Handbook on Consumer Protection for Inclusive Finance
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This Handbook on Consumer Protection for Inclusive Finance was prepared by a team of experts from the Center for Financial Inclusion at Accion (CFI) and DLA Piper/New Perimeter and was managed by Accion. It expands on the previous edition, entitled Client Protection Principles: Model Law and Commentary for Financial Consumer Protection, published by DLA Piper/New Perimeter and the Partnership for Responsible Financial Inclusion (PRFI) in 2015. Project management for this Handbook was overseen by Jessica Galimberti (Accion). Adam Dubin and Andrew Grant served as lead contributors and were managed by Sara K. Andrews (all DLA Piper/New Perimeter). Significant contributions were made by Isabelle Barrès and Elisabeth Rhynne (CFI).

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ABOUT THE AUTHORS
The Center for Financial Inclusion at Accion (CFI) is an action-oriented think-tank that works with the financial inclusion community, including providers, regulators and other stakeholders, to better serve, protect and empower customers. CFI also hosts the Smart Campaign, an industry platform that works to create an environment in which financial services are delivered safely and responsibly to low-income clients. One hundred seventeen financial service providers, collectively serving more than 47 million people, have been certified for adhering to the Smart Campaign’s client protection standards.

New Perimeter is a nonprofit organization established by DLA Piper to provide pro bono legal assistance in under-served regions around the world to support access to justice, social and economic development and sound legal institutions. Founded in 2005 as a result of DLA Piper’s commitment to support legal advancement worldwide, New Perimeter’s vision is to harness the skills and talents of DLA Piper lawyers to further a more just world for all.

Accion is a global nonprofit committed to creating a financially inclusive world, with a pioneering legacy in microfinance and financial technology (fintech) impact investing. Accion catalyzes financial service providers to deliver high-quality, affordable solutions at scale for the three billion people who are left out of—or poorly served by—the financial sector. For more than 50 years, Accion has helped tens of millions of people through its work with more than 90 partners in 40 countries.

DLA Piper is a global law firm with lawyers located in more than 40 countries throughout the Americas, Europe, the Middle East, Africa and Asia Pacific, positioning it to help companies with their legal needs around the world. In certain jurisdictions, this information may be considered attorney advertising.
Financial inclusion practitioners, policymakers and other stakeholders recognize the importance of consumer protection as an enabler of global financial inclusion. As the financial inclusion industry rapidly evolves—with new providers, products and delivery channels reaching out to the financially excluded—the need increases for effective legal and regulatory frameworks to protect consumers at the base of the pyramid to mitigate new and shifting risks, while allowing for the benefits of innovation.

In response to this need, the Handbook presents updated and revised guidance for consumer financial protection. The Handbook is organized around the Client Protection Principles. It expands upon a previous document, the Client Protection Principles: Model Law and Commentary for Financial Consumer Protection (Model Legal Framework) to reflect updated standards from the Smart Campaign, new and emerging guidance from international organizations and collaborative working groups, and consultation with a broad range of experts regarding the unique characteristics of digital financial services (DFS), with an emphasis on digital credit. The Handbook distills experience and developments in positive consumer protection practices through recommended legal language with accompanying commentary.

Like the Model Legal Framework, this Handbook aims to present an accessible and pragmatic representation of the Client Protection Principles in a manner suitable for law or regulation, together with commentary. It is intended for three main uses:

1. As a practical resource for policymakers and regulators seeking to develop or revise legal frameworks in whole or part, to fill in legal or regulatory gaps. Legislators and regulators can use recommendations in the Handbook to draft specific language appropriate for their respective jurisdictions’ legal regimes, on a comprehensive or selective basis.

2. As a diagnostic tool for commentators to assess a given jurisdiction’s current legislation, regulation or other directives in comparison with this recommended approach.

3. To support industry engagement and dialogue with regulators and supervisors by providing concrete and actionable recommendations and fostering collaboration to advance consumer protection through voluntary standards.

Generated in response to the range of risks faced by vulnerable populations in the financial services industry, the Handbook is not designed as a model consumer protection law for the entire financial services industry. While the principles are applicable to all retail consumers, this Handbook is most relevant to protecting the financially underserved, who are generally more vulnerable to harm.

A sound legal framework for consumer financial protection will support financial inclusion and innovation, allow new products and services to responsibly reach previously underserved consumers, and provide for empowered and capable regulators to oversee and enforce these frameworks.

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1 The Client Protection Principles are: (i) appropriate design of products and delivery; (ii) prevention of over-indebtedness; (iii) transparency; (iv) responsible pricing; (v) fair and respectful treatment of clients; (vi) privacy and security of client data; and (vii) mechanisms for complaint resolution.
The Client Protection Principles, Standards and Guidance

The Handbook is a legislative and regulatory companion to the Client Protection Principles. The Handbook builds on the work of the Smart Campaign, which is a global effort guided by the experience and expertise of financial inclusion leaders from around the world who are committed to following positive consumer protection practices. The Client Protection Principles represent a global consensus regarding the standards of conduct and treatment clients should receive from financial service providers and are broadly applicable to retail financial service providers, particularly those serving lower income customers and customers new to the use of formal financial services.

The Smart Campaign’s standards build on the Client Protection Principles by providing an operational framework for implementing standards of client protection and have recently been revised to address risks in digital financial services. To learn more about the Smart Campaign, the Client Protection Principles, and the revised Standards, please visit http://www.smartcampaign.org.

In the Handbook, the Client Protection Principles are matched with legal provisions that promote the realization of these principles in practice. The Handbook was developed together with the Smart Campaign’s Standards and Detailed Guidance on the Client Protection Principles. These documents embed an understanding of what it takes to operationalize the Client Protection Principles while serving different audiences and purposes. These documents reflect years of consideration and study by a wide cross section of stakeholders in and close to the financial inclusion sector, including financial service providers, industry organizations, regulators and consumer advocates.

The Center for Financial Inclusion at Accion

The Center for Financial Inclusion at Accion (CFI) has prioritized consumer protection and empowerment since its inception in 2008. CFI was one of the founders of the Smart Campaign and continues to serve as its secretariat.

The Smart Campaign represents an industry-level effort to create an environment in which financial services are delivered safely and responsibly to low-income clients. It has achieved this by creating standards and a certification program that measure adherence to the Client Protection Principles.

In addition to its work with providers under the Smart Campaign, CFI also works with regulators to diagnose consumer protection practices and supports regulators in developing appropriate consumer protection regulations, market monitoring and oversight functions.

CFI informs much of its work with regulators and providers with research on customers’ experiences with providers and on customer financial health, wellbeing and capability.

