underscores their potential to scale.[2]

Despite these clear benefits, digitally delivered credit can also introduce new risks and challenges for mobile money providers (MMPs) and consumers. Industry associations, regulators and consumer protection advocates have raised concerns that digital credit products may be leading consumers to over-indebtedness, harming both consumers' credit histories and lenders' revenues.[3] The scalability and speed of digital credit, combined with the limited financial literacy of many borrowers, can lead to high-risk credit booms, as witnessed in other sectors.[4] It is incumbent upon industry participants to proactively address the risks associated with digital credit to prevent an unstable credit situation that could undermine consumer trust and damage the industry's reputation.

This briefing note details the different responsibilities of MMPs who participate in digital credit offerings, and provides guidance on addressing the risks that might arise with such services.

WHAT IS DIGITAL CREDIT?*

For the purpose of this briefing note, digital credit is defined as a service that meets the following criteria:

- The service allows consumers to access a line of credit or advance that they agree to repay within a specified period of time.
- The service must allow underserved people to apply for such credit and repay it using a mobile application, USSD or STK. Airtime credit products or services that offer mobile phones as another channel to access a traditional credit product are not included.
- Loan decisions are instant and automated, and can leverage traditional sources of data, such as demographic profiles and credit bureau data, as well as non-traditional digital data, such as telecommunications data (voice, airtime); financial transaction data (mobile money usage); and social media data.
- Applications, repayments processes and queries are managed remotely with no need for face-to-face interaction between borrowers and lenders.

* Various organisations have put forward definitions of "digital credit" including CGAP and CFI.

1. AFI. (2015). Digitally delivered credit Policy Guidance Note and results from regulators survey.
2. According to Findex data, of the nearly 44 per cent of all adults in developing countries who reported borrowing money in 2017, fewer than 10 per cent borrowed formally. In addition, there is a $4.9 trillion financing gap for MSMEs in emerging markets and developing economies that reflects the growing demand for credit. Sources: CGAP. (2019). Bridging the credit gap for Micro and Small Enterprises through digitally enabled financing models; World Bank. (2017). Global Findex Database.
3. AFI. (2015). Digitally delivered credit Policy Guidance Note and results from regulators survey.
4. Credit booms are episodes of rapid credit growth, but when expansion is too fast, such booms may lead to vulnerabilities which are often associated with financial crises. Source: Reinhart, Carmen M. and Rogoff, Kenneth S. (2009). The Aftermath of Financial Crises. American Economic Review.

Digital credit models for MMPs

There are various ways in which MMPs can participate in digital credit services. Figure 1 presents some of the models which, for the purpose of this briefing note, have been assembled into two groups.[5] *Group 1* comprises the business models whereby MMPs partner with a licensed lending institution, and *Group 2* comprises the business models whereby MMPs take part only as a channel through which the service is offered. This distinction is important because, as will be shown later, MMPs' responsibilities differ according to the nature of the business model.

Figure 1

Business models for MMPs to participate in digital credit services

Classification	Group 1 Partnership model	Group 2 Mobile money rails model			
	Partnership with prudential institutions	Fintech lenders	Prudential institutions	Payday lenders	Peer-to-peer lending hubs
Business models	MMPs partner with licensed lenders, e.g. banks, microfinance institutions (MFIs), savings and credit co-operatives (SACCOs), etc.	Fintech lenders distribute loans directly via mobile money	Licensed institutions lend directly via mobile money	Fintech lenders distribute payroll loans via mobile money	Platforms that connect borrowers with lenders and distribute loans via mobile money
Group characteristics	• Loans are typically tied to savings accounts • Both institutions are licenced • Integration happens through APIs and/ or access to mobile money menu	• Fintech firms and/or banking institutions develop lending platforms/ applications that are delivered via mobile. • In markets where credit is not regulated, licensing is not required, as long as these firms do not take deposits from the public. • The service is not integrated into the mobile money menu, but is available through USSD and apps.			

