GSMA

Financial consumer protection standards and frameworks for digital financial services

Landscape report

GSMA

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1 Introduction

While financial consumer protection is a long-standing public policy objective, financial authorities have become progressively concerned about it in response to the global financial crisis, which represented a wake-up call and highlighted the relevance of protecting consumers and ensuring a fair and responsible treatment for them in the financial marketplace.

Since then, international organisations have developed guiding principles and policy recommendations to promote comprehensive and effective frameworks for financial consumer protection, and financial authorities have increasingly adopted and prioritised financial consumer protection as a critical supervisory area.

This report analyses the relevance of the prominent frameworks and practical approaches for financial consumer protection to inform the development of the GSMA agenda on this subject and contribute to a safer digital financial services ecosystem with a higher degree of consumer protection. Specifically, Section 2 defines the basic concepts and foundations to understand the financial consumer protection frameworks. Section 3 then compares international organisations' financial consumer protection frameworks and highlights their convergences and differences. Section 4 describes the main risks to consumers, examining how emerging trends in the financial marketplace are reshaping not only the market structure but also the manifestation of consumer risks. Section 5 concludes and identifies key areas for further development in the GSMA Code of Conduct and Mobile Money Certification Criteria based on the previous sections.

2 Basic concepts and foundations

2.1 Financial consumer protection

The term 'financial consumer protection' refers to the framework of laws, regulations, and institutional arrangements that safeguard consumers by ensuring fair and responsible treatment for them in the financial marketplace. It plays a critical role in building and maintaining trust in the formal financial system and preserving financial stability by ensuring that financial providers operate responsibly and are accountable for their market conduct with regards to consumers' harm. It also helps financial inclusion result in equitable growth by enabling consumers to access and use suitable products that contribute to their well-being and resilience.

Financial consumer protection legal and regulatory frameworks should encompass, at least, the following dimensions:[1]

- Disclosure and transparency
- Fair treatment and responsible business conduct
- Data protection and privacy
- Effective dispute resolution

First, disclosure and transparency aim to provide consumers with the necessary information to understand the characteristics, benefits, risks and terms of financial products and services. Second, fair treatment and responsible business conduct refers to the promotion of business practices that work in the best interest of consumers. Third, data protection and privacy shall guarantee that consumers' personal data is collected and used only for the purposes permitted by law and authorised by consumers. And fourth, effective dispute resolution is meant to provide redress to those consumers who have been harmed.

Figure 0

Four dimensions of financial consumer protection

Source: World Bank (2017)

Fair treatment and responsible business conduct

Disclosure and transparency

Financial consumer protection

Data protection and privacy

Effective dispute resolution

1 World Bank. (2017). Good Practices for Financial Consumer Protection.

2.2 Market conduct supervision

Another relevant concept which is closely related to financial consumer protection is 'market conduct supervision'. One of the gaps in financial consumer protection in the run-up to the global financial crisis was the lack of rules and supervisory activities intended to protect consumers from improper conduct by financial institutions. The term 'conduct' refers to how financial institutions and their representatives conduct or run their businesses.[2] To protect consumers, financial authorities should require firms, from the Board of Directors to the point of sale and beyond, to put the well-being of consumers at the heart of how they run their businesses, promoting proper behaviours, attitudes, and incentives. From an aggregate perspective, the collective conduct from financial institutions is often called 'market conduct'.

Effective market conduct supervision is key to protect consumers from unfair practices and to ensure providers conduct their business in the best interest of consumers. In some jurisdictions, market conduct supervision also encompasses other supervisory areas such as competition and market integrity (this is the case, for instance, of the Financial Conduct Authority in the United Kingdom and the Central Bank of Brazil).[3] In this report, the term 'market conduct' is used regarding specific cases when the authority's mandate refers explicitly to market conduct or when the authority's financial consumer protection unit is defined as a market conduct supervision unit.

2 Toronto Centre. (2016). Conduct: Prevention, Detection and Deterrence of Abuses by Financial Institutions.
3 World Bank. (2018). From Spreadsheets to Suptech: Technology Solutions for Market Conduct Supervision.

2.3 Dominant financial supervisory models

In most countries, multiple agencies share responsibilities for the supervision of the financial sector on prudential and consumer protection aspects. The financial supervisory model is the way in which the supervisory functions are assigned to the responsible authorities within a given jurisdiction. To approach strategically and incrementally the digital transformation of financial consumer protection supervision, both from a national and from a cross-border perspective, it is important to assimilate the characteristics of the different supervisory models, how they affect the fulfilment of the prudential and consumer protection mandates, and the challenges that the different models present – e.g., for data sharing between supervisors in different agencies and even countries, and the development of supervisory approaches to facilitate cross-border and cross-sector cooperation amongst national authorities.

When these mandates are shared by multiple agencies, an institutional arrangement must be in place to promote interinstitutional coordination, enable data sharing, and avoid overlapping functions and regulatory or supervisory gaps. When a single authority is responsible for both mandates, the supervisory approach must ensure that prudential and consumer protection supervision are managed separately to mitigate conflicts between mandates, such as prudential dominance – which is not uncommon in financial supervisory authorities that have the traditional prudential supervision mandate and also a consumer protection mandate and the former is prioritised, creating a dominance of the prudential aspects in the distribution of resources and in the decision-making process.

The financial supervisory models can be grouped into three broad categories based on the rationale applied to organise the supervisory functions:[4]

The sectoral model

This model organises the supervisory functions based on the sector or the business activity in which the supervised institutions are engaged (e.g., banking, insurance, or securities). In jurisdictions with a sectoral model, the legal framework establishes a separate specialised authority for each sector. Under this approach, the relevant authority regulates and supervises all activities undertaken by those institutions operating in the supervised sector, encompassing both prudential and consumer protection aspects. Although the global financial crisis boosted a shift towards more integrated supervisory models, especially in advanced economies, the sectoral model has been the prevailing model of financial supervision.[5] Nonetheless, the sectoral model has become increasingly difficult to operate because of the disruptions in the financial services value chain that have enabled the integration of financial products with other financial and non-financial products, exacerbating interdependencies across multiple sectors and between financial institutions and non-financial institutions, as reflected in the partnerships between incumbents and technological firms.

4 Godwin, Howse & Ramsay. (2017). A Jurisdictional Comparison of the Twin Peaks Model of Financial Regulation.
5 BIS. (2018). Financial supervisory architecture: what has changed after the crisis?

The integrated model

The integrated or 'super-regulator' model attempts to address the problems associated with the sectoral model by creating a single authority responsible for both prudential and consumer protection mandates across the whole financial sector, including the securities market. This model has been mostly adopted in advanced economies, such as Austria, Germany, Japan, and Singapore, but also in emerging market economies such as Colombia. This model was championed by the United Kingdom prior to its move to a twin-peaks model in the early 2010s. One of the perceived problems with this model is that prudential supervision and consumer protection supervision require fundamentally different approaches and cultures and there may be doubt about whether a single agency would, in practice, be able to effectively encompass these to the necessary degree. For instance, conflicts of interest may emerge between both mandates, creating difficulties for internal coordination and collaboration. These conflicts can be worsened when one mandate, typically prudential supervision, has a dominant position within the agency. It is important to mention that this inherent conflict between prudential and consumer protection mandates also occurs in the sectoral model.

In many low- and middle-income countries, capacity and resource constraints require a flexible and practical approach in developing consumer protection and market conduct capacity and oversight. While a twin-peaks model has the advantage of clearly defined objectives and mandates of the respective agencies, an integrated or partially integrated model might be more cost-effective in these countries. In Peru, one of the international benchmarks regarding financial consumer protection, financial supervision is organised following a quasi-integrated supervisory model where there is one authority responsible for the securities market's prudential and consumer protection supervision (Superintendencia del Mercado de Valores) and one super-regulator responsible for the banking, insurance and private pensions funds prudential and consumer protection supervision (Superintendencia de Banca, Seguros y AFP (SBS)). In December 2013, the SBS elevated its Consumer Protection Division to Deputy Superintendence, levelling its status with the Prudential Supervision Division and providing legal protection to issue official decisions such as fines. In addition, the consumer protection functions for private pension funds were transferred from the Prudential Supervision Division to the Consumer Protection Division, consolidating all the consumer protection activities within the SBS.

The twin-peaks model

Since it was pioneered in Australia in 1998, the twin-peaks or functional model has been adopted in Canada, the Netherlands, Belgium, New Zealand, the United Kingdom and South Africa, amongst other countries. The twin-peaks model organises financial supervision in accordance with two broad mandates: first, market conduct integrity and consumer protection supervision; and second, prudential supervision and financial system stability. Each objective is pursued by a separate authority, thus lending the name 'twin-peaks' to the model. The twin-peaks model mitigates the risk of one aspect of supervision becoming dominant and avoids the inherent conflict of interest that emerges within a super-regulator. However, the twin-peaks model may create overlapping functions and pose challenges to interinstitutional coordination and collaboration.

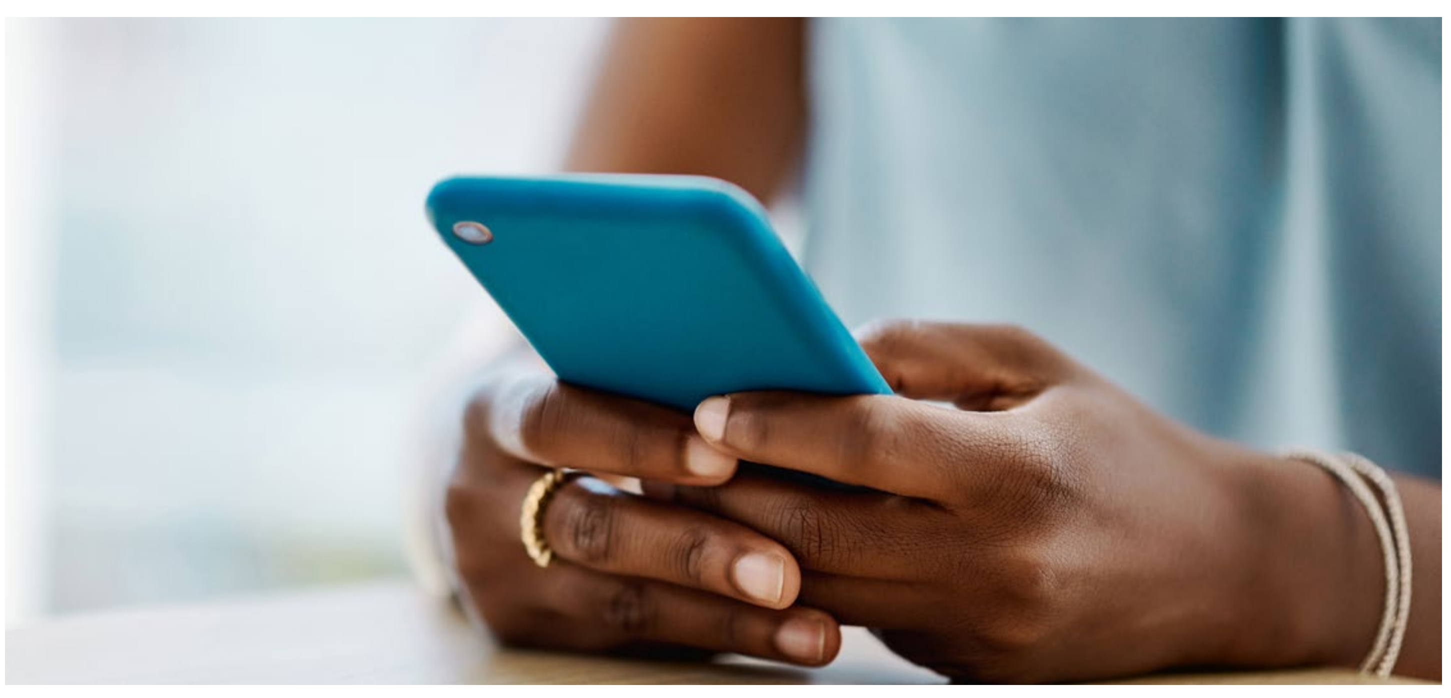
A slight variant of the twin-peaks model is the supervisory model implemented in the United States (US). After the 2008 global financial crisis, the Dodd-Frank Act established the Consumer Financial Protection Bureau (CFPB), a new financial authority to focus directly on consumer protection across all industries in the US financial sector. As a result, the US financial supervisory model has a consumer protection peak and a fragmented prudential peak with multiple state agencies being responsible for this mandate. Until then, financial consumer protection had not been the primary focus of any federal agency, and no agency had effective tools to regulate and supervise financial consumer protection in the whole US market.