Structure of the Handbook

Each discussion in the Handbook is divided into three parts: Purpose, Content and Commentary. The Purpose gives a general explanation of the aim of the specific provision. Recommended legal language is contained in the Content (model provisions), while the Commentary seeks to explain, clarify and provide context on the language in the Purpose and Content and, where relevant, notes alternative approaches or additional considerations. The Handbook begins with a section on regulatory authorities, and thereafter, it is organized around the seven Client Protection Principles, taking them up in sequence. Within each section, the subtopics parallel concepts articulated in the Client Protection Standards and Guidance. Additional recommended resources and referenced materials are summarized in Annex 1.
Approaches Taken in the Handbook

1. Broad Provider Applicability and Service-Based Approach. Effective consumer financial protection requires that all providers providing similar retail financial products or services be subject to very similar, but proportional rules. All financial service providers, including banks, credit unions, microfinance institutions, fintech companies, money lenders and non-bank financial service providers—whether providing their services via traditional or digital channels—are covered under the Handbook, regardless of their corporate form and primary business line, whether or not they are prudentially licensed, publicly owned, run for private gain or for charitable purposes. This approach is particularly important for lower income consumers who are often served by smaller and less regulated financial service providers and non-bank actors or agents. Anything less than broad coverage of financial service providers will leave gaps, which experience shows are often exploited to the disadvantage of the most vulnerable consumers.

2. Creation of a Dedicated Consumer Protection Legal Framework. Given the variety of institutional arrangements for consumer financial protection regulation that exist and the relative strengths and weaknesses of each, the Handbook does not recommend a preferred institutional arrangement. Instead, it focuses on establishing a framework where dedicated regulators are charged with ensuring consumer protection in the financial sector and empowered with the tools necessary to do so. As such, the Handbook establishes the authority of such regulators to conduct broad market monitoring, to supervise financial service providers and to initiate a variety of enforcement actions when necessary. Regulators are also empowered to 1) facilitate the creation of a credit reporting system, if none currently exists; 2) create a consumer recourse mechanism for addressing consumer complaints; 3) gather and publish the fees and rates of financial products to facilitate a consumer’s ability to compare pricing; 4) produce and publish reports on the financial services industry’s consumer protection performance; and 5) coordinate with relevant public authorities and private stakeholders to facilitate collaboration and effective lawmaking and regulatory decisions.

3. Principle-Based and Rule-Based Regulation. In some areas, the Handbook utilizes principle-based regulation, where regulators use a degree of discretion to assess a financial service provider’s compliance with standards. This approach is appropriate for areas where a wide range of conduct is acceptable, and the prohibition on unfair, deceptive or abusive acts or practices. However, where more specific, objective requirements are appropriate, rule-based regulation is used. This approach can be seen in areas of prevention of over-indebtedness; transparency and disclosure; privacy, confidentiality and security of client data; and complaint resolution (e.g., provisions on licensing/registration, standardized calculation methods, key information disclosure requirements, non-discrimination in client selection, termination and prepayment fees, the provision of information to credit reporting systems, and the prohibition on requiring consumers to waive their rights as a condition of receiving a financial product).

4. Consumer Rights and Responsibilities. The Handbook enshrines certain specific rights for consumers. For example, consumers are granted the right to have their complaints addressed and resolved, the right to a reasonable rescission period, the right to have their personal data protected and the right to have inaccurate information corrected. Annex 2 addresses consumer responsibilities toward a financial service provider for each Client Protection Principle.

5. Consumer Financial Protection Subjects Not Covered. Several topics important to consumer financial protection that are beyond the scope of the Handbook, such as deposit insurance, protection of digital funds, bankruptcy, telecommunications infrastructure and anti-competition concerns, may need to be addressed in any country adopting or implementing a consumer protection regime. Additionally, financial capability building and
financial education are complementary aspects to consumer financial protection, which can be promoted through the development and implementation of policy tools such as a national financial education strategy, innovations by financial service providers, and the combination of expertise and know-how of other public and civil-society actors.

6. Responsible Innovation. The rapid application of technology in the financial inclusion industry has exerted pressures on existing regulatory environments created in the context of traditional financial services. The Handbook promotes a broad-based regulatory approach to advance consumer financial protection, with expanded recommendations around DFS to reflect emerging consensus and research on consumer risks and to highlight areas where additional evidence and guidance are needed to support regulation. Such recommendations can help bring a consumer protection perspective to regulatory practices including regulatory sandboxes, innovation hubs, and accelerators being used by regulators as testing grounds for regulating new financial products, services and business models.

Expanded Areas of Focus in the Handbook

1. Digital Financial Services (DFS)
The Handbook addresses consumer protection issues relevant to DFS, generally defined as any financial services delivered and accessed through digital means. This includes online, card and mobile delivery of services as well as services enabled through new technologies such as machine learning, “big data” and artificial intelligence (AI). Indeed, while DFS create an opportunity to scale convenient and easy-to-access financial services to underserved populations, they also raise emerging risks. Examples of such risks include aggressive marketing, confusing interfaces, transparency concerns, poor product design, underwriting techniques based on “big” data, data privacy and confusion regarding complaint resolution, among others. Consideration is given to the use of agents as the primary contact with consumers, the reliance on technology interfaces and digital platforms, increasingly complex value chains, responsibilities of non-bank providers like mobile network operators and fintech companies regarding consumer protection, and the role of non-financial regulators in promoting responsible digital finance.

2. Security and Fraud Issues Surrounding DFS
Although not normally considered consumer financial protection issues, security and fraud risks are key considerations in promoting positive consumer protection outcomes while expanding financial access to vulnerable segments of the population through DFS. The Handbook requires financial service providers to be aware of security and fraud-related risks and to implement systems that mitigate and monitor these risks.

3. Responsible Savings, Insurance and Payments Products
The consumer protection recommendations of the Handbook are intended to cover most financial products and services offered by financial service providers, with a focus on credit and (to a lesser extent) savings, insurance and payment products. Additional learning from providers regarding responsible savings, insurance and payments products are incorporated throughout the Handbook and will be the subject of more in-depth review by CFI in the future.

Comments on the Handbook
A key premise of the Handbook is that it is a living document that will be amended from time to time to reflect experience and emerging practice. The authors welcome any and all comments and suggestions for future editions. Please send your feedback to cfi@accion.org.