5. These two groups were defined only to outline how the responsibilities of MMPs can differ in the various models to offer digital credit services. For another grouping example, see the survey conducted by AFI CEMC Working Group on the different business models operational in their member countries. (2015). Digitally delivered credit Policy Guidance Note and results from regulators survey.

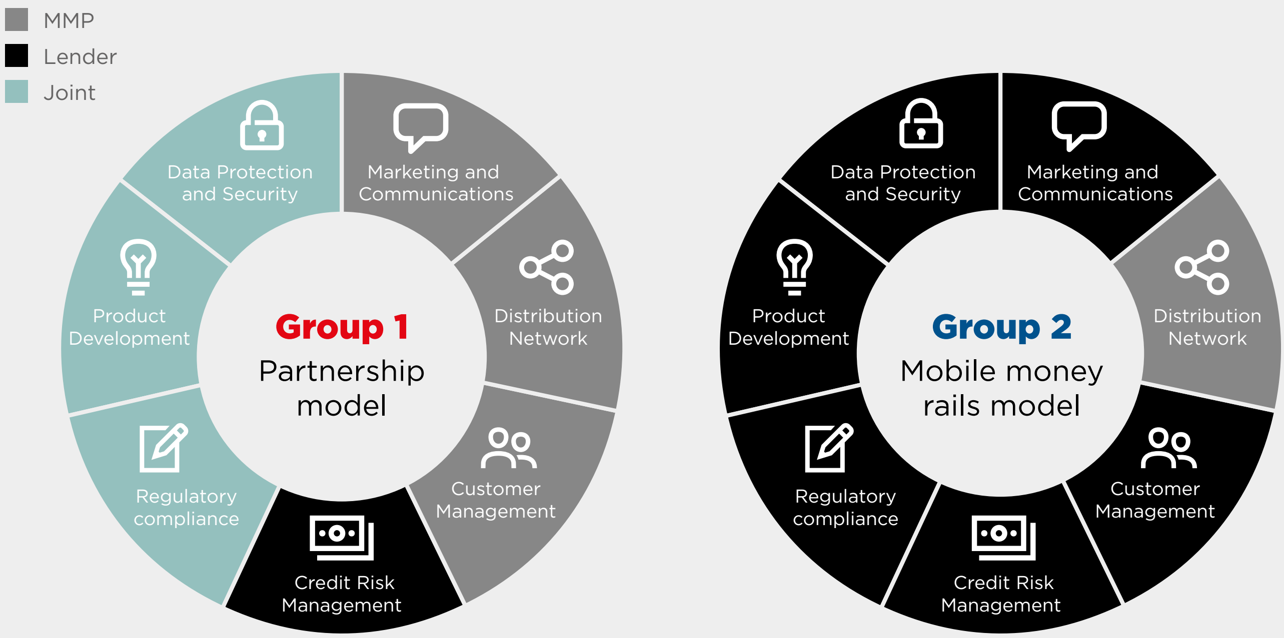
Digital credit responsibilities of MMPs

The roles and responsibilities of MMPs in digital credit offerings vary according to the type of business model they choose to participate in (see Figure 1). Figure 2 follows the business model grouping outlined previously to show how these responsibilities can differ for MMPs and other stakeholders. *In Group 2* (the mobile money rails model), MMPs effectively only act as a channel, meaning that the scope of their responsibilities is limited to the distribution network.

On the other hand, in *Group 1* (Partnerships model), MMPs have a broader set of responsibilities, some of which they share with the lending partner. These include, but are not limited to, customer management, marketing and communication, product development, data protection and regulatory compliance. Outlining these differences is crucial to understanding the extent to which MMPs can take action to mitigate the risks associated with digital credit services.