3 Frameworks for financial consumer protection

3.1 International guidance and policy recommendations

While financial consumer protection (FCP) is a long-standing public policy objective, financial authorities have become progressively concerned about it since the global financial crisis, which represented a wake-up call and highlighted the relevance of protecting consumers and ensuring a fair and responsible treatment for them in the financial marketplace.[6] In response to the crisis, international organisations – such as the Organisation for Economic Co-operation and Development (OECD), the Bank for International Settlements (BIS), the Financial Stability Board (FSB) and the World Bank – have developed guiding principles and policy recommendations to promote comprehensive and effective frameworks for financial consumer protection.

The international leading standard for FCP is the Recommendation on G20/OECD High-Level Principles on Financial Consumer Protection (2011), which has been endorsed by members of the G20, the OECD, the FSB and the BIS. To support the implementation of the principles, the OECD has developed its Effective Approaches for FCP, which are relevant, practical and evidence-based guidance and examples. In addition, the World Bank has developed its Good Practices for FCP to help policymakers consolidate, complement, and expand upon international principles and guidance.



6 Melecky & Rutledge. (2011). Financial Consumer Protection and the Global Financial Crisis.

3.1.1 G20/OECD High-Level Principles on Financial Consumer Protection

The G20/OECD High-Level Principles (G20 Principles) were initially developed in 2011 by the Task Force on Financial Consumer Protection of the OECD Committee on Financial Markets (OECD FCP Task Force), in close cooperation with the FSB and its Consultative Group, other international organisations and standard-setting bodies, and consumer and industry associations. Many countries, including OECD, G20, BIS and FSB jurisdictions, have voluntarily adopted the G20 Principles.

The G20 Principles set out the foundations for a comprehensive FCP framework (see Figure 1). They are designed and intended to be applicable to any jurisdiction and are cross-sectoral in nature. While the G20 Principles are a high-level standard, the OECD has developed a set of Effective Approaches for FCP, which are relevant, practical, and evidence-based guidance and examples about how to implement the G20 Principles.

The OECD Effective Approaches are based on regulatory and supervisory approaches in use or being tested in different jurisdictions to support national authorities to learn from each other and share insights, and provide a policy toolkit to enhance FCP. In line with market, technological and legal developments, the OECD has progressively updated the Effective Approaches for FCP to consider the increasingly digital environment. The updated version of the approaches is consolidated in the Compendium of Effective Approaches for FCP in the Digital Age (2020). A list of examples of effective approaches from the compendium is detailed in Annex 1.

Since the G20's endorsement and the OECD's adoption of the G20 Principles ten years ago, the size and nature of the consumer financial services market have grown and changed considerably, with new types of financial products, services, and distribution channels. Between 2021 and 2022, the OECD FCP Task Force conducted a review to assess the implementation of the G20 Principles, evaluate their continued importance and relevance, and identify emerging trends, policy developments and approaches that justify revisions to the G20 Principles.

The draft proposed revisions include (1) adding two new principles related to 'Access and Inclusion' and 'Quality Financial Products' to ensure a holistic and comprehensive approach; (2) incorporating cross-cutting themes relating to 'Digitalisation', 'Sustainable Finance' and 'Financial Well-being' which are relevant to all the principles; and (3) incorporating lessons and policy implications arising from the experience of the Covid-19 pandemic as appropriate, for example, including references to vulnerable consumers and financial scams (see Figure 2).

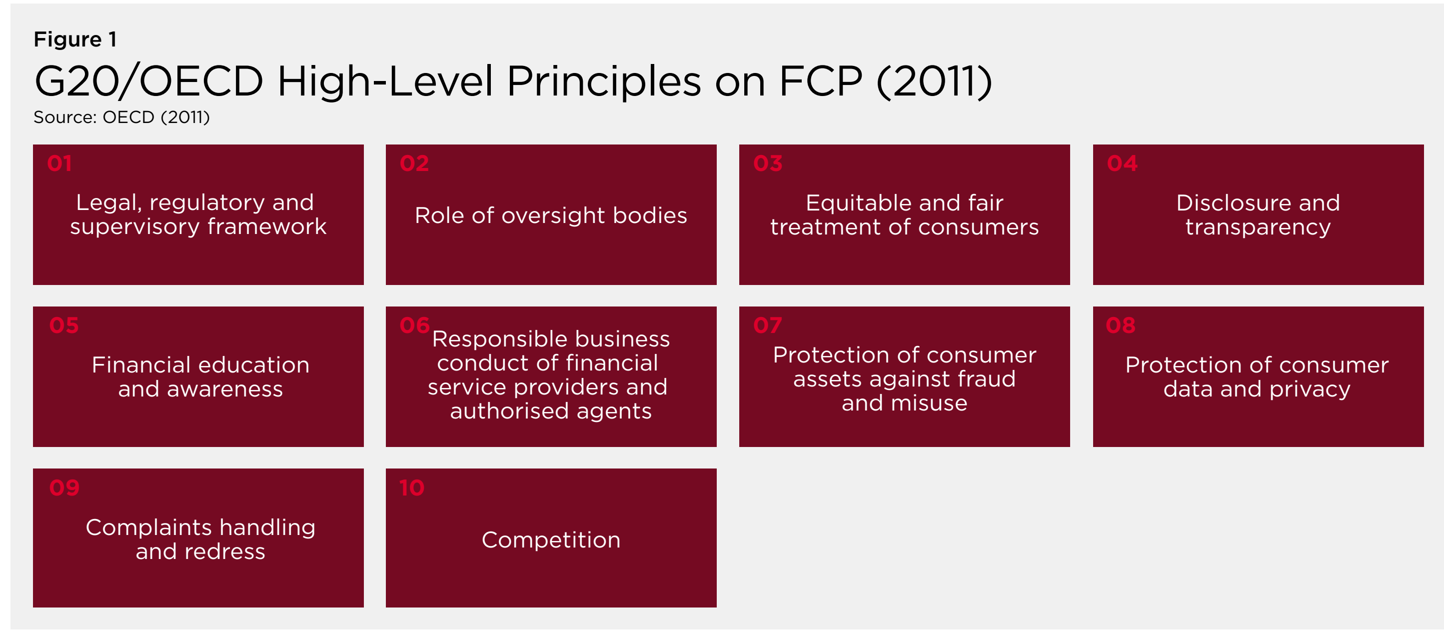


Figure 1

G20/OECD High-Level Principles on FCP (2011)

Source: OECD (2011)

Figure 2

Updated G20/OECD High Level Principles on Financial Consumer Protection

Source: OECD (2022)
Proposed revisions were approved in December 2022

The new Principle 8 on 'Quality financial products' reflects the growing relevance of product governance and oversight arrangements, which is an emerging regulatory approach increasingly adopted by financial authorities. For instance, the European Banking Authority (EBA) issued in 2016 *Guidelines on Product Oversight and Governance Arrangements for Retail Banking Products*, which provides a framework for robust and responsible product design and distribution by manufacturers and distributors. While this approach was partially covered within previous Principle 6 on responsible business conduct, it is more clearly defined and expanded in this revised version of the principles.

3.1.2 World Bank Good Practices for Financial Consumer Protection

The 2nd edition of the World Bank Good Practices (2017) was designed to serve as both a reference and a diagnostic tool for country-level policymakers, regulators, and supervisors. It is divided into five sections dedicated to a specific type of financial activity: retail banking (credit and deposit), insurance, private pensions, securities, and retail payments. Each section is intended to serve as a useful collection of good practices in FCP, drawing on successful approaches seen around the world.

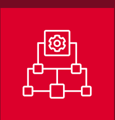
Each good practice describes the key elements that financial authorities should consider, such as the elements to ensure effective disclosure of terms and conditions, or the requirements necessary to ensure that remuneration policies encourage responsible conduct and minimise conflicts of interest. Each good practice is accompanied by explanatory notes that expand on the intent of the good practice, discuss policy considerations, and provide practical guidance and examples of implementation.

The World Bank Good Practices consolidates, complements, and expands upon international principles and guidance through a common set of good practices, covering the most relevant issues that arise throughout the relationship between consumers and providers for a specific type of activity. For each type of activity, good practices are grouped into the following five broad topic areas and their correspondent most relevant issues (see Figure 3), as these areas and issues are applicable across the financial sectors.

Figure 3

The five common broad topic areas and correspondent most relevant issues within the World Bank's framework for FCP

Source: World Bank (2017)

Topic area	Most relevant issues
 **01** Legal, regulatory and supervisory framework	— Legal and regulatory framework — Institutional arrangements and mandates — Supervisory activities and enforcement mechanisms
02 Disclosure and transparency	— Format and manner of disclosure — Disclosure of terms and conditions — Notification of changes in terms and conditions, fees and rates
03 Fair treatment and responsible business conduct	— Unfair terms and conditions — Unfair practices — Product suitability — Customer mobility — Competition and interoperability — Agents — Compensation of staff and agents — Fraud and misuse of customer assets
04 Data protection and privacy	— Lawful collection and usage of customer data — Confidentiality and security of customers' information — Sharing of customer information
05 Dispute resolution mechanisms	— Provider's complaints handling mechanisms — Alternative dispute resolution mechanisms

3.1.3 Comparative analysis between the G20 Principles and World Bank Good Practices

In general terms, the G20 Principles and the World Bank Good Practices are based on the same five FCP key components: (1) a legal, regulatory, and supervisory framework for FCP; (2) disclosure and transparency; (3) fair treatment and responsible business conduct; (4) data protection and privacy; and (5) dispute resolution mechanisms.

The main difference is that the World Bank has consolidated under the 'Fair Treatment and Responsible Business Conduct' component what the G20/OECD has specified in various principles, namely 'Competition', 'Equitable and Fair Treatment', 'Quality Financial Products', 'Conduct and Culture', and 'Protection Against Fraud and Misuse'. It is important to delve into the correspondent relevant issues of World Bank's 'Fair Treatment and Responsible Business Conduct' and match with the G20 Principles to address more specific risks to consumers. Nevertheless, the World Bank common topic areas are broad enough to serve as a taxonomy for FCP key components (see Figure 4).

Another notorious difference is that two of the G20 Principles, namely 'Access and Inclusion' and 'Financial Literacy and Awareness', are outside the scope of the World Bank Good Practices, which is explained by the fact that the World Bank has additionally developed specific guidance for financial inclusion strategies, digital financial inclusion and financial capability.

The World Bank Good Practices are detailed enough to serve as a diagnostic tool and a practical guide to develop comprehensive and effective FCP frameworks for each financial subsector: namely banking, insurance, pensions, securities and payments. Conversely, when adopting the G20 Principles, authorities and providers must review the OECD Effective Approaches to find country-specific examples on how to develop effective FCP frameworks based on the principles.