Recommended Resources and References
A list of recommended resources to support consumer financial protection efforts generally and to provide further guidance on topics not covered in the Regulator Guidelines is provided with the references in Annex I.
1. Strengthening Key Legal Aspects of Consumer Financial Protection. The Handbook is an idealized presentation, providing a view of key legal aspects that a consumer protection regime should address in a jurisdiction with no pre-existing laws or regulatory bodies covering consumer financial products and services. However, there are few, if any, countries where this is the case. In actual implementation, the recommendations of the Handbook must be tailored to reflect the unique political, legal and economic circumstances of the adopting country. Consumer behavior and legal context all differ from country to country, and as such, detailed laws or regulations from one country cannot be adopted wholesale and enforced in another jurisdiction. Much of the commentary seeks to explain or elaborate on why particular policy choices appear in the provisions. Elsewhere, commentary describes alternatives to the proposed provisions or other relevant considerations. However, even where an explicit discussion of alternatives is absent, those utilizing the Handbook may conclude that pre-existing structures, laws and political environments may make other policy choices a better fit for a specific country.

2. Model Provisions. Although framed as model legislative language, the Purpose and Content sections have been designed as a useful template for drafting various components of an overarching legal framework, such as laws, regulations, rules, standards, circulars or guidelines. To facilitate application, the Handbook includes commentary. Furthermore, to become operational and be fitted to local circumstances, some provisions of the Handbook may require further elaboration depending on the legal or policy tool to which it is applied. For example, greater detail for registration requirements, model disclosure forms, a standardized interest rate method, length for rescission periods and other thresholds would need to be provided for.

3. Risk-Based Sequence of Implementation. Regulators with a nascent consumer financial protection regime may wish to take an incremental approach, first addressing the most salient risks or establishing the simplest and most effective requirements, such as standardized disclosure regimes, before promulgating more complex regulations. Regulators need to build their own capacity and, through effective
regulation, build the credibility and political will necessary to implement further protections. Where the recommendations in the Handbook are followed, regulators must address how to treat products and services that may have been developed, marketed or sold before the new legal regime was in effect. The best approaches to alleviating these concerns will largely depend on how similar the new consumer protection regime is to the old one.

4. **Scope of Products Covered.** The Handbook provides guidance with respect to financial products and services for consumers and micro and small enterprises at the base of the pyramid, with the goal of providing consumers a consistent level of protection regardless of the particular product, service, channel or financial service provider. In many countries, because of existing structures and political realities, a consumer protection scheme across all financial service providers may be difficult to develop. However, even where implementing such broad coverage is impractical, the provisions of the Handbook may still prove useful. Most provisions can be easily adapted to cover a narrower set of products, services, channels or financial service providers.

5. **Complementary Use of Handbook with Responsible Digital Finance Efforts.** Fostering a consumer protection ecosystem is more likely to be successful when certain conditions exist, including political and public support, engagement of stakeholders, a careful study of the current laws and regulations and coordination among different authorities, such as those regulating data protection, anti-money laundering, counter-terrorist financing, telecommunications, competition and general consumer protection, as well as self-regulatory (e.g., Smart Campaign and GSMA certification programs) and consumer education efforts. This Handbook can be used to support the analysis of the existing legal frameworks in dialogue with financial service providers, consumer groups, consumers, industry associations, related authorities, media and other stakeholders to increase support for changes. A deep examination must also be made of existing market conditions to take stock of the size and complexity of current financial service providers, the actual and potential capacity of regulators and the areas where consumers are most vulnerable.
1.1 Definitions of Terms

To define certain terms used frequently in this Act or that are basic to its understanding.

1. In interpreting this Act, the following definitions shall apply:

a. “Applicable Laws” shall mean all applicable laws, ordinances, regulations, rules, administrative orders, decrees and policies of any government, governmental agency or department of the country, block of countries or political subdivision in which a Financial Service Provider is located, or elsewhere, applicable to a Financial Service Provider.

b. “The Board” shall mean the highest-level governing body of a Financial Service Provider.

c. “Client” shall mean an individual or a micro or small business that is a current, prospective or former customer of a Financial Service Provider.

d. “Client Data” shall mean any identified or identifiable information about a Client that a Financial Service Provider directly or indirectly collects and/or processes in connection with the marketing, sale, delivery or servicing of a Product and Delivery Channel. For purposes of this definition and [Section 9 — Privacy and Security of Client Data], “collects and/or processes” and derivatives thereof shall mean any use of Client Data by any means, including without limitation, collecting, buying, renting, gathering, obtaining, receiving, accessing, recording, organizing, structuring, storage, adaptation, alteration, retrieval, consultation, usage, selling, disclosure, disseminating or otherwise making available, transfer, restriction, erasure or destruction. This includes receiving information from the Client, either actively or passively, or by observing the Client’s behavior. Client Data does not include Client Data that is de-identified or aggregate consumer information.

e. “Complaint Handling Mechanism” shall mean the internal Client complaint mechanism established within a Financial Service Provider.

f. “Consumer Financial Protection Laws” shall mean this Act, [enumerate all pre-existing consumer financial protection laws], and any regulations, rules, guidance, administrative orders, decrees and policies issued under the aforementioned laws.
g. “Credit Reporting Systems” shall mean private credit bureaus and public credit registries in the jurisdiction in which a Financial Service Provider is located or any providers, organizations or systems designated by the Supervisory Authority.

h. “Data Privacy and Protection Laws” shall mean all applicable laws, regulations and statutes that govern the privacy, confidentiality and security of a Client’s financial or personal information.

i. “Declining Balance Calculation Method” shall mean that the interest charged on any loan payment is to be calculated based on the current outstanding principal and accounting for all payments made in previous periods.

j. “Directly Managed Agent” shall mean any individual having a business relationship with a Financial Service Provider to interact with Clients in connection with a Product and Delivery Channel under the direction of a Financial Service Provider.

k. “Financial Service Provider” shall mean any provider of a Product and Delivery Channel regardless of the organization’s corporate form and primary business lines, whether or not it is prudentially licensed, and whether it is run for private gain or for charitable purposes, including without limitation, public and private banks, credit unions, microfinance institutions, money lenders, digital Financial Service Providers, e-money issuers, money transfer companies and when applicable, retail stores, post offices and pawn shops.

l. “Key Facts Statement” shall mean a discrete, highly conspicuous section of a disclosure document highlighting important information on the terms and conditions of a Product and Delivery Channel as an aid to prospective Client understanding.

m. “Pricing Procedures” shall mean the written policies and procedures for setting Product and Delivery Channel prices by a Financial Service Provider.

n. “Privacy Policy” shall mean a Financial Service Provider’s written policies and procedures for protecting the privacy, confidentiality and security of Client Data and complying with Data Privacy and Protection Laws regarding the same.

o. “Product and Delivery Channel” shall mean any or all financial product(s) or service(s) generally marketed, sold, delivered or serviced to Clients or delivery method(s) used to provide such product or service.

p. “Standardized Interest Rate” shall mean the interest rate which reflects the true total cost of a Product and Delivery Channel, including all interest and non-interest charges and fees, expressed as a single rate, and in accordance with any applicable calculation schedule promulgated by the Supervisory Authority.
q. “Supervisory Authority” shall mean the governmental authority(ies) which regulates the marketing, sale, delivery and servicing of a Product and Delivery Channel and the conduct of Financial Service Providers toward Clients.

r. “Third-Party Provider” shall mean any individual or entity in a business relationship with the Financial Service Provider to interact with Clients or provide goods or services in connection with a Product and Delivery Channel.