Figure 2

Responsibilities of MMPs in Groups 1 and 2



Examples Group 1:
M-Shwari, KCB M-PESA, Vodacom M-Pawa

Examples Group 2:
Jumo, Branch, Tala, OKash

The underlying causes of digital credit risks

Addressing the risks associated with digital credit offerings requires identifying their underlying causes, and determining which fall under the remit of MMPs. Figure 3 provides an overview of some causes behind these risks, and highlights those that MMPs participating in *Group 1* (the partnership model) can address individually and in collaboration with partner lenders, regulators and consumers.

Figure 3

Causes of digital credit risks and responsibilities for mitigation in the partnership model

Underlying causes of digital credit risks	Stakeholder responsible for addressing the cause			
	Lender	MMPs	Regulator	Consumers
Unclear and/or inaccessible Terms and Conditions (T&Cs)	✓	✓		
Lack of transparency on fees	✓	✓		
Excessively streamlined loan application processes	✓	✓		
Lack of consumer awareness on how data is collected, stored, used and shared	✓	✓	✓	
Insufficient procedures for obtaining informed consent on data collection and sharing	✓	✓	✓	
Insufficient data protection procedures	✓	✓	✓	
Intensive marketing	✓	✓		
Insufficient customer support procedures	✓	✓		
Consumers' limited financial and digital literacy	✓	✓	✓	✓
Consumers having multiple loans with different providers			✓	✓
Inappropriate collection practices	✓	✓		
Insufficient credit assessment processes	✓			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Potential digital credit risks for MMPs

Credit deterioration can pose significant risks to consumers and to the wider economy, such as over-indebtedness, higher inflation, lower employment and slower economic growth.[6] In addition to these potential implications, the scalability and speed of digital credit, combined with the limited financial literacy of many digital borrowers, can also generate risks for MMPs who participate in these services. While MMPs' exposure to these risks will vary depending on the role they play in the service offering, the systemic nature of unconstrained credit expansions can impact all MMPs, regardless of the model they participate in.

The risks for MMPs include:

- **Loss of consumer trust:** If consumers associate the MMPs' brand with a negative digital credit experience, they can turn away from other services offered by the same provider, thereby increasing churn. The risks of losing consumer trust are greater for MMPs who leverage their existing brand name to offer a digital credit service.

- **Damage to industry reputation:** If MMPs as a whole are perceived as being associated with over-indebtedness, the mobile money industry's collective reputation is at risk from the perspective of both regulators and consumers.

- **Excessive regulation:** If the mobile money industry is perceived as having limited willingness to address existing digital credit risks, excessive regulation can be implemented which may limit the potential for future product innovation and growth.

- **Negative impact on revenue:** A deteriorating digital credit environment will negatively impact the revenues and profits of those MMPs involved.

6. Claessens, Stijn and Kose, M. Ayhan. 2013. Financial Crises: Explanations, Types, and Implications. IMF Working Paper.

Recommendations for MMPs in the partnership model

This section presents recommendations for MMPs participating in *Group 1* (the partnership model) to address the underlying causes of digital credit risks.[7] It is important to note that while some of these measures may require joint implementation with partner lenders, all actions listed fall under the remit of MMPs to some degree. The recommendations have been classified according to the responsibilities of MMPs outlined in Figure 2.

Product development

The ease, speed, and accessibility with which digital credit is meant to operate can result in an excessively streamlined and automated customer journey that leads borrowers to make overly quick and unconsidered decisions. Recommendations to address this include:

1. Introduce checks to the user journey to maximise consumers' exposure to information that allows them to make informed decisions and understand their repayment obligations. This can include:
    - Introducing 'friction' to the customer journey by showing a breakdown of individual interest payments, final total repayment amounts and any late payment penalties before the digital credit loan is authorised;[8]
    - Implementing changes to the menu design such as "opt-out" framing and screens that summarise key information in a clear and simple manner;[9]
    - Framing critical information such as loan terms, in large, bold fonts; and introducing free-form fields that consumers must complete themselves; and
    - Using interactive voice response (IVR) in the main local languages to help consumers navigate the user journey.
2. Test and adopt measures to help consumers understand T&Cs and their obligations, especially consumers with lower levels of literacy and digital skills; and ensure that these are accessible on USSD and SMS channels. Some useful measures include:
    - Avoiding using unclear terms, complicated sentences or jargon in T&Cs to ensure comprehension among all consumers, including those with limited literacy;
    - Making T&Cs available in all official languages and in local languages when relevant;