Figure 4

Matching G20 Principles with World Bank Good Practices

Source: Elaborated by the author

World Bank Good Practices for FCP (2017)

Common topic areas	Relevant issues
01 Legal, regulatory and supervisory framework	— Legal and regulatory framework — Supervision and enforcement
	— Institutional arrangements and mandates
02 Disclosure and transparency	— Format and manner — Disclosure of terms and conditions — Notification of changes
03 Fair treatment and responsible business conduct	— Unfair terms and conditions — Unfair practices
	— Product suitability
	— Customer mobility — Competition and interoperability
	— Agents — Compensation of staff and agents
	— Fraud and misuse of customer assets
04 Data protection and privacy	— Lawful collection and usage — Confidentiality and security — Data-sharing
05 Dispute resolution mechanisms	— Provider's complaints handling mechanisms — Alternative dispute resolution mechanisms

G20/OECD High-Level Principles (2022)

- **01** Legal, Regulatory and Supervisory Framework
- **02** Role of Oversight Bodies
- **03** Access and Inclusion
- **04** Financial Literacy and Awareness
- **05** Competition
- **06** Equitable and Fair Treatment of Consumers, including those vulnerable
- **07** Disclosure and Transparency
- **08** Quality Financial Products
- **09** Responsible Business Conduct and Culture of Financial Services Providers and Intermediaries
- **10** Protection of Consumer Assets Against Fraud, Scams and Misuse
- **11** Protection of Consumer Data and Privacy
- **12** Complaints Handling and Redress

3.2 Financial consumer protection frameworks for emerging economies

Considering the low financial depth in emerging economies, two organisations have worked on FCP frameworks specially tailored to enable financial inclusion: the Alliance for Financial Inclusion (AFI) and the Center for Financial Inclusion at Accion (CFI).

3.2.1 AFI market conduct risk-based supervision framework

The AFI guideline on market conduct risk-based supervision (2016) provides a supervision framework for financial authorities in emerging economies with a FCP mandate and a particular policy focus on the financial inclusion of low-income people. This framework is built on a risk-based approach, traditionally used by prudential supervisors, and describes the policy goals and outcomes that authorities may use to supervise the conduct of providers. It encompasses seven market conduct policy goals which have their correspondent expected outcomes to mitigate consumer risks (see Figure 5).

While dispute resolution is not included as a policy goal, it is considered as an internal control that providers may implement to mitigate consumer risks.

Figure 5

AFI market conduct policy goals and expected outcomes

Source: AFI (2016)

01 Legal environment
- Compliance

02 Transparency and marketing
- Appropriate channels
- Consumers are not misled
- Clear and fair information

03 Inclusive and competitive marketplace
- Product and delivery design
- Product suitability
- Fair penalty schemes
- Customer mobility

04 Suitability
- Suitable advice

05 Due care
- Responsible conduct
- Responsible finance
- Respectful debt collection
- Fair collateral realisation

06 Ethics and professional standards
- Mitigation of conflicts of interest

07 Safety and security
- Liability for losses and misconduct
- Protection of customer funds
- Data protection

3.2.2 CFI financial consumer protection framework for inclusive finance

The CFI Handbook on Consumer Protection for Inclusive Finance (2019) shares experiences and developments of FCP good practices in response to the increasing need for effective FCP frameworks to protect low-income consumers from new and shifting risks, while enabling the benefits of innovation. This handbook develops an FCP framework based on nine principles (see Figure 6) and can serve as a diagnostic tool for authorities to develop or enhance their FCP frameworks to close legal, regulatory, or supervisory gaps. It can also support industry engagement and dialogue with regulators and supervisors by providing concrete and actionable recommendations and fostering collaboration to advance FCP through voluntary standards.

Figure 6

CFI FCP principles and regulatory approaches

Source: CFI (2019)

01 Supervisory authority for FCP
- Authority and jurisdiction
- General and enforcement powers
- Rulemaking

02 General requirements for providers
- Prohibited acts
- Board and senior management oversight

03 Appropriate products design and delivery
- Design, implementation and monitoring
- Suitability and affordability assessments
- Cool-off period
- Fraudulent and mistaken transaction

04 Preventing over-indebtedness
- Creditworthiness assessments
- Mandated credit reporting
- Monitoring systems

05 Transparency
- Disclosure principles
- Publication of fees, rates, terms and conditions
- Standardised calculation methods

06 Responsible pricing
- Pricing procedures
- Permitted fees

07 Fair and respectful treatment of clients
- Client treatment policies and procedures

08 Privacy and security of client data
- Client rights
- Privacy and security of client data
- Disclosure of client data

09 Complaints resolution
- Internal complaints handling
- Supervisory authority response to complaints and queries

3.2.3 Convergence and divergence amongst the AFI, CFI, G20/OECD and World Bank guidance and standards on FCP

The following are the main similarities and differences between the four FCP frameworks:

- There is a consensus about the relevance of developing guidance and recommendations regarding five FCP key components: (1) a legal, regulatory, and supervisory framework for FCP; (2) disclosure and transparency; (3) fair treatment and responsible business conduct; (4) data protection and privacy; and (5) dispute resolution mechanisms.
- In general terms, the G20/OECD and the World Bank provide more detailed guidance on the five FCP components, particularly on how to develop an FCP legal, regulatory, and supervisory framework (see Annex 4).
- Fair treatment and responsible business conduct is the most developed component in the previously analysed FCP frameworks, covering a wide range of specific issues such as product suitability, responsible and fair business practices, customer mobility, competition and interoperability, protection against fraud and misconduct, and mitigation of conflicts of interest.
- The CFI Principles are slightly more focused on credit than on savings and payments. That is reflected in (1) the prioritisation of 'Preventing over-indebtedness' and 'Responsible pricing' (both defined as principles) and (2) the limited attention paid to fraud, circumscribed to an 'Appropriate product design and delivery'.
- While the CFI, G20/OECD and World Bank consider dispute resolution as a key component of their FCP frameworks, the AFI considers dispute resolution as an internal control mechanism within the provider's internal risk management framework.
- While the G20/OECD are including financial inclusion and financial literacy as FCP principles, the AFI, CFI and World Bank, which are more specialised on the subject, consider them as additional policy objectives that go beyond FCP frameworks.

3.3 Financial consumer protection frameworks for inclusive digital finance

Technological developments in the financial sector have created opportunities to serve the billions of people financially excluded with innovative products and services. However, ensuring FCP covers first-time users is critical for financial inclusion to be sustainable. Consequently, frameworks for inclusive digital finance have considered FCP as a core element.

3.3.1 G20 High-Level Principles for digital financial inclusion

The G20 developed its High-Level Principles for Digital Financial Inclusion (2016), from which Principle 5 requires establishing responsible digital financial practices to protect consumers (see Figure 7).

Principle 5 focuses on the following FCP elements to build trust and confidence in digital financial services (DFS):

1. An FCP legal and regulatory framework that addresses risks specific to the digital environment and reflects evidence
2. Protection of customer funds
3. Easy to understand, efficient and free complaints resolution mechanisms that can be operated remotely
4. Transparency and disclosure of terms and fees
5. Periodic statements showing transactions and fees
6. Procedures and responsibility for unauthorised and mistaken transactions and system outages
7. Responsible and fair lending and debt collection practices
8. Data protection mechanisms
9. Anti-discriminatory practices
10. Agents' training.

Figure 7

G20 Principles for digital financial inclusion

Source: G20 (2016)

01	Promote a digital approach to financial inclusion
02	Balance innovation and risk to achieve digital financial inclusion
03	Provide an enabling and proportionate legal and regulatory framework
04	Expand the digital financial services infrastructure ecosystem
05	**Establish responsible digital financial practices to protect consumers**
06	Strengthen digital and financial literacy and awareness
07	Facilitate customer identification for digital financial services
08	Track digital financial inclusion progress

3.3.2 CPMI/World Bank framework for inclusive payments

The Committee on Payments and Markets Infrastructure (CPMI) and the World Bank highlighted five FCP issues in their framework for inclusive payment services.[7]

To promote universal access to and frequent usage of transaction accounts, three critical enablers are foundational to this framework: the financial and ICT infrastructures, the legal and regulatory framework, and the public and private sector commitment. To create an enabling environment for inclusive payment services, the legal and regulatory framework must encompass five key aspects (see Figure 8). One of these key aspects is FCP and transparency, particularly relevant to build trust of first-time DFS users, which is critical to advance financial inclusion. Five issues related to FCP and transparency are highlighted in this framework: (1) transparency of terms, conditions, fees, and customer rights; (2) liability for unauthorised transactions; (3) customer support, recourse, and dispute resolution; (4) privacy of customer transactional and/or personal data; and (5) protection and due process related to the potential seizure of customers' funds.

In 2020, the CPMI and the World Bank revised this framework in the Payment Aspects of Financial Inclusion in the Fintech Era report and identified which fintech developments are relevant to the framework for inclusive payments. Concerns about the use of artificial intelligence (AI) and its potential to ultimately exclude some segments of the population are highlighted.

Figure 8

CPMI/World Bank framework for inclusive payment services

Source: CPMI & World Bank (2016)

7 CPMI & World Bank. (2016). Payment aspects of financial inclusion.

Figure 9

ITU's FCP common themes and key issues for DFS

Source: ITU (2017)

01
Information and transparency

- Transparency of fees
- Key facts or summary documents
- Cooling-off period
- Notifications of changes
- Prohibition of misleading advertisements
- Clear policies on dormant accounts

02
Dispute resolution

- Complaints policies and procedures in place and communicated to consumers
- Multiple recourse channels available to consumers
- Alternative dispute resolutions or external recourse
- Time frame for dispute resolution
- Dedicated, toll-free recourse helpline
- Coordination between financial and telecom authorities
- Oversight of providers' recourse system
- Training of staff and agents

03
Fraud prevention

- DFS providers are licensed and supervised
- Ongoing checks for security systems and processes
- Due diligence of staff and agents
- Providers are responsible for their agents
- Agents' monitoring and training
- Transactions occur in real time
- Consumers are encouraged to report fraudulent activity
- Consumer awareness campaigns

04
Data protection and privacy

- Encryption of data
- Access restriction to consumer data
- Informed consent
- Minimisation of data collection and limitation of retention
- Protection of personal data
- Clear policy on data collection and data sharing

3.3.3 ITU's framework for a digital financial services ecosystem

The International Telecommunications Union (ITU) identified four FCP common themes that authorities must consider to develop an enabling environment for DFS[8] (see Figure 9).

Each common theme develops specific key issues that must be addressed by competent authorities, providers and other DFS ecosystem stakeholders.

8 ITU. (2017). Digital Financial Services: Consumer Experience and Protection.

3.3.4 Convergence and divergence among the inclusive digital finance frameworks and guidance and standards for FCP

The frameworks for inclusive digital finance are mostly focused on five FCP key components (see Figure 10): (1) an FCP legal, regulatory and supervisory framework, (2) disclosure and transparency, (3) fraud prevention and liability for unauthorised transactions, (4) data protection and privacy, (5) and dispute resolution mechanisms.

Concerns about potential discriminatory outcomes from the use of AI are becoming an important focus area for FCP, particularly because of its increasing use for credit scoring.

Figure 10

Matching FCP guidance with inclusive digital finance frameworks

Source: Elaborated by the author

WB FCP common topic areas	G20/OECD High-Level Principles on FCP	G20/OECD High-Level Principles on Digital Financial Inclusion	CPMI/WB FCP issues for inclusive payments	ITU-T FCP common themes for a DFS ecosystem
01 Legal, Regulatory and Supervisory Framework	**01** Legal, Regulatory and Supervisory Framework **02** Role of Oversight Bodies	Legal and Regulatory Framework		
02 Disclosure and Transparency	**07** Disclosure and Transparency	Transparency and disclosure Period account statements	Transparency of terms, conditions, fees and customer rights	Information and transparency
03 Fair Treatment and Responsible Business Conduct	**05** Competition **08** Quality Financial Products			
	10 Protection of Consumer Assets Against Fraud, Scams and Misuse	Protection of customer funds Responsibility for unauthorised and mistaken transactions and system outages	Protection of customer funds Liability for unauthorised transactions	Fraud prevention
	09 Responsible Business Conduct and Culture of Providers and Representatives	Agents' training Responsible and fair lending and debt collection practices		
	06 Equitable and Fair Treatment of Consumers	Anti-discriminatory practices		
04 Data Protection and Privacy	**11** Protection of Consumer Data and Privacy	Data protection mechanisms	Privacy of customer transactional and personal data	Data protection and privacy
05 Dispute Resolution Mechanisms	**12** Complaints Handling and Redress	Complaints resolution mechanisms	Customer support, recourse and dispute resolution	Dispute resolution

3.4 Customer outcomes-based frameworks

FCP frameworks are becoming slightly more focused on customer outcomes and providers' performance. The Consultative Group to Assist the Poor (CGAP) is currently working on a Customer Outcomes-Based Approach to Consumer Protection (2022) which builds on its Customer Outcomes to Strive For framework (2020). The underlying rationale is that preventing harm is not enough; financial services must contribute to consumers' financial health and empower them to capture opportunities and build resilience (see Figure 11).