2. The Supervisory Authority may interpret or define any term not defined in this section through rulemaking.

**COMMENTARY:**

**a) Generality of Definitions.** The terms above are defined broadly with the intention of providing a general overview of how these terms are used in the consumer financial protection context and to enable regulators the flexibility to more specifically define these terms as may be necessary to implement a legal framework that is compatible with a specific jurisdiction.

**b) Protecting Micro and Small Businesses.** Micro and small businesses confront many of the same accessibility issues that individuals do and are included in the definition of Client. Consumer protection should therefore be equally applicable to and benefit individual consumers as well as micro or small businesses and entrepreneurs. Regulators may consider a standardized definition of micro and small businesses based on asset value, turnover and/or number of employees.

**c) Broad Definition of Financial Service Provider.** A key theme underlying the Handbook is that a comprehensive consumer protection legal regime must broadly apply to all providers providing similar products or services irrespective of form or function, as further discussed in Section 1.2, Commentary (a) — Leveling the Playing Field.

**d) Models for Agents and Third Parties.** Models for a provider’s use of third parties to interact with clients or otherwise support the provision of a product vary. While providers are responsible for the treatment of their clients, the degree of oversight and monitoring of the third party’s practices that the provider conducts should be proportional to the complexity and degree of tailoring of the service provided and the level of third-party interaction with clients. In some models, providers contract with agent network managers who provide customized and tailored services, while in other models, providers simply contract with a vendor of an “off-the-shelf” service. In some models, agents have a role in bespoke functions like marketing, client selection and onboarding, while in other models, agents only process transactions, a routine function. In some models, agents are exclusively dedicated to one provider, while in other models, agents perform services for multiple providers. The varied models pose different consumer financial protection risks. Thus, the Handbook distinguishes individual, directly managed agents from other third parties like agent network managers, collection agencies, data analysis providers and call center operators, among others.
1.2 Scope of Application

**PURPOSE:** To define the scope of application for this Act.

**CONTENT:**

1. This Act applies to all Financial Service Providers. A Financial Service Provider is accountable for any violations of this Act in connection with its Product and Delivery Channel so long as these violations occur as a result of the acts or omissions of their managers, employees, Directly Managed Agents or Third-Party Providers.

2. This Act applies to any Product and Delivery Channel marketed, sold or delivered on or after [the day of enactment of this law], irrespective of whether a Financial Service Provider resides or has its principal office within or outside [X Country].

3. This Act applies to any Product and Delivery Channel that is marketed, sold, delivered to or serviced for Clients.

4. This Act does not apply to informal, non-commercial, irregular transactions between individuals or groups of individuals in a non-commercial setting.

**COMMENTARY:**

*a) Leveling the Playing Field.* As much as possible, all providers of similar financial services should be held to similar and proportional consumer protection standards. Creating specialized regimes and applying more stringent requirements on certain types of providers encourages regulatory arbitrage, in which providers may seek whichever license or formation type will allow them to avoid the costliest compliance. In many countries, for example, unregulated pawn shops are major providers of consumer credit. Consideration should also be given to the various models of financial services that are digitally delivered and the corresponding partnerships. For example, mobile network operators (MNOs) providing digital credit are increasingly prevalent in certain markets. Applying the same set of consumer protection standards ensures that all providers are subjected to the same rules. This levels the playing field among all providers offering similar financial services, be they banks, microfinance institutions, credit unions or other providers, digital or otherwise, including those currently not regulated.

*b) Excluded Types of Financial Activity.* While the Handbook’s recommendations apply broadly to all providers of financial services, this section is designed to exclude informal types of financial activity from its scope. Excluded informal activity means non-commercial transactions, such as loans between family members or friends, which would be unfeasible to regulate or supervise. However, peer-to-peer lending and other direct client-to-client financial activity should be covered in cases where the transaction is facilitated by a formal provider. Commercial activity amongst medium and large sophisticated businesses is also excluded.
c) Conduct of Employees, Agents and Third-Party Providers. Providers should be responsible for the conduct of their employees and third parties that interact with clients for the benefit or at the direction of the provider or otherwise support the provision of a product or service at any point in the value chain. As a general rule, when providers contract with third parties those contractual arrangements should include requirements for high standards of service and compliance with applicable regulatory requirements, in addition to any allocation of liability that may be agreed between the parties. For example, third-party providers like data analytics firms, call centers and external debt collectors should be compliant with the recommendations in Section 4 — Appropriate Design of Products and Delivery, Section 5 — Preventing Over-Indebtedness, Section 9 — Privacy and Security of Client Data and Section 10 — Complaints Resolution. See Section 3.2, Commentary (c) — Third-Party Compliance for additional discussion.

d) Client Harms. Clients should not be held responsible where a provider’s employee, agent or third-party provider is at fault (e.g., where an agent lacks funds or systems fail). Where disputes arise between providers and other entities in the supply chain working to deliver a product or service to clients (e.g., agent networks, MNOs, interchange services), regulators should require providers to (i) insulate their clients from such disputes and (ii) provide appropriate recourse mechanisms available to clients. The supply-side parties involved in the dispute should attempt to resolve any issues according to the terms of their contractual arrangement or other mechanisms. Additional recommendations on this topic are provided for in Section 8 — Fair and Respectful Treatment of Clients and Section 10 — Complaints Resolution.
2.1 Establishment of the Supervisory Authority

**PURPOSE:**
To create a discrete authority to implement and enforce Consumer Financial Protection Laws and prevent harm to Clients.

**CONTENT:**
1. There is hereby established [as an independent agency] [or] [as a department within X] [or] [as an interagency unit with X and X] a Supervisory Authority which shall regulate the offering, sale, delivery and servicing of any Product and Delivery Channel and the conduct of Financial Service Providers toward Clients.

2. The objective of the Supervisory Authority is to minimize the occurrence of harms to Clients resulting from the conduct of Financial Service Providers.

**COMMENTARY:**

*a) Institutional Arrangements.* Consumer financial protection may be handled by a dedicated department or staff unit within the central bank, a prudential regulator or a general consumer protection regulator, or it may be spread amongst several agencies, each charged with overseeing different types of products, channels (e.g., agents), financial service providers or overlapping areas of consumer risk with increased reliance on telecommunications infrastructure. The language in the Handbook seeks to encompass or be adaptable to all of the above formats for a supervisory authority (or authorities) although for convenience adopts the singular use of the term supervisory authority.