7. These recommendations only apply to MMPs who participate in the partnership model. See box in page 12 for recommendations for MMPs in Group 2 (mobile money rails model).
8. Research by CGAP has shown that borrowers make better loan decisions when costs are made salient. See: Mazer, Rafe and McKee, Kate. (2017). Consumer Protection in Digital Credit. CGAP.
9. Mazer, Rafe and McKee, Kate. (2017). Consumer Protection in Digital Credit. CGAP.

- Providing summarised and simplified versions of key documents, including T&Cs and loan fees, at key access points e.g. agent locations; and
- Ensuring that T&Cs and loan fees can be easily accessed by consumers at any time, for example, by saving them in a specific section of the USSD menu or sending a summarised version via SMS.[10]

3. Develop a joint product management approach that enables collaboration among all relevant departments (e.g. compliance, fraud management, etc.) to avoid loopholes in the design and to facilitate maintenance and evolution of the product.
4. Incorporate consumer feedback in improvements to the product.

Marketing and Communications

Unclear, incomplete or complicated fees, charges and terms can encourage consumers to make uninformed decisions. This is compounded by 'push' marketing strategies and unsolicited offers, which can entice consumers to engage in high-risk borrowing behaviours.[11] Recommendations for addressing this include:

1. Provide consumers with interest payments, final total repayment amounts and any late payment penalties in multiple formats, such as brochures and via SMS.
2. Give consumers sufficient notice before any changes to fees or T&Cs come into effect.
3. Adopt responsible advertising and marketing standards and ensure that loan fees, terms and conditions are clear and understandable.[12]
4. Ensure all promotional information is accessible and easy to understand by taking into account the visual limitations of feature phones and the lower levels of literacy and digital skills among many customers.
5. Collaborate with the lender to send reminders to consumers regarding collections deadlines and the consequences of non-repayment.[13]
6. Invest in joint financial education campaigns with the lender and the regulator to build consumers' awareness of their responsibilities as borrowers and the long-term value of timely repayment.[14]

Customer support

The lack of face-to-face contact in digital credit services can bring further challenges in supporting consumers and handling complaint resolution. Recommendations to address this include:

1. Ensure that consumer support channels are available during the application process.
2. Develop clear responsibilities for recourse procedures and ensure all partners are able to redirect consumers to the appropriate channel, e.g. a call centre, which is appropriately staffed.[15]
3. Develop and communicate a complaints and resolution policy with information on how to submit complaints via multiple channels.
4. Work closely with the lender to ensure the collection procedures that the lender implements refrain from any sort of harassment or violation of privacy.[16]

10. It is important to note that an SMS channel poses a limitation in terms of the character limit per SMS, and that sending multiple SMS can have an adverse impact on customer experience.
11. Research has shown that unsolicited credit offers may trigger behavioural biases that can entice consumers to borrow without a clear purpose for the loans, and/or encourage consumers to borrow more to grow their loan limits, which can gradually affect repayment and portfolio quality. Source: Mazer, R. and Fiorillo, A. (2015). Digital Credit: Consumer Protection for M-Shwari and M-Pawa Users. CGAP.
12. For example, opt-in marketing where consumers have to send a request to the lender receive product information. Source: Mazer, Rafe and McKee, Kate. (2017). Consumer Protection in Digital Credit. CGAP.
13. Mazer, Rafe., Vancel, James and Keyman Ariana. (2016). Finding "Win-Win" in Digitally-Delivered Consumer Credit. CGAP. It is also important to notify consumers when automatic sweeping of payments takes place from their mobile money wallets.
14. See also: G20/OECD. (2019). INFE Report on ensuring financial education and consumer protection for all in the digital age.
15. When Safaricom launched M-Shwari in partnership with CBA, a dedicated complaints team was created within Safaricom's call center to handle all inquiries about the product. This team coordinates on the back-end with CBA staff so that consumers only need to contact Safaricom to resolve issues. Source: Mazer, Rafe and Fiorillo, Alexandra. (2015). Digital Credit: Consumer Protection for M-Shwari and M-Pawa Users. CGAP.
16 Owens, J. (2018). The Role of the Digital Credit Industry in Addressing Consumer Protection. Digital Financial Services for Development.