Figure 11

Expected customer outcomes from an FCP framework

Source: CGAP (2022)

Figure 12

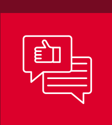
CGAP 5 intermediate outcomes and outcomes statements

Source: CGAP (2022)[9]

Meeting the customer's purpose

"The right choice of services helps me minimize risks and feel more in control of my financial situation. It helps me balance flexibility and discipline in managing my finances even when my circumstances change, and I am in a better position to meet my short-term financial needs and support my longer-term financial goals."

CUSTOMER OUTCOMES



Suitability

OUTCOMES STATEMENTS

"I have access to quality services that are affordable and appropriate to my preferences and situation, and receive advice and guidance appropriate to my financial situation."

Choice

"I can make an informed choice among a range of products, services, and FSPs based on appropriate and sufficient information and advice that is provided in a transparent, non-costly, and easy-to-understand way."

Fairness and respect

"I am treated with respect throughout my interactions with the FSP, even if my situation changes, and I can count on the FSP to pay due regard to my interests."

Voice

"I can communicate with the FSP through a channel that I can easily access and have my problems quickly resolved with minimal cost to me."

Safety and security

"My money and information are kept safe. The FSP respects my privacy and gives me control over my data."

CGAP's Outcomes-Based Approach for FCP focuses on the experiences and results of a customer's access to and use of financial services, which are consequences of a provider's products, delivery, conduct, and practices. The approach starts by defining good intermediate customer outcomes, which suggests that services are designed and delivered to give the customer what was promised, what they need, and what they can fairly expect, thereby "meeting the customer's purpose" (see Figure 12).

Intermediate outcomes are then translated into business practices, policies and regulations, and designed to be accompanied by metrics that can track outcomes. For instance, CGAP, the Financial Sector Conduct Authority of South Africa, and five providers partnered to run a pilot exercise focused on building a framework to measure customer outcomes for FCP supervision.

9 CGAP. (2022). Customer Outcomes-Based Approach to Consumer Protection: A Guide to Measuring Outcomes.

For this pilot, CGAP adopted a collaborative approach, engaging with stakeholders towards developing and prioritising a set of quantitative indicators to be tested. From an initial set of 156 indicators, 20 were prioritised to be tested in South Africa (see Figure 13). They were organised into five objectives recommended for measuring good customer outcomes.

By putting special emphasis on customer segmentation, the prioritised indicators empowered the FSCA and financial institutions to verify whether good customer outcomes have been attained for different customer segments, including low-income women, and to focus on the business practices, policies and regulations, and design of financial products that can be improved upon.

In this way, financial authorities have an opportunity to incentivise financial institutions to become more customer-centric and track and monitor customer outcomes by developing regulatory reporting requirements and enforcement mechanisms, preferably in a collaborative manner with industry stakeholders.

Figure 13

List of 20 indicators tested by CGAP and the FSCA

Source: CGAP (2022)[10]

OBJECTIVE 1

Understanding customer segments and involvement

Snapshot overview of the customer landscape within the FSP allows for context to guide the interpretation of subsequent indicators.

SUITABILITY

1 Segment inflows and outflows
2 Financial vulnerability
3 Cross-sell
4 Charges in relation to customer income

OBJECTIVE 2

Optimising product delivery and longevity

Customers will retain and use products over time if the products – and the way they are sold – are suitable based on their needs.

SUITABILITY

5 Not-taken-up ratios
6 Dormancy and lapse ratios
7 Tenure of products
8 Performance indicators for sales consultants

OBJECTIVE 3

Minimising erosion of income and benefits

Customers expect products to work as intended and to derive their benefits, whilst being protected from loss of funds.

FAIRNESS AND RESPECT

11 Penalty fees and losses incurred by customers
12 Contacting customers, risk/loss alerts
16 Unclaimed balances and benefits
17 Claims ratio, payouts, maturity and renewals

OBJECTIVE 4

Lowering cost to serve without sacrificing service

Customers are guided to use lower-cost channels offered with a level of care and service as equally favourable as that for other channels.

CHOICE

9 Rate of non-face-to-face confirmation of consents

FAIRNESS AND RESPECT

13 Staff incentives for digital help and education
14 Cost to customer, waiting time
15 Cost to customer, digital

OBJECTIVE 5

Listening and responding to customers

When customers need to raise questions, communicate service failures or leave, the FSP should have the operational ability and intent to help.

CHOICE

10 Switching and closing costs

VOICE

18 Cost to customer, using voice channels
19 Root causes of Top 10 complaints
20 Resolution, routing and escalation of complaints

10 CGAP. (2022). Customer Outcomes-Based Approach to Consumer Protection: A Guide to Measuring Outcomes.

4 Financial technologies and consumer risks

Traditionally, in the finance world, the definition of consumer risks has referred to those events arising from the interaction between consumers and financial services providers that could harm the consumer. In the digital age, this concept seems to be constantly evolving and expanding.

It is now commonly recognised that consumer risks emerge from the conduct of multiple players: financial institutions, their agents, platform operators, data processors, and other third parties involved in the provision of financial services. From the perspective of the consumer, harm may manifest as inconvenience, poor service, loss of time, loss of data integrity, discrimination, pecuniary loss, or financial hardship, which may have consequences on people's personal safety and physical and mental health.

More recently, the definition of FCP has come to include the risks related to embedded finance, which is the integration of financial services like lending, payment processing or insurance into nonfinancial businesses' infrastructures without the need to redirect to traditional financial institutions. The disaggregation (vertical disintegration) and the incorporation of new players into financial product value chains is a clear example of a market dynamic that requires a redefinition of consumer risks and reconfiguration of the responsibilities of the players involved on the supply side and of the mandate of the supervisory agency mandated to protect financial consumers, the methodologies adopted, and the technologies deployed.

In this section, three elements are considered to analyse the influence of financial technologies on consumer risks: (1) emerging market trends; (2) types of consumer risk; and (3) types of consumer harm. In Annex 5, a consumer risks assessment framework includes 45 emerging market trends with their corresponding consumer risks and potential harm to consumers.

"When the financial services value chain is spread across different players with, for example, one holding the customer relationship, another holding the customer funds, a third providing data analytics and deciding which customers get services, and a fourth providing technology infrastructure, it is more difficult to pin down responsibility for mishaps or misdeeds and to ensure that consumers' interests are protected.

Moreover, when customer interactions are handled by entities that are not directly subject to extant consumer protection regulations, any shortcomings such as unfair practices may not surface through traditional supervision focused on the regulated entity. This can lead to undetected consumer protection risks. This becomes even more challenging when services are provided across borders."

— Bank for International Settlements[11]

11 BIS. (2021). Fintech and the digital transformation of financial services: implications for market structure and public policy.

4.1 Emerging market trends

Financial supervisors should analyse market trends that could translate into changes in the interaction between consumers and the multiple players in the financial ecosystem or even into changes in the market structure. While market trends boosted by technological innovations are of most concern to financial authorities nowadays, it is important to consider that some trends may rely on other factors, such as business strategies and the macroeconomic environment. For instance, in certain jurisdictions, financial institutions are increasingly adopting cross-selling strategies that bundle credit and insurance products to increase their profit margins.[12] Another example of non-technological market trends is the increasing cost of borrowing due to monetary tightening adopted by central banks to ease rising inflation.

The following are some of the most relevant market trends in the financial markets.

4.1.1 Increasing access to finance and speed of transactions

Digital innovation has brought major improvements to traditional financial services through fundamental drivers such as connectivity, low-cost computing, and data storage. Internet and mobile technology have rapidly increased the ability to generate and transfer data from 5.3bn people subscribed to mobile services worldwide.[13] Increased connectivity and computing power have enabled the generation and harnessing of a variety of data from an increasing number of activities producing a higher volume of data at an even greater velocity. As a result, more consumers access and use financial services digitally and execute transactions almost immediately.

4.1.2 Increasing availability of data

The emergence of big data has had a catalytic effect on a wide array of traditional financial services, also introducing new approaches to credit analysis, risk management, and customer services by drawing its informational source from mobile phones, payment networks, and social media. In that respect, consumers may not be aware of how and what information about them is collected or used, and common methods of notification and consent may not help. The innovative use of data thus introduced some complex data privacy concerns, such as informed consent and legitimate uses, and from which arose the policy trade-offs between privacy and consumer protection on one hand and financial stability and market integrity on the other.

12 EIOPA. (2022). Credit Protection Insurance (CPI) sold via banks.
13 GSMA. (2022). The Mobile Economy 2022.

4.1.3 Increasing reliance on artificial intelligence and machine learning models

The use of artificial intelligence (AI) and machine learning (ML) models plays a pivotal role in the digital transformation of financial service providers. More specifically, such models are increasingly used to process new and old datasets, launch targeted marketing campaigns, or offer more targeted products and services to consumers. For instance, AI and ML models are used in the lending business, predominantly in the area of credit scoring, and in the insurance business, predominantly in the areas of pricing and claims handling. The challenges that emerge from the use of AI and ML are related to the explainability of the models, as well as their auditability and reliability.

4.1.4 Increasing reliance on third parties

Technological innovations and digitisation are increasing the extent and ways by which financial providers rely on third parties within the value chain. Indeed, financial services providers are increasingly relying on technology and data provided by third parties for their digital transformation – a trend that has accelerated in response to the Covid-19 pandemic. For instance, outsourcing to cloud infrastructure to replace in-house data centres could produce cost savings for financial providers. Moreover, financial providers are engaging external technology providers for big data- and AI/ML-related services.

As a result, there is a growing interaction between financial services providers, technology providers, and big techs through a variety of cooperation models (e.g., partnerships, joint ventures, outsourcing and sub-outsourcing, mergers and acquisitions) not only to complement their competencies but also to co-innovate and provide new financial products or services. Some technology providers partner with multiple financial providers, and value chains originated, managed and controlled by technology firms or other third parties are emerging.

4.1.5 Development of platform-based business models

Digital platforms are increasingly used to market and distribute financial products and services, sometimes bundling different financial and non-financial services and products from a range of service providers. Consumers are increasingly demanding access to financial services 24/7 and from different digital devices through a single access point. This behavioural shift towards frequenting online financial services has been accelerated by the Covid-19 pandemic and is expected to become structural.

In addition, consumers are increasingly seeking personalised products and experiences and with this a broader range of tailored financial products and services. Digital platforms can help incumbent financial institutions provide consumers with access to financial products and services through almost any digital device and at any time, and better address the specific needs and expectations of consumers. However, fintech firms and big techs are increasingly developing platforms to provide directly regulated financial services and compete with incumbent financial institutions, a phenomenon that requires monitoring.

The European Supervisory Authority (ESA) uses four core elements to differentiate between platform types (Table 1).

Whether a platform must be supervised in terms of financial consumer protection may depend mostly on who the platform operator is and what the scope of the operations is. If the platform operator is not a regulated financial provider, the authorities may face challenges to supervise its operations. Furthermore, if the platform can be used for the conclusion of contracts, the authorities must ensure that the platform complies with the regulatory requirements on disclosure and transparency

Table 1

ESA four core elements

Source: ESA 2022

Core elements	Options
Platform operator	Regulated financial provider, technology firm, or any other third party.
Firms using the platform	One or several regulated financial providers.
Types of financial products and services offered	Single or multiple types of financial products or services or bundled financial and non-financial products and services.
Scope of the operations	The platform can be used for marketing and/or conclusion of contracts for products and services.