*b) Importance of a Strong Regulator.*
Well-written consumer financial protection laws and regulations are of no use without capable regulators overseeing and enforcing them. Not only must there be regulators in place capable of examining and supervising providers for compliance with consumer protection requirements, but such regulators must be able to promulgate new rules and guidance. The effectiveness of the supervisory authority depends on internal capacity and resources. Investment in capacity building will help regulators gain knowledge and develop expertise to implement its consumer financial protection objectives. Market monitoring and periodic trainings and engagement with industry, local ministries, peer regulators and other stakeholders will help deepen regulators’ understanding of market risks and firm risks, provide an opportunity to engage with and learn from key players and the rapidly changing industry, and learn from and collaborate with other regulators. Furthermore, sufficient resources and coordination with stakeholders to implement effective supervisory and market conduct tools, such as market monitoring and surveillance, will support regulators to carry out their mandate.
c) Consumer Protection as a Discrete Function. Prudential regulation differs dramatically from consumer protection regulation in that prudential regulation focuses on the economic health of institutions and the financial system, a focus that tends to be quantitative in nature. Consumer financial protection regulation, on the other hand, focuses on the individual financial products; the way they are marketed, sold, delivered and serviced; and their impact on clients, which is naturally a more qualitative focus that requires very different expertise. Consumer protection is critical for the safety and soundness of the financial sector and should be included as a discrete function with dedicated staff focused on protecting clients, regulating the market conduct of providers toward clients, and empowered to supervise providers—whether or not those providers are subject to prudential oversight. Some providers (such as non-depository microfinance institutions and certain non-bank financial service providers) that should be supervised for consumer protection purposes may pose minimal prudential risk and thus may not need to be subject to prudential supervision.

d) Other Provisions Required for Implementation. Legislation establishing a new regulator, a new department within an existing government agency or an interagency authority will require additional provisions. The legal framework should clearly define how the leadership will be structured and appointed and may also describe the internal organization and financing (e.g., budget/expenditure approvals) of the supervisory authority. It is desirable for the supervisory authority to be as independent as possible from political interference and also checked from arbitrary or capricious abuses of governmental authority. Such concerns may be addressed through the design of the governance and internal structure of the supervisory authority, its relationship to other governmental authorities, and through establishing administrative checks and balances, such as providing for rules or enforcement actions to be reviewable by another governmental body. Complaints against the supervisory authority could be directed to an appeal process within another regulatory body or to an ombudsman’s office charged with investigating such complaints.

e) Pre-Existing Regulator(s). A number of jurisdictions already have consumer financial protection regulators in place. Where such an authority is already in place, the language of this section should be changed from establishing a new agency to, instead, explicitly empowering the existing regulator(s) with the authorities and powers contained in the remainder of this Handbook. In order to provide the existing regulator(s) with expanded authorities, in some cases, other laws may need to be amended. Depending on the legislative, regulatory and/or rulemaking process in the given jurisdiction, this is likely to be a difficult process, and one that must take into account the functions and authorities of other regulators to avoid overlap or establish mandated interagency coordination.

f) National Financial Inclusion, Consumer Protection and Financial Capability Strategies. Although not articulated in Section 2.1—Establishment of the Supervisory Authority consumer financial protection regulators should be key stakeholders in the process of developing and implementing a national financial inclusion strategy, national consumer protection strategy and/or national financial capability/education strategy. Such participation ensures consumer financial protection is a specific policy objective that is prioritized in promoting financial inclusion goals and complementary financial capability initiatives that are important to consumer protection.
2.2 Authority and Jurisdiction

**PURPOSE:** To grant the Supervisory Authority rulemaking authority for Consumer Financial Protection Laws and supervisory jurisdiction over all Financial Service Providers of any Product and Delivery Channel.

**CONTENT:**
1. The Supervisory Authority shall have rulemaking authority for all Consumer Financial Protection Laws, including but not limited to, protections related to any Product and Delivery Channel, as defined in this Act.

2. The Supervisory Authority may prescribe rules covering and engage in supervision of all Financial Service Providers as defined in this Act.

**COMMENTARY:**

**a) Clearly Defined Rulemaking Authority.** To avoid regulatory turf battles and questions of authority, the supervisory authority should be given clearly defined rulemaking power for all consumer financial protection laws. Any pre-existing laws or regulations and authorities shall be referenced in the definitions section and may require amendments to avoid overlapping and/or potentially conflicting regulations.

**b) Joint Rulemaking.** Where applicable, provisions regarding interagency mandates and/or joint rulemaking authority would need to be incorporated taking into account the relevant legal and political context.

**c) Consistent Application.** For the same reason that a level playing field will promote consistent consumer protection standards across all providers of similar financial services, it is also advisable that the respective rulemaking powers of the authority or authorities responsible for supervising all providers and channels be specifically enumerated. Where multiple authorities are engaged in consumer financial protection, mechanisms should be put in place to promote consistent application of consumer protection rules, as further described under Section 2.4, Commentary (c) — MOU, Agreements and Public Enforcement Orders.

**d) General Consumer Protection Law.** If a pre-existing general consumer protection law that addresses non-financial as well as financial services with jurisdiction over providers is in place, it is important to take into account that general consumer protection bodies often have little regulatory capacity to appropriately supervise financial products and instead tend to prioritize health, safety and fraud concerns. Accordingly, where conflicts occur, financial consumer protection laws and authorities should supersede those of general consumer protection.

**e) Converging Regulatory Mandates.** The surge of policy activity in connection with DFS, especially that which relates to new market participants, has resulted in overlapping mandates of different authorities. Well-defined mandates and rulemaking authority should be combined with clearly articulated and formalized division of responsibilities to prevent conflict and confusion among the authorities, providers, agents and third-party providers, and ultimately clients. Where such definition is not anticipated under the existing or proposed legal frameworks, regulators are urged to assess methods of collaboration and coordination, as further described in Section 2.3, Commentary (e) — Coordination and Consultation Approaches. For example, the supervisory authority could develop a memorandum of understanding (MOU) between it and any other regulatory agency with an overlapping consumer financial protection mandate (e.g., consumer protection in the mobile data security context may overlap with the telecommunications authority). Such an MOU could, for example, provide for consultation and coordination on matters of shared policy interest, cooperation.
2.3 General Powers

PURPOSE: To grant the Supervisory Authority the basic powers needed to regulate Financial Service Providers.