Data protection and security

The use of personal data for credit assessments can create significant challenges in protecting the confidentiality and security of customers' information. Recommendations to address this include:

1. Develop a data collection and handling policy which states the types of data which will be collected and under which circumstances it may be shared.
2. Clearly inform consumers of data that will be collected and how it will be used, prior to its collection, and receive their explicitly consent for this.
3. Implement clear timeframes for the retention of data and securely destroy it after it is used for credit assessments.
4. Encrypt data when in transportation and when stored, and regularly test and monitor such systems.
5. Secure personal data through authentication and authorisation systems so that it can only be accessed by employees, partners and third parties with proper justification.
6. Conduct due diligence of potential partners and relevant third parties such as contractors, to ensure they have proper information security systems and policies.
7. Regularly engage with partners to better identify security vulnerabilities and define how these will be addressed.

Regulation and compliance

The scalability and speed of digital credit services calls for closer collaboration and coordination among regulators, MMPs, lenders, consumer protection agencies, and other relevant entities at the regional and international level. Recommendations to achieve this include:

1. Follow guidelines and standards for digital credit, such as the Smart Campaign's Consumer Protection Standards for Digital Credit.[17]
2. Adhere to international best practices for consumer protection and risk management in mobile money, such as the GSMA Mobile Money Certification and Guidelines on Mobile Money Data Protection.[18]
3. Participate in industry forums and specialist groups to share best practices and to stay abreast of new developments around digital credit.

Recommendations for MMPs in group 2 (mobile money rails model)

There are two main considerations for MMPs in *Group 2* to bear in mind:

1. Develop awareness of the business practices of the organisations using their platform as a distribution channel.
2. Ensure proper mechanisms are in place so that any personal or financial information exchanged between lenders and consumers is not shared through the MMP's operating systems.

17. The set of standards developed by the Smart Campaign were designed for all digital financial service providers, not only MMPs. See also the 'Matrix of Responsible Digital Credit Standards, Codes of Conduct and Principles' in Mazer, Rafe and McKee, Kate. (2017). Consumer Protection in Digital Credit. CGAP.
18. International organisations like the World Bank, the Consultative Group to Assist the Poor (CGAP), the Alliance for Financial Inclusion (AFI), and the G20, have proposed various consumer protection principles which apply to online lenders.


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Conclusion

Digital credit demonstrates that mobile money infrastructure can be leveraged to offer life-enhancing financial services to those who were previously excluded from the formal credit market. By helping low-income households and small businesses meet their short-term liquidity needs, digital credit services can increase financial access, build resilience and drive employment and investment.[20] However, the potential risks that these services can create for consumers, the mobile money industry and wider economies underscore the need for MMPs to actively manage the underlying causes that fall under their remit.

The recommendations outlined in this briefing note are a starting point for MMPs to improve their operations, guide their partners and engage other stakeholders in mitigating existing and emerging risks. The mobile money industry is continuously raising the bar for service standards and striving to balance innovation with consumer trust. Expanding the mobile money value proposition through digital credit presents an important opportunity for MMPs to demonstrate that safeguarding consumers' trust remains at the heart of the industry as it continues to evolve in new directions.

20. AFI. (2015). Digitally delivered credit Policy Guidance Note and results from regulators survey.

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