4.1.6 Big techs providing financial services

Big techs are providing financial services in parallel to other business lines, and this incorporation of financial services (in all financial sectors – banking and payments, insurance, and investment) within their own ecosystems and value propositions has been observed across several jurisdictions and is accelerating. These companies have been concentrating their activities mainly in North America, China, India and Latin America. In these regions, they have brought to the market new value propositions and are mostly active as direct competitors to incumbent financial institutions.

Depending on their strategic positioning and partnerships with regulated financial institutions, big techs can opt for two options to operate as financial providers. First, big techs can choose to introduce financial products and services outside traditional financial and banking networks. Big techs usually adopt this approach in emerging markets and developing economies. For instance, in China, Tencent is active accordingly in retail payments via Tenpay, credit and current account provision via WeBank, asset management via LiCaitong and insurance via Shuidihuzhu, all launched outside the traditional finance system, exploiting market niches.[14] Second, big techs can also operate overlays on top of, or work in collaboration with, existing financial institutions, most notably banks. For instance, Amazon opted for the latter when expanding into financial services with Amazon Pay (payments), Amazon Lending and Amazon Protect (insurance). Other notable examples include Google Pay and Apple Pay.

4.1.7 Increasing cross-border payments

The provision of financial services through digital channels facilitates cross-border transactions. Cross-border financial activity has become essential for global commerce and finance, and for migrants and forcibly displaced persons sending remittances home. Enhancing cross-border payments, which are still associated with high costs, low speed, limited access, and insufficient transparency, has become a top priority for the G20 and the BIS.[15] To achieve faster, cheaper, more transparent, and more inclusive cross-border payments, the BIS Innovation Hub and other international institutions have been exploring the use of CBDCs for that purpose. Furthermore, the central banks of Israel, Norway and Sweden, and the BIS Innovation Hub Nordic Centre are partnering to test the feasibility of enabling immediate retail CBDC cross-border payments at a significantly lower cost than with existing systems.[16] If these efforts achieve their goal of enhancing cross-border payments, cross-border activity will increase even more.

14 ESA. (2022). Joint European Supervisory Authority response on digital finance.

15 FSB. (2021). G20 Roadmap for Enhancing Cross-border Payments.

16 BIS. (2022). Project Icebreaker: Central banks of Israel, Norway and Sweden team up with the BIS to explore retail CBDC for international payments.

4.2 Consumer risks

There is a wide range of risks that can affect consumers throughout their experience using financial products. Although these risks are not specifically inherent to financial technologies, some of them have been exacerbated by the advent of innovative technologies in the financial market.

These risks can originate from the novelty and opaqueness of fintech business models, the unreliability of a given platform, the over-reliance on technology, the gaps left by present regulation, and the discriminatory/biased outcomes prevalent in the use of algorithms and AI-based consumer decisions processes.

The following are some of the most relevant types of consumer risks in the digital age, their relevance and practical examples.

Table 2

Consumer risks in the digital age

Source: World Bank (2021) & CGAP (2022)

Type of risk	Relevance	Examples
Regulatory and supervisory gaps	Consumers accessing financial products and services through digital platforms may risk receiving less protection than consumers of traditional financial products due to gaps in the regulatory framework or in the supervisory capabilities.	Fintech business models leveraging regulatory arbitrage Supervisors lacking expertise to audit algorithms
Fraud	Because fintech business models can be opaque, or complex – and many consumers are not familiar with them – they can lead to heightened risks of loss from fraud or misconduct by operators or related parties. In addition, the remote nature and speed of digital transactions increase the exposure to pre-existing fraudulent schemes.	Proliferation of fraudulent investment platforms Authorised push payment (APP) scams Advanced fee fraud Digital identity fraud Mobile app fraud SIM swap fraud

Table 2 continued

Consumer risks in the digital age

Source: World Bank (2021) & CGAP (2022)

Type of risk	Relevance	Examples
Data misuse	While innovative data sourcing and analysis arrangements can expand access to finance for consumers in relation to the limited formal data available, they also raise new, complex data privacy concerns, such as regarding informed consent and legitimate uses, as well as unauthorised data sharing.	Intrusive data aggregators Opaque or undisclosed privacy policies Unauthorised use or sharing of personal data
Poor disclosure (lack of transparency)	The standard risks arising from consumers not being provided with adequate information are heightened when new types of pricing, product features, and risks are introduced, and when digital channels for communication pose challenges to consumer comprehension.	Complex, unclear or undisclosed terms and conditions Hidden or inflated charges/fees Complex or undisclosed pricing schemes Non-user-friendly interfaces and menus on mobile channels
Product unsuitability	Complex financial products may be offered to consumers who lack the knowledge or experience to assess or use them properly, leading to greater risks of harm due to product unsuitability. It may be associated with conflicted business models where the product design intentionally disregards potential consumer harm to generate profits.	Increased access to novel and complex financial products Digital credit products offered with limited or no assessments of a consumer's circumstances
Risks from algorithmic decision-making	The use of algorithms for consumer-related decisions is becoming particularly prevalent in highly automated fintech business models, and some scoring decisions may lead to unfair, discriminatory, or biased outcomes.	Algorithmic bias leading to discriminatory outcomes and financial exclusion Overreliance on poorly designed algorithms for credit scoring
Unfair business practices	The speed of digital transactions and the remote nature of digital channels may exacerbate the use of business practices that exploit the lack of expertise and sophistication of certain consumers.	Cross mis-selling Marketing practices adopting aggressive approaches or exploiting behavioural biases Mass advertising via "cute messaging" that undermines the seriousness of financial products Abusive debt collection practices that harass consumers through social media

Table 2 continued

Consumer risks in the digital age

Source: World Bank (2021) & CGAP (2022)

Type of risk	Relevance	Examples
Inadequate redress mechanisms	While financial services providers take advantage of technological developments to improve their core business, this is not the case with their complaints handling mechanisms. Moreover, they could find it easier to create barriers to filing complaints due to the remote nature of digital channels and the opaqueness of certain fintech business models.	Unclear or undisclosed complaints procedures Time-consuming complaints procedures Lack of digital channels to report issues or file complaints
Platform/technology unreliability or vulnerability	If a mobile application, web-based platform, or other system underpinning the provision of financial services is unreliable or vulnerable to external threats, it can expose consumers to network downtimes that prevent them from managing their products or even to data breaches that allow cybercriminals to access their personal data.	Network downtimes due to inadequate processes or systems Data breaches due to cyberattacks

4.3 Potential harm to consumers

The concept of harm encompasses a set of negative outcomes that affect the consumers' best interest or, in other words, that consumers would not expect to experience assuming they are acting in good faith. Although consumer harm shouldn't have a legal or regulatory definition in every jurisdiction, it is important to identify which types of harm can be produced when consumer risks materialise.

The following are some of the most relevant types of potential harm to consumers, their definitions, and practical examples.

Table 3

Potential harm to consumers

Source: Elaborated by the author

Type of harm	Relevance	Examples
Pecuniary loss	Consumers losing money because of scams or unauthorised charges, fees or transactions.	A savings account holder whose funds were stolen through a fraudulent transaction. Inexperienced consumers who were scammed by an unregulated platform posing as a mutual fund.
Financial loss	Consumers losing money because of adjustments in the value of their investments. This type of harm is particularly relevant when customers invest in complex or risky products without enough information to understand the product characteristics and risks.	A drop in the price of a crypto asset purchased by an inexperienced retail investor. A consumer who invested in a crowdfunding platform without being aware of the credit risk associated loses money because one of the borrowers defaulted.
Over-indebtedness	Consumers taking on more debt than they should reasonably expect to pay back without incurring undue hardship.	A consumer skipping meals to repay a loan.

Table 3 continued

Potential harm to consumers

Source: Elaborated by the author

Type of harm	Definition	Examples
Moral damage and violence	Consumers exposed to defamation, harassment, threatening behaviour, and even violence, usually to coerce them into repaying a loan.	A consumer unable to repay a loan whose contacts in social media platforms are receiving defamatory messages about him.
Violation of privacy	Exposure of sensitive personal data. It may be related to other types of harm such as moral damage or fraud-related pecuniary losses.	A consumer whose address is shared with abusive debt collectors. A consumer whose credit card data is sold in the illegal market.
Discrimination or exclusion	Consumers treated worse or excluded because of their group affiliation or vulnerability. While discriminating based on creditworthiness is accepted (risk-based pricing), many countries prohibit the use of “protected characteristics” like race, gender, age, and neighbourhood in approval and pricing decisions.	A provider using data to analyse price sensitivity and propensity to comparison shops, leading to higher prices for less sophisticated consumers. A provider using a credit scoring algorithm based on protected characteristics, leading to exclude consumers from certain neighbourhoods.
Sub-optimal decision-making	Consumers unable to make informed decisions due to poor disclosure or lack of transparency.	A consumer investing in cryptoassets without receiving adequate information about the associated risks. A consumer receiving a loan unaware of their penalty fees.
Poor service and inconvenience	Issues related to inadequate channels, procedures, or systems producing negative experiences for consumers.	A consumer unable to transfer money due to network downtime in the provider’s mobile app. A consumer unable to file a complaint through the provider’s website. A consumer waiting too long to block her stolen debit card through the provider’s hotline.

5 GSMA principles and areas for further work

Building on its Code of Conduct for Mobile Money Providers, the GSMA launched in 2018 its Mobile Money Certification to build trust and empower consumers in the mobile money industry based on eight principles (see Figure 14).

As of November 2022, 18 mobile money providers, serving more than 210 million customers, have been certified.

Figure 14

GSMA principles for mobile money

Source: GSMA Mobile Money Certification Principles (2019)

The GSMA principles cover four key FCP elements: (1) safeguarding of funds; (2) transparency; (3) data protection and privacy; and (4) customer service, including complaints handling.

Based on the analysis of the FCP frameworks, two additional elements could expand the GSMA Principles by incorporating FCP international guidance and standards: (1) fair treatment to consumers and responsible business conduct; and (2) product suitability.

First, fair treatment and responsible business conduct has become a core element in FCP frameworks developed by the G20, World Bank, AFI and CFI. It is closely related to fraud prevention and liability schemes for unauthorised transactions, which are relevant to protect mobile money accountholders from pecuniary losses. It is also related to the prevention of over-indebtedness and responsible finance, which are necessary principles to be adopted by digital credit providers to avoid eroding the financial inclusion efforts achieved by the mobile money industry. Finally, it is a core element to be adopted by mobile money providers and other DFS stakeholders to prevent the use of AI from causing harm to consumers, such as discrimination.

Second, product suitability is a concept that was initially covered in FCP frameworks for insurance and securities but recently expanded to banking and payments because of its relevance to serve low-income and vulnerable people. While the World Bank includes product suitability as a relevant issue within fair treatment and responsible business conduct, the G20/OECD, the AFI and CFI define it as a separate FCP component. To promote financial inclusion, it is critical that providers adopt product suitability as a principle so they ensure that their products and services are in the best interest of consumers.

Finally, it is important to highlight that GSMA principles are not based on FCP but on a broader perspective of the mobile money industry. While GSMA has developed a Consumer Protection Initiative for mobile consumers, the specific risks that consumers in the mobile money industry face required development of a GSMA Consumer Protection Framework specific for Mobile Money, following the practices of international organisations.

Annex 1
G20/OECD High-Level Principles and Effective Approaches for FCP in the Digital Age

PRINCIPLE 1

Legal, Regulatory and Supervisory Framework

Source: OECD (2020)

Guidance

FCP should be an integral part of the legal, regulatory and supervisory framework and should reflect the diversity of national circumstances and global market and regulatory developments within the financial sector.

Effective approach

Competent authorities should monitor market trends driven by digitalisation to ensure the legal and regulatory framework is up-to-date and appropriately protects financial consumers. Particular attention should be paid to looking at how changes in the market are impacting consumers' behaviour.