CONTENT: 1. Licensing and/or Registration:
   a. The Supervisory Authority may:
      i. In compliance with [Section 2.3(4)—Coordination], require the licensing and/or registration of a Financial Service Provider.
      ii. Upon a finding that a Financial Service Provider is in violation of Consumer Financial Protection Laws, suspend or revoke the Financial Service Provider’s licensing or registration.

2. Supervision:
   a. The Supervisory Authority may require reports from, and conduct examinations of, a Financial Service Provider for the purposes of:
      i. Assessing compliance with Consumer Financial Protection Laws.
      ii. Obtaining information about the activities, practices, policies and procedures of a Financial Service Provider.
      iii. Detecting and assessing risks to Clients and to markets for any Product and Delivery Channel.

3. Market Monitoring:
   a. The Supervisory Authority may:
      i. Require reports, as needed, from Third Party Providers of Financial Service Providers and industry associations.
      ii. Access relevant data about any Product and Delivery Channel and markets from other government agencies.
      iii. Produce and publish reports on the financial services industry’s consumer protection performance.
4. Coordination:

a. The Supervisory Authority shall:

i. To the extent reasonably possible, coordinate examinations with prudential regulators, other government agencies, independent certification bodies and industry associations, as appropriate.

ii. To the extent reasonably possible, coordinate the content, timing, form and collection of required reports and applications with prudential regulators, other government agencies, independent certification bodies and self-regulatory bodies, as appropriate.

COMMENTARY:

a) Powers. This section provides a variety of powers and capabilities for regulators. In general, these powers represent tools to be used at the option of the regulators. For example, regulators may suspend the license or registration of a provider upon finding a violation but need not do so if other regulatory tools are more appropriate and would be advised to use such a power only in extreme cases. Giving regulators an array of tools to be used at their discretion allows local experts to select the best method to address problems under the local circumstances. These tools should be used in a risk-based and proportionate manner, focusing supervisory attention on the greatest harms in the marketplace. Other powers may be required in actual implementation to allow the supervisory authority to operate as an independent government agency. These powers may include the ability to enter contracts, employ staff, lease buildings and set budgets.

b) Requiring Licensing/Registration. All providers should, at a minimum, be required to obtain a license or register. The licensing/registration requirements and vetting process would enable regulators to evaluate a provider’s fitness to offer the intended products and services before the provider engages with clients. While deposit-taking providers are generally required to obtain bank licenses, many countries have no license or registration requirement for non-deposit taking, lending-only providers. This omission is generally a reflection of the low risk such providers pose from a prudential perspective. However, to protect all consumers of financial services and to ensure a level playing field from a consumer protection perspective, all providers should be subject to regulation. A licensing/registration requirement ensures that regulators are aware of the provider and that the provider meets minimum requirements. Providers not subject to prudential supervision should register directly with the supervisory authority. Consumer financial protection regulators should coordinate with other government authorities and agencies responsible for separate licensing, registration or other regulatory schemes (prudential, payments, agent banking, etc.) that providers may be subject to in order to minimize duplicative filing requirements and allow bank licenses and other regulatory approvals to satisfy the registration requirement of this section. Registration requirements may be tiered depending on the provider type, but there should be no material difference with respect to market conduct rules. Additional provisions may be promulgated here to provide a detailed license or registration process and specify size or activity level thresholds under which a license or registration is not required. Failure to meet license and/or registration requirements should lead to denial of a licensing or registration application, and failure to maintain any such requirements should lead to suspension or revocation of the license or registration.

c) Reporting Requirements. The supervisory authority may require regular reports from all covered providers. Reporting deadlines and formats should be consistent with respect to...
providers in a particular segment. These reports provide regulators with information about the state of the market and can help flag potential trouble areas. For example, providers should be required to report, at a minimum, on financial performance in a standard manner (e.g., when reporting on delinquencies, rescheduling, etc.). In some jurisdictions, regulators even review contracts that a provider is using, whether with clients or third-party service providers. However, because the administrative costs of reporting may be high, smaller providers should be held to less frequent and simpler reporting requirements than larger and more complex providers. At a minimum, providers should be required to report pricing data, information on client complaints, portfolio status and incidence of default. For financial products and services delivered digitally or through agent networks, regulators should consider requiring reports to include a list of agents and/or agent network managers, agent trends, sanctions or blacklisting of agents, or blacklist of clients by the provider. Where industry associations are present, such organizations should be seen as important sources of reporting standards, market intelligence and analysis. Especially in regard to market monitoring, industry associations may already provide comprehensive information. Where this is the case, the supervisory authority should avoid creating duplicative processes and instead coordinate and consult with these industry associations.

d) Standardized Reporting Using Regulatory Technology and Supervisory Technology. Recent developments suggest that standardized, electronic reporting and the adoption of regulatory technology (regtech) and supervisory technology (suptech) approaches to compliance and supervision by and among providers and the supervisory authority can facilitate the supervisory authority’s ability to implement its supervisory activities more efficiently and cost-effectively. Regtech and suptech, like fintech, reflect a rapidly developing field with opportunities and challenges in areas like automation, data collection, real-time supervision, predictive or dynamic supervision, algorithm supervision and machine-readable regulations. For example, the Financial Conduct Authority of the United Kingdom began efforts to make financial regulations and reporting requirements machine readable and executable. The objective is to reduce compliance and oversight costs and implement regulatory changes more quickly.

e) Coordination and Consultation Approaches. Coordination and consultation with other regulators, such as prudential, telecommunications and competition authorities, can help ease the regulatory burden on providers and therefore help keep compliance costs down. Regulators should, to the fullest extent possible, synchronize, share and harmonize all required reports and examinations to avoid duplicative processes. Cooperation among oversight bodies can take various forms. The G20/OECD Task Force on Financial Consumer Protection suggests that the following approaches are most effective for successful interagency coordination: (i) coordinating around regulatory and/or supervisory gaps; (ii) providing a high-level forum (e.g., board or committee) between agencies; (iii) providing a joint forum for answering questions and responding to comments from the general public, and monitoring trends in unfair business practices; (iv) coordinating and exchanging information for supervisory and compliance-related issues; and (v) establishing an agreement, typically an MOU (a template is referenced in Section 2.2, Commentary (e) — Converging Regulatory Mandates) or covenants with the complementary authority, which prescribes the following: common interest areas, operation plans (e.g., enforcement, information exchange, cross-border issues, compliance issues, educational awareness objectives) and relevant delegation of powers between the participating authorities.