Country-specific example

Through questionnaires and regulatory data requirements, Banco de Portugal (BdP) has been monitoring the evolution of digital financial services in Portugal; the levels of adoption and use by customers; the constraints, and obstacles, to the demand for digital channels; and the main risks associated. Based on reported data, BdP has been reflecting with institutions on the requirements applicable to consumer credit products and considering behavioural economics' insights to enhance FCP. For instance, concerning the disclosure of pre-contractual and contractual information, BdP assessed the moment when consumers acknowledge the main characteristics of the credit product and how they can select the most appropriate conditions for their preferences. It also assessed whether mechanisms for adequate viewing and reading are implemented. As a result, BdP published the Circular Letter No CC/2020/00000044, which establishes a set of recommendations to be adopted by financial institutions when selling banking products and services through digital channels (particularly bank deposits, credit products, payment services and electronic money).

PRINCIPLE 2

Role of Oversight Bodies

Source: OECD (2020)

Guidance

There should be oversight bodies explicitly responsible for FCP, with the necessary powers to fulfil their mandates. They require clear and objectively defined responsibilities and appropriate governance; operational independence; accountability for their activities; adequate powers; resources and capabilities; defined and transparent enforcement framework and clear and consistent regulatory processes.

Effective approach

Oversight bodies should be capable of dealing with technological innovation in an effective and multidisciplinary way, while safeguarding consumer protection. In relation to licensing or authorisation requirements, this can be done by implementing mechanisms or adopting proportionate approaches which allow businesses to be innovative, while maintaining relevant safeguards and protection.

Country-specific example

The Hong Kong Monetary Authority (HKMA) launched the Fintech Supervisory Sandbox (FSS) in September 2016, which allows banks and their partnering tech firms to conduct pilot trials of their fintech initiatives without the need to achieve full compliance with the HKMA's supervisory requirements during the trial period. The FSS enables banks and tech firms to gather data and user feedback earlier so that they can make refinements to their new initiatives, thereby expediting the launch of new technology products, and reducing the development cost.

PRINCIPLE 3

Equitable and Fair Treatment of Customers

Source: OECD (2020)

Guidance

All financial consumers should be treated equally, honestly and fairly at all stages of their relationship with financial service providers. Treating consumers fairly should be an integral part of the good governance and corporate culture of all financial institutions and authorised agents. Special attention should be dedicated to the needs of vulnerable groups.

Effective approach

Firms should approach algorithms and the potential risks arising in the same way they approach risks arising from other financial models. This includes ensuring proper documentation, oversight and testing the underlying assumptions with clear processes and expert and independent validation of the outcomes they produce.

Country-specific example

In Germany, BaFin has defined its Principles for the use of algorithms in decision-making processes (2021). In doing so, BaFin set out general and specific principles for the development phase and application phase of AI and ML applications. For example, data strategy, data governance and the implementation of appropriate validation processes must be adopted in the development phase, while in-depth approval and feedback processes must be carried out during the application phase.

PRINCIPLE 4

Disclosure and Transparency

Source: OECD (2020)

Guidance

Financial institutions and authorised agents should provide consumers with key information that informs the consumer of the fundamental benefits, risks and terms of the product. They should also provide information on conflicts of interest associated with the authorised agent through which the product is sold.

Effective approach

Competent authorities must embed an understanding of consumer decision-making and the impact of behavioural biases in the development of policies relating to disclosure requirements and/or alternative approaches to ensure a customer-centric approach.

Country-specific example

In April 2019, the European Commission launched a Behavioural study on the digitalisation of the marketing and distance selling of retail financial services. The purpose of this study was to identify the risks consumers face when confronted with practices used online by providers of retail financial services to market and sell their products, especially regarding information disclosure at the advertising and pre-contractual stages, as well as the factors that contribute to their prevalence, and the potential remedies available. Ultimately, it seeks to identify how consumers can better understand financial products sold online and make the optimal decision.

PRINCIPLE 6

Responsible Business Conduct of Financial Institutions and Authorised Agents

Source: OECD (2020)

Guidance

Financial institutions and authorised agents should have as an objective to work in the best interest of their customers and be responsible for upholding FCP. Financial institutions should also be responsible and accountable for the actions of their authorised agents.

Effective approach

Firms should ensure that financial products, services, and distribution channels are aligned with the relevant interests, characteristics, and objectives of the "target market".

Country-specific example

Banca d'Italia (BdI) amended provisions on financial consumer protection to implement the EBA Guidelines on product oversight and governance (2015) and required financial institutions to have in place internal procedures aimed at ensuring that retail banking products are manufactured and distributed in accordance with the interests, objectives and characteristics of the group of customers for whom each product is designed (i.e. target market).

PRINCIPLE 7

Protection of Consumer Assets against Fraud and Misuse

Source: OECD (2020)

Guidance

Relevant information, control and protection mechanisms should appropriately, and with a high degree of certainty, protect consumers' deposits, savings, and other similar financial assets, including against fraud, misappropriation or other misuses.

Effective approach

Competent authorities should work with financial institutions to ensure that the application of arrangements for limitations on liability of financial consumers for fraudulent or unauthorised transactions extend to new types of mobile or online transactions (e.g., "push payments").

Country-specific example

In Hong Kong, according to the Code of Banking Practice (2021) which is issued jointly by the Hong Kong Association of Banks and the DTC Association in Hong Kong, and endorsed by the HKMA, a customer should not be liable for any direct losses suffered by them as a result of unauthorised transactions conducted through their account unless they act fraudulently or with gross negligence. This principle is applicable to any banking products/services including digital ones.

PRINCIPLE 8

Protection of Consumer Data and Privacy

Source: OECD (2020)

Guidance

Consumers' financial and personal information should be protected through appropriate control and protection mechanisms. These mechanisms should define the purposes for which the data may be collected, processed, held, used, and disclosed, especially to third parties.

Effective approach

Financial institutions should consider embedding personal data protection into the design of a financial product or system at the outset (i.e. "privacy by design") including use of privacy-friendly default settings, and/or collecting and storing only the minimum amount of personal data for the minimum amount of time (i.e. "data minimisation").

Country-specific example

In Hong Kong, the HKMA issued a circular on 3 May 2019 to require banks to consider embedding data protection in the design of a product or system from the outset (i.e., "privacy by design") and collecting and storing only the minimum amount of data for the minimum amount of time (i.e., "data minimisation").

PRINCIPLE 9

Consumer Handling and Redress

Source: OECD (2020)

Guidance

Jurisdictions should ensure that consumers have access to adequate complaints handling and redress mechanisms that are accessible, affordable, independent, fair, accountable, timely and efficient. Such mechanisms should not impose unreasonable cost, delays, or burdens on consumers.

Effective approach

Given the increasingly cross-border nature of the provision of financial services facilitated by digital channels, competent authorities and alternative dispute resolution mechanisms from different jurisdictions should cooperate and exchange information to ensure adequate complaint handling and redress mechanisms in relation to the cross-border provision of products or services.

Country-specific example

In Germany, the BaFin Arbitration Board is a member of FIN-NET, which is a network of national organisations responsible for settling financial consumers' complaints out of court in the European Economic Area. As a result, BaFin can forward an application to the responsible dispute resolution scheme within FIN-NET when necessary. Within FIN-NET, the schemes cooperate to provide consumers with easy access to out-of-court complaint procedures in cross-border cases, if they do not want to take a cross-border dispute to court.

Annex 2
Matching AFI policy goals with G20/OECD Principles and World Bank common topic areas

Figure 15

Matching AFI policy goals with G20/OECD Principles and World Bank common topic areas

Source: Elaborated by the author

G20/OECD High-Level Principles (2022)

Common topic areas	Relevant issues
01 Legal Environment	— Compliance
02 Transparency and Marketing	— Appropriate channels — Consumers are not misled — Clear and fair information
03 Inclusive and Competitive Marketplace	— Customer mobility
	— Fair penalty schemes
	— Product and delivery design — Product suitability
04 Suitability	— Suitable advice
05 Due care	— Responsible conduct
	— Responsible finance — Respectful debt collection — Fair collateral realisation
06 Ethics and Professional Standards	— Mitigation of conflicts of interest
07 Safety and Security	— Liability for losses and misconduct — Protection of customer funds
	— Data protection

G20/OECD High-Level Principles (2022)	WB FCP common topic areas
01 Legal, Regulatory and Supervisory Framework	**01** Legal, Regulatory and Supervisory Framework
02 Role of Oversight Bodies	
03 Access & Inclusion	
04 Financial Literacy and Awareness	
07 Disclosure and Transparency	**02** Disclosure and Transparency
05 Competition	**03** Fair Treatment and Responsible Business Conduct
06 Equitable and Fair Treatment of Consumers	
08 Quality Financial Products	
09 Conduct and Culture of Providers and Intermediaries	
10 Protection of Consumer Assets Against Fraud, Scams and Misuse	
11 Protection of Consumer Data and Privacy	**04** Data Protection and Privacy
12 Complaints Handling and Redress	**05** Dispute Resolution

Annex 3
Matching CFI Principles with G20/OECD Principles and World Bank Common Topic Areas

Figure 16

Matching CFI Principles with G20/OECD Principles and World Bank common topic areas

Source: Elaborated by the author

CFI Handbook on Consumer Protection for Inclusive Finance (2019)

Common topic areas	Relevant issues
01 Supervisory authority for FCP	— Authority and jurisdiction — General and enforcement powers — Rulemaking
02 General Requirements for Providers	— Prohibited acts — Board and senior management oversight
03 Appropriate Products Design and Delivery	— Design, implementation and monitoring — Suitability and affordability assessments — Cool-off period — Fraudulent and mistaken transactions
04 Preventing Over-indebtedness	— Creditworthiness assessments — Mandated credit reporting — Monitoring systems
05 Transparency	— Disclosure principles — Publication of fees, rates, terms and conditions — Standardised calculation methods
06 Responsible pricing	— Pricing procedures — Permitted fees
07 Fair and Respectful Treatment of Clients	— Client treatment policies and procedures
08 Privacy and Security of Client Data	— Client rights — Privacy and security of client data — Disclosure of client data
09 Complaint Resolution	— Internal complaints handling — Supervisory authority response to complaints and queries

G20/OECD High-Level Principles (2022)

- **01** Legal, Regulatory and Supervisory Framework
- **02** Role of Oversight Bodies
- **03** Access & Inclusion
- **04** Financial Literacy and Awareness
- **07** Disclosure and Transparency
- **05** Competition
- **06** Equitable and Fair Treatment of Consumers
- **08** Quality Financial Products
- **09** Conduct and Culture of Providers and Intermediaries
- **10** Protection of Consumer Assets Against Fraud, Scams and Misuse
- **11** Protection of Consumer Data and Privacy
- **12** Complaints Handling and Redress

WB FCP common topic areas

- **01** Legal, Regulatory and Supervisory Framework
- **02** Disclosure and Transparency
- **03** Fair Treatment and Responsible Business Conduct
- **04** Data Protection and Privacy
- **05** Dispute Resolution

Annex 4
Guidance for developing a legal, regulatory, and supervisory framework for financial consumer protection

Based on previous research, we have designed a common structure to organise all the components that make up the financial consumer protection framework in each jurisdiction and benchmark them with those in other jurisdictions (see Figure 17).

Figure 17

Components of a legal, regulatory and supervisory framework for FCP

Source: Elaborated by the author

Legal framework

There are two concepts that we will consider to describe and analyse your jurisdiction's FCP legal framework: the type of legal system and the FCP legal framework approach.

Type of legal system

A country's type of legal system shapes its legal, regulatory, and supervisory framework and even influences the structure of its financial system.[17] There are two main types of legal system across jurisdictions: common law and civil law (see key differences between them in Table 4). In addition to them, there are three other types of legal systems: Islamic law, customary law and hybrid or mixed law. JuriGlobe provide a tool to map the legal systems across the world.[18]

Financial authorities must be aware of the type of legal system when benchmarking their legal, regulatory, and supervisory frameworks against those in other jurisdictions. For instance, legal provisions in common law jurisdictions may not be detailed enough to be effective in civil law jurisdictions.

Table 4

Differences between common law and civil law systems

Source: Elaborated by the author

■ Common law ■ Civil law

	Common law	Civil law
Influence on the legal framework	Relies on **broad principles** and precedent	Relies on **extensive and detailed codes**
Influence on the financial system	Countries tend to **enable** more innovation	Countries tend to be more **restrictive** with innovation
Influence on financial supervision	Authorities can enforce what they **argue** is necessary according to the principles	Authorities **struggle** to enforce what is not **explicitly** regulated

17 La Porta, Lopez-de-Silanes & Shleifer. (2013). Law and Finance After a Decade of Research.
18 www.juriglobe.ca/eng/index.php

Legal framework approaches

There are four main approaches through which FCP legal frameworks are developed:

- Standalone FCP law
- Consumer protection provisions within other financial sector laws
- General consumer protection law with explicit references to financial services
- General consumer protection law without explicit references to financial services

According to the World Bank's Global Financial Inclusion and Consumer Protection 2017 Survey, FCP legal frameworks are mostly developed through a combination of different approaches (85 of 124 respondent jurisdictions).

Since the legal framework approaches are not mutually exclusive, lawmakers usually combine different approaches to adjust the legal framework to best fit their jurisdiction's specific context.

Challenges

Challenges that financial authorities may face when implementing the FCP legal framework include the following:

Regulatory and supervisory powers of FCP authorities

The legal framework should include provisions establishing the responsibilities, powers, and accountability of the authority or authorities in charge of implementation of the legal framework.

Many jurisdictions have general consumer protection laws that apply to all types of products and services, but such laws are often not specific, clear, or comprehensive enough to provide effective protection to consumers of financial products and services. For instance, they usually do not allow for the creation of detailed consumer protection regulations by financial regulatory authorities.

FCP legal framework coverage and regulatory perimeter

Jurisdictions must have a clear and comprehensive legal framework that establishes minimum standards to protect consumers of financial products and services of all types, regardless of the type of provider.

Ideally, FCP laws must take an activity-based approach; that is, covering specific activities, business models, products, or services to protect consumers regardless of the type of provider. An activity-based legal framework may provide more flexibility to address the fast-evolving digital finance models that allow new market players outside the FCP legal framework to offer financial products and services.

However, many jurisdictions have financial sector laws with an institution-based approach; that is, covering specific types of providers. As a result, some types of providers may not be covered by FCP provisions, creating protection gaps or regulatory gaps that leave consumers vulnerable.

To ensure that the FCP legal framework is comprehensive enough to cover all providers of financial products and services and all relevant consumer protection issues, financial authorities must harmonize legal provisions to avoid ambiguities, gaps or inconsistencies that would result in an unlevel playing field in the marketplace.

Licensing and registration requirements

The legal framework should clarify whether and which types of providers are subject to licensing or registration requirements.

When financial markets are very large and expanding, jurisdictions may benefit from a tiered approach to registering and licensing where certain providers are required to obtain a licence depending on their characteristics and size, while other providers are only required to register. To the extent possible, all types of providers of financial products and services should at least be required to be registered with the financial consumer protection authority. Registration accompanied by minimum regular reporting is particularly relevant to develop a comprehensive mapping of the financial marketplace and to monitor market development.

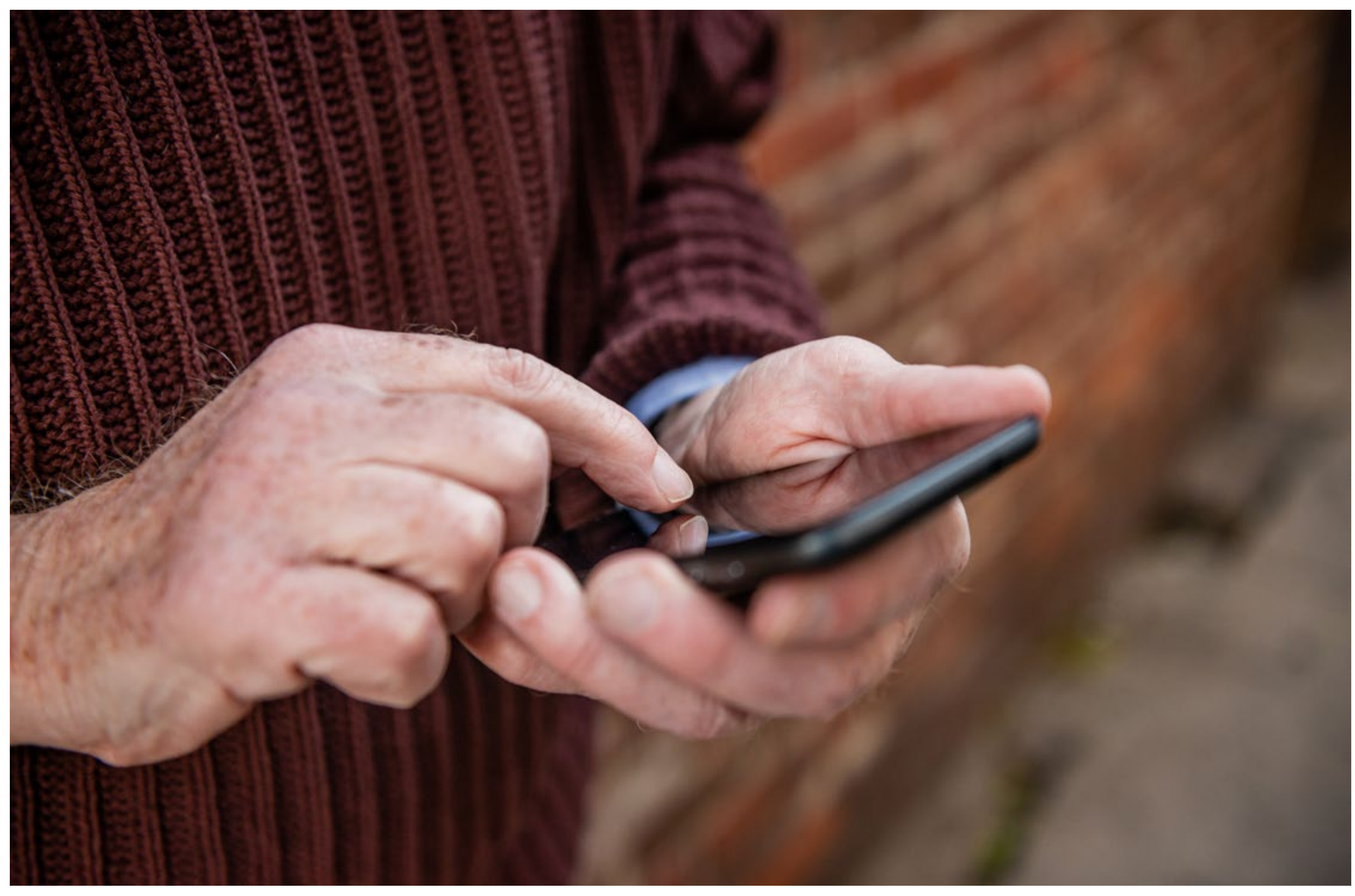
If licensing is imposed, the legal provisions must guarantee that financial consumer protection aspects are assessed in the existing licensing process. If the financial consumer protection mandate rests with the prudential authority, the licensing process provides an opportunity to form an early assessment of management's ethical standards and the provider's preparedness for complying with the applicable financial consumer protection laws and regulations. Furthermore, including financial consumer protection as an element of licensing could potentially benefit other mandates, since some financial consumer protection aspects may be closely related to the long-term financial soundness of a provider.

When the financial consumer protection authority is separate from the prudential authority and licensing is imposed by both, efforts should be made to streamline the overall process to avoid unnecessary regulatory burden and to increase efficiency. Ideally, a single window for licensing (and registration) applications must be made available for providers, and both authorities must coordinate with each other to make a unique decision together. Information sharing and mutual consultations may be also helpful to avoid requiring documentation twice from a provider.

Lawmaking process

The legal framework should be developed as a result of a consultative process that involves the industry, relevant authorities, and consumer associations.

As in any area of law or rule making, financial consumer protection laws can benefit from international guidance (including model laws) and peer-country analysis. However, they should be fully tailored to a country's unique context. Transplanting model laws or another country's laws is likely to be ineffective.



Institutional arrangements and mandates

The institutional arrangement model should aim to facilitate the implementation and enforcement of financial consumer protection laws, including the issuance of regulations, across all financial providers in a consistent, thorough, and timely manner.

Institutional arrangements define which authority or authorities are responsible for financial consumer protection regulation and supervision. There must be effective coordination between different authorities implementing the financial consumer protection legal and regulatory framework, as well as between such authorities and prudential, competition, and other authorities.

If a single authority is responsible for both prudential and consumer protection regulation and supervision, there should be coordination between these functions. Regardless of which institutional arrangement is selected, the authorities must have a clear legal mandate and sufficient regulatory, supervisory, monitoring, investigatory, and enforcement powers to achieve its goals.

Regulatory framework

The regulatory framework must elaborate on the law to protect financial consumers, including provisions on the four dimensions of financial consumer protection:

- Disclosure and transparency
- Fair treatment and responsible business conduct
- Data protection and privacy
- Dispute resolution mechanisms.

It should be consistent across regulations issued by different authorities with respect to similar products and services.

It should minimise ambiguity and the possibility of differing interpretations.

The regulatory frameworks can use a rules-based, principles-based or outcomes-based approach.

The rulemaking process

Financial authorities must consider the following:

- International guidance and standards provide a solid basis for the formulation of regulations.
- Research regarding the regulatory practices of other countries may be useful but they must be customised and tailored to the country's specific context.
- Consumer research and behavioural economics are powerful resources to ensure that regulations produce the desired results.
- The formulation of regulations should follow a consultative process promoting active engagement with industry, consumer associations, and other relevant stakeholders.

Principles-based regulations

Financial authorities must consider the following:

- Given the increasing speed of financial innovation, most jurisdictions are using a combination of rules-based and principles-based approaches to implement or update their FCP frameworks.
- Prescriptive rules-based approaches are helpful to support regulatory certainty and predictability but may create regulatory gaps for innovative products and business models resulting in protection gaps for consumers and regulatory uncertainty for new market entrants.
- Principles-based approaches allow greater flexibility for authorities to tailor their supervisory approach to a range of business models, offering greater flexibility for providers to design innovative products and business processes, and ensuring a minimum level of protection for consumers.

Peru

Implementing principles-based regulations in a civil law country

Country	Peru
Legal system	Civil law
Authority	Superintendence of Banking, Insurance and Private Pension Funds (SBS)
Institutional arrangement model	Integrated single financial sector authority
Institutional mandates	— Financial stability — Financial integrity — Proper market conduct — Social protection

In 2017, the SBS approved the Market Conduct Regulations for Financial Institutions looking to strengthen financial consumer protection by introducing a principles-based approach, which requires financial service providers to comply with specific regulatory requirements and to conduct their business following three guiding principles:

- Fair business practices
- Transparency
- Adequate complaints management.

The principles set the regulator's expectations about firms' market conduct. If supervisors identify issues that disregard the principles, they require firms to take action.

When issues spread in the market, SBS includes them in its unfair practices list, which means they are explicitly prohibited to ensure the list's enforceability.