At a high level, establishing collaborative regulatory consumer financial protection framework among different authorities could be accomplished by considering the following framework building blocks: sharing information (complaint statistics, fraud reports, legal claims against supervised institutions); undertaking joint work (research, consumer education and awareness, investigations); coordinating regulatory and supervisory responses to consumer protection issues facing the market; and collaborating with the industry on consumer protection issues.
f) **Examples of Interagency Coordination.**

The following represent examples of interagency coordination:

(i) **Sharing Information and Coordinating Complaints.** The Central Bank of Brazil has cooperation agreements with the competition agency and the general consumer protection agencies. When practical, these institutions share information on consumer complaints and undertake collaborative research. The Peruvian Superintendence of Banks and Insurance coordinates with Indecopi, the National Institute for the Defense of Free Competition and the Protection of Intellectual Property. The agencies coordinate consumer complaints with the goal to minimize duplication of complaints against financial institutions.

(ii) **Coordinating Market Responses.** In July 2015, China’s government clarified its position on the development of the digital finance sector by releasing the Regulator Guidelines on Promoting Sound Development of Internet Finance, thereby establishing market-wide goals among China’s four financial regulators. Along with instituting new rules for digital payments providers, the People’s Bank of China supported the establishment of the China National Internet Finance Association as a way to supervise the digital finance industry.

(iii) **Collaborating with Industry.** The Central Bank of Cambodia, the Cambodian Microfinance Association and its member institutions together with investors and the Smart Campaign engaged in a coordinated effort to set and enforce Lending Guidelines (as part of the Lending guidelines Project and Smart Campaign Certification) and establish a monitoring and reporting framework to curb loan refinancing practices contributing to over-indebtedness. In Uganda, the Tier IV Microfinance Institutions Act was passed by the Parliament in 2016 after consultation with stakeholders like the Association of Microfinance Institutions of Uganda (AMFIU), effectively establishing the Uganda Microfinance Regulatory Authority (UMRA). UMRA has the authority to license, regulate and supervise all Tier IV financial institutions. UMRA promotes a sustainable non-banking financial institution’s sector to enhance “financial inclusion, financial stability, and consumer financial protection among the lower income population.” Argentina supported deposit guarantee reforms with the establishment of an inter-ministerial committee on financial inclusion.

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**2.4 Enforcement Powers**

**PURPOSE:**

To grant the Supervisory Authority a range of enforcement powers.

**CONTENT:**

1. The Supervisory Authority may take any or all of the following steps upon a substantiated finding that a Financial Service Provider is in violation of Consumer Financial Protection Laws:

   a. Require the Financial Service Provider to sign a memorandum of understanding or agreement.

   b. Require the Financial Service Provider to enter into a public enforcement document (e.g., [consent order]).

   c. Publish the names of offenders.

   d. Assess monetary penalties reflecting the harm done to Clients.
e. Require the Financial Service Provider to refund excess charges to Clients.

f. Require the Financial Service Provider to correct any erroneous data, information or statements.

g. Prohibit the Financial Service Provider from offering a particular Product and Delivery Channel or class of Product and Delivery Channel by issuing an order or by placing certain conditions on any required licenses or registrations.

h. Revoke, suspend or otherwise limit a Financial Service Provider's license and/or registration.

i. Restrict the ability of the Financial Service Provider to continue to collect fees or charges in connection with a particular Product and Delivery Channel or class of Product and Delivery Channel.

j. Remove Financial Service Provider officials responsible for violations and ban them from working for any Financial Service Provider.

k. Place a non-prudentially supervised Financial Service Provider into conservatorship or recommend that a prudentially supervised Financial Service Provider be placed into conservatorship.

l. Refer the matter to criminal authorities for prosecution and potential criminal penalties.

**COMMENTARY:**

**a) Finding Violations.** Regulators should be careful that enforcement actions are aimed at efficiently and effectively correcting market practices while ensuring that clients maintain access to financial services. A finding of wrongdoing must be made in accordance with the existing laws and customs of the relevant jurisdiction. In general, a substantiated finding will be the result of an administrative process that is clearly defined and articulated, includes an appeals process, and involves more than one person evaluating the relevant evidence. To promote fairness and build the credibility of the supervisory authority, regulators should embrace transparency by clearly articulating their policies, procedures and expectations to all providers and by specifying what amounts to a violation through implementing rules and administrative adjudications with precedential value.

**b) Reviewing and Updating Enforcement Powers.** Enforcement should adjust and evolve as providers offering financial products and services in a respective jurisdiction become more sophisticated and as regulators’ capabilities (e.g., manpower, financial resources, etc.) change. Regulators should consider reforming and revising regulations to account for changes in domestic realities and capacities, the continued development of international standards, and the availability of new technologies. Regulators should also recognize that, especially in jurisdictions where a consumer financial protection regime previously did not exist or significantly develop, the cost to become compliant and maintain compliance with new regulations can be significant for providers, both in terms of time and financial resources. Providers should be allowed a reasonable amount of time to become compliant before enforcement actions are taken.
2.5 Rulemaking

**PURPOSE:** To empower the Supervisory Authority to promulgate regulations.

**CONTENT:**

1. The Supervisory Authority may prescribe rules and issue standards, guidance or orders to carry out the purposes and objectives of the Consumer Financial Protection Laws, and to prevent evasions thereof.

2. Without limiting the generality of the section above, standards and rules promulgated under that section may address:

   a. Appropriate design of products and delivery.

   b. Prevention of over-indebtedness.

   c. Transparency.

   d) MOUs, Agreements and Public Enforcement Documents. Enforcement actions such as MOUs, agreements and public enforcement documents may vary in form and scope, but the intention is to empower the supervisory authority to utilize such actions to protect clients from harm by requiring affirmative actions by providers, restricting activities, and/or establishing corrective and remedial measures that can be enforced by regulators in accordance with the recommendations of this Handbook or by other processes (e.g., judicial process) that may be available in the jurisdiction.

   e) Rights of the Accused. Enforcement of financial regulation may be selective based on the resources and capabilities of the supervisory authority and its enforcement body, but by no means should regulations be enforced discriminatorily. They should be based on evidentiary standards in the respective jurisdiction. An organization subject to enforcement should have an opportunity to defend itself against an enforcement action and be provided with due process, within the meaning of that term as it applies within the administrative and legal processes of that jurisdiction.

   f) Where Enforcement Threatens Financial Stability. A concern regarding expansive enforcement powers is that negative outcomes may result where regulators exercise enforcement actions (e.g., run on deposits). However, given the importance of consumer financial protection to the safety and soundness of the sector and the separate, but complementary role of capable prudential regulation to control systemic risks to the sector, such concern in the context of consumer financial protection enforcement is minimized.
d. Responsible pricing.

e. Fair and respectful treatment of Clients.

f. Privacy and security of Client Data.

g. Mechanisms for complaint resolution.

3. In promulgating rules and setting standards the Supervisory Authority must consider:

a. The potential benefits and costs to Clients, including the positive benefits of any Product and Delivery Channel and any reduction in financial access.

b. The financial impact on Financial Service Providers related to compliance costs and benefits to Financial Service Providers.