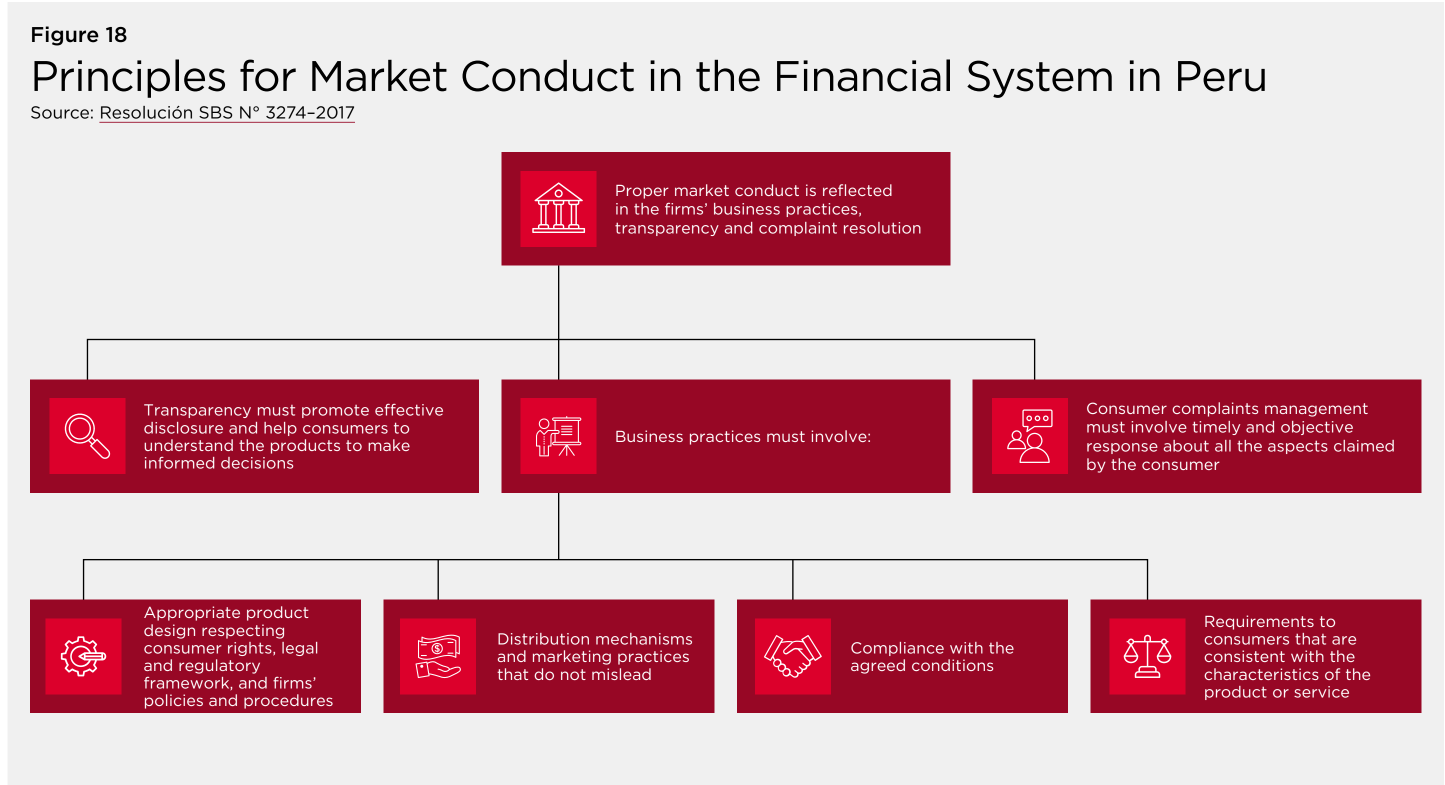
Examples of codified unfair practices that violate the principle of appropriate product design:

- Charging more than one late fee per billing cycle to credit card holders.
- Conditioning the contracting, modification or resolution of a financial product or service to the contracting of an additional product or service, when this does not correspond to the nature of the original product.
- Conditioning a credit approval to the subscription of an insurance product that includes additional coverage not relevant for the purpose of the credit.

Figure 18

Principles for Market Conduct in the Financial System in Peru

Source: Resolución SBS N° 3274-2017



Supervision

The following are the three principles for financial supervision in the digital age:

- FCP supervision must be **risk-based** and financial authorities must develop specific criteria for prioritisation of providers and topics for supervisory purposes based on consumer risk assessment.
- FCP supervision must be **forward-looking** to identify emerging and potential future risks arising from current market practices and trends and take supervisory actions to manage and mitigate such risks.
- FCP supervision must be **data-driven** and financial authorities must collect quality and timely data through standardised and electronic regulatory reports as well as publicly available data. SupTech tools may help collect and process unstructured data as well as accelerate conventional data processing.

Annex 5
Consumer Risks Assessment Framework

Table 5

Consumer Risks Assessment Framework

Source: Elaborated by the author

#	Enabling factor	Market trend	Type of consumer risk	Example of consumer risk	Harm to consumers
1	**Technological innovations**	Increasing access to finance and speed of transactions	Fraud and related misconduct	Fraudsters exploiting lack of sophistication to scam vulnerable consumers	Pecuniary loss
2	**Technological innovations**	Increasing access to finance and speed of transactions	Unfair business practices	Providers exploiting behaviousral biases and using intrusive marketing practices to offer loans	Over-indebtedness
3	**Technological innovations**	Increasing access to finance and speed of transactions	Product unsuitability	Providers offering loans with limited or no assessments of a consumer's circumstances	Over-indebtedness
4	**Technological innovations**	Increasing access to finance and speed of transactions	Product unsuitability	Increased access to novel and complex investment products	Financial loss
5	**Technological innovations**	Increasing access to finance and speed of transactions	Poor disclosure	Consumers unable to visualise costs, terms and conditions of digital financial products and services due to complex user interfaces	Sub-optimal decision-making
6	**Technological innovations**	Increasing access to finance and speed of transactions	Unfair business practices	Providers charging hidden or inflated fees and commissions	Pecuniary loss
7	**Technological innovations**	Increasing access to finance and speed of transactions	Data misuse	Consumer unintentionally authorising the use of their personal data	Violation of privacy
8	**Technological innovations**	Increasing availability of data	Data misuse	Providers or data processors using consumers' personal data for unauthorised purposes	Violation of privacy
9	**Technological innovations**	Increasing availability of data	Platform/techno logy unreliability or vulnerability	Data breaches due to cyber-attacks or insider threats	Violation of privacy
10	**Technological innovations**	Increasing availability of data	Unfair business practices	Insurers designing pricing schemes to charge a higher price to certain higher risk populations (rather than be subsidised by a broader pooling of risk)	Discrimination
11	**Technological innovations**	Increasing availability of data	Unfair business practices	Debt collectors harassing borrowers in arrears on social media	Moral damage and violence

#	Enabling factor	Market trend	Type of consumer risk	Example of consumer risk	Harm to consumers
12	**Technological innovations**	Increasing reliance on third parties	Regulatory and supervisory gaps	Financial authorities unable to enforce consumer protection on third-party providers	Multiple types of harm
13	**Technological innovations**	Increasing reliance on third parties	Data misuse	Third-party data processors disregarding data protection and privacy laws and regulations	Violation of privacy
14	**Technological innovations**	Increasing reliance on third parties	Risks from algorithmic decision-making	Third-party alternative credit scoring providers using algorithms based on protected characteristics	Discrimination
15	**Technological innovations**	Increasing reliance on third parties	Platform/techno logy unreliability or vulnerability	Third-party technology providers experiencing failures in their processes and systems supporting consumer interactions	Poor service and inconvenience
16	**Technological innovations**	Increasing reliance on third parties	Poor disclosure	Third-party providers charging undisclosed fees and commissions to consumers	Sub-optimal decision-making
17	**Technological innovations**	Development of platform business models	Regulatory and supervisory gaps	Unregulated providers offering financial services without authorisation	Multiple types of harm
18	**Technological innovations**	Development of platform business models	Fraud and related misconduct	Fraudulent digital platforms scamming consumers	Pecuniary loss
19	**Technological innovations**	Development of platform business models	Unfair business practices	Misleading advertisement regarding P2P lending platforms	Pecuniary loss
20	**Technological innovations**	Development of platform business models	Poor disclosure	Consumers investing in P2P lending or crowdfunding platforms with insufficient information about the borrowers	Sub-optimal decision-making
21	**Technological innovations**	Development of platform business models	Inadequate redress mechanisms	Opaque business models with unclear or undisclosed complaints procedures	Poor service and inconvenience
22	**Technological innovations**	Higher speed of innovation	Regulatory and supervisory gaps	Financial authorities lacking technical expertise to regulate and supervise the use of innovative technologies	Multiple types of harm
23	**Technological innovations**	Higher speed of innovation	Product unsuitability	Consumer lacking technological literacy unable to access digital financial services	Exclusion

#	Enabling factor	Market trend	Type of consumer risk	Example of consumer risk	Harm to consumers
24	**Technological innovations**	Increasing reliance on AI and ML models	Risks from algorithmic decision-making	Financial providers unable to explain their AI/ML models	Multiple types of harm
25	**Technological innovations**	Increasing reliance on AI and ML models	Risks from algorithmic decision-making	Insurers using algorithms based on protected characteristics, such as religion, race, gender and neighbourhood, that may lead to discriminatory outcomes	Discrimination
26	**Technological innovations**	Increasing reliance on AI and ML models	Risks from algorithmic decision-making	Poorly designedrobo-advisors mis-advising investors	Financial loss
27	**Technological innovations**	Increasing reliance on AI and ML models	Risks from algorithmic decision-making	Credit providers assessing potential borrowers based on poorly designed algorithms	Over-indebtedness
28	**Technological innovations**	Increasing reliance on AI and ML models	Risks from algorithmic decision-making	Poorly designed customer service chatbotsmis-advising consumers	Poor service and inconvenience
29	**Technological innovations**	Big techs providing financial services	Regulatory and supervisory gaps	Financial authorities unable to supervise big techs	Multiple types of harm
30	**Technological innovations**	Big techs providing financial services	Data misuse	Big techs leveraging data from their platforms to design and provide financial services	Violation of privacy
31	**Technological innovations**	Big techs providing financial services	Unfair business practices	Big techs building positions of market dominance and adopting anticompetitive practices	Multiple types of harm
32	**Technological innovations**	Increasing cross-border transactions	Regulatory and supervisory gaps	Foreign providers offering financial services from abroad without authorisation	Multiple types of harm
33	**Technological innovations**	Increasing cross-border transactions	Inadequate redress mechanisms	Foreign providers evading their responsibility regarding consumer complaints	Poor service and inconvenience
34	**Business strategies**	Aggressive sales targets	Unfair business practices	Providers' sales staff harassing consumers to offer products	Poor service and inconvenience
35	**Business strategies**	Coercive debt collection	Unfair business practices	Debt collectors threatening and even assaulting borrowers in arrears	Moral damage and violence

#	Enabling factor	Market trend	Type of consumer risk	Example of consumer risk	Harm to consumers
36	**Business strategies**	Complex pricing structures	Poor disclosure	Consumers unable to compare the cost of financial products	Sub-optimal decision-making
37	**Business strategies**	Cross-selling and bundling	Product unsuitability	Providers cross-selling or bundling non-complementary products	Pecuniary loss
38	**Business strategies**	Cross-selling and bundling	Poor disclosure	Providers' sales staff skipping to require consumers' consent on cross-selling products	Pecuniary loss
39	**Business strategies**	Cross-selling and bundling	Unfair business practices	Providers' sales staff forcing consumers to pay for unnecessary or unwanted products or features	Pecuniary loss
40	**Business strategies**	Increasing reliance on agents' network	Fraud and related misconduct	Agents accessing customer security keys	Violation of privacy
41	**Business strategies**	Increasing reliance on agents' network	Fraud and related misconduct	Agents manipulating consumers to increase their revenues	Pecuniary loss
42	**Business strategies**	Increasing reliance on agents' network	Platform/techno logy unreliability or vulnerability	Insufficient agent liquidity limiting access of consumers to financial services	Poor service and inconvenience
43	**Macroenomic environment**	Higher cost of borrowing due to monetary tightening	Product unsuitability	Higher interests on floating-rate loans taken by consumer unaware of the associated risks	Over-indebtedness
44	**Macroenomic environment**	Higher cost of borrowing due to monetary tightening	Unfair business practices	Providers charging higher rates, fees or commissions to consumers without notification in advance	Pecuniary loss
45	**Increases in life expectancy**	Growing size and proportion of elderly people	Product unsuitability	Elderly people lacking technological literacy unable to access digital financial services	Exclusion

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