**COMMENTARY:**

**a) Broad Authority.** Regulators should have broad authority to set standards related to any point in the product life cycle (from design and conception to advertising and sale, servicing, record retention, and use of client data) no matter the provider or partnership involved, and through the duration of the contract or other compliance obligations (such as data privacy). The financial services industry is in a constant state of evolution. The classic consumer protection approach focused exclusively on disclosure at the time of purchase; however, “buyer beware” has proven unable to protect clients in the ever-changing marketplace. It is particularly inadequate where it is unreasonable for underbanked clients to understand the expanded complexities of DFS. To correct harmful practices as they emerge, the supervisory authority needs to be able to address issues that may arise throughout a provider’s relationship with a client.

**b) Risk-Based and Proportionate Regulation.** There is great variety in the risk posed to clients by different financial services and providers. Regulators should adopt a philosophy of risk-based and proportionate regulation, with the regulatory burden reflective of the probability and potential magnitude of harm to clients based on the consumer protection risks identified.

**c) Benefits of Compliance.** Although there may be costs associated with legal and regulatory compliance, there are also benefits. Examples reported by providers include higher customer retention, improved customer service, reputational and brand equity, better designed products, lower portfolio at risk (PAR), strengthened employment practices, better staff development and engagement, responsible data management and others. These benefits are detailed in the Consumer Protection Resource Kit (October 2017) and the Smart 100 Certifications blog series (May 2018).
### 3.1 Prohibited Acts

**P U R P O S E:**
To prohibit Financial Service Providers from operating without a valid license and/or registration or in violation of Consumer Financial Protection Laws.

**C O N T E N T:**

1. It shall be unlawful for a Financial Service Provider directly or indirectly through a Directly Managed Agent or Third-Party Provider:

   a. To offer or provide a Product and Delivery Channel without a valid license and/or registration under [Section 2.3(1) — Licensing and/or Registration].

   b. To offer or provide any Product and Delivery Channel in violation of a Consumer Financial Protection Law or commit any act or omission in violation of a Consumer Financial Protection Law.

   c. To engage in any unfair, deceptive or abusive act or practice.

   d. To enter into or amend a contract for a Product and Delivery Channel with any term or condition that is unfair.

   e. To engage in abusive debt collection practices.

   f. To provide a Product and Delivery Channel to any person who does not have the legal capacity to enter into the transaction.

   g. To engage in any practice that fails to comply with Data Privacy and Protection Laws and [Section 9 — Privacy and Security of Client Data].

   h. To fail or refuse to take any action required by any Consumer Financial Protection Law or any rule or order issued by the Supervisory Authority.
**COMMENTARY:**

**a) Broad Prohibition on Unfair, Deceptive or Abusive Acts and Practices.** Note that while Section 2.5—Rulemaking grants regulators the power to issue rules aimed at preventing harmful behavior, this section contains a broad prohibition on unfair, deceptive or abusive acts or practices. This gives the supervisory authority broad authority to step in and stop the most malicious practices when they are detected without relying on another section of this Handbook covering the behavior. However, this authority comes at the price of added uncertainty for providers. Regulators should, over time, develop more concrete and specific guidance in regulations or directives as to what acts and practices are unfair, deceptive or abusive. Such guidance should be made in consultation with industry and stakeholder groups, and in consideration of best practices and local context.

**b) Example Definitions.** In the United States, the Dodd-Frank Act considers an act or practice “abusive” if it (1) materially interferes with the ability of a consumer to understand a term or condition of a financial product or service, or (2) takes unreasonable advantage of a client’s: (i) lack of understanding of the material risks, costs, or conditions of the product or service; (ii) inability to protect his or her interest in selecting or using a financial product or service; or (iii) reasonable reliance on the person or service to act in his or her interests. “Deceptive” practices are those that are (1) misleading or likely to mislead; (2) where a reasonable consumer would be misled; and (3) the representation, omission, or practice is material. An act or practice is “unfair” when (1) it causes or is likely to cause substantial injury to consumers, (2) the injury is not reasonably avoidable by consumers, and (3) the injury is not outweighed by countervailing benefits to consumers or to competition.

**c) Unfair Terms and Conditions.** Providers should be prohibited from using any term or condition that is unfair. Such terms and conditions, if used, should be void and legally unenforceable. The World Bank’s 2017 Edition of Good Practices for Financial Consumer Protection defines an “unfair term” as that which excludes or restricts any legal requirement on the part of a provider to act with skill, care, diligence, or professionalism toward the client in connection with the provision of any product or service and/or any liability for failing to do so. Because the average client is generally not able to identify or fully comprehend contractual terms or conditions that may be detrimental to them, and even where they can, they may not be in a position to negotiate more favorable terms, providers must be limited in this way. Some countries (e.g., Mexico, Poland, and Spain) maintain a register of financial consumer contracts that display clauses considered to be unfair, abusive, and prohibited, which can be utilized by providers and clients alike to assess the fairness of contractual arrangements they are considering entering. The Smart Campaign has made tools available to providers that show examples of key facts sheets, essential documents for clients, collections guidelines, plain language contracts, and other clear loan agreements.

**d) Examples of Prohibited Behaviors.** The following general behaviors are non-exhaustive examples of the types of conduct prohibited as unfair, deceptive or abusive: the use of abusive language; the use of physical force or coercion; the use of unreasonably aggressive sales techniques or debt collection practices; the use of deceptive marketing techniques; refusing to respect a client’s right to decline financial services; limiting physical
freedom; shouting at a client; entering a client’s home uninvited; publicly humiliating a client; violating a client’s right to privacy; discriminating based on ethnicity, gender, sexual orientation, religious beliefs, political opinions or disability; participating in corruption, kickbacks or theft; and participating in sexual or moral harassment. In promulgating implementing rules under the prohibition of unfair, deceptive or abusive acts or practices, or in initiating enforcement actions, regulators should target the most egregious practices.

er) Abusive Debt Collection Practices. The prohibition against abusive debt collection practices by providers and any third parties acting on their behalf is more absolute. Abusive practices in the context of debt collection can take the form of threats, false statements, aggressive language, harassment of the debtor or the debtor’s family members, calling the debtor in the early morning or late evening hours, and excessive phone calls. Regulators should develop more concrete and specific guidance in regulations or directives as to what are acceptable debt collection practices. See also Section 8.1, Commentary (g) — Debt Collection and Defaulting Clients’ Rights for further discussion.

f) Legal Capacity. In some jurisdictions a client below a certain age may not enter into a contract for financial services unless his/her legal guardian is also a party to the contract.

3.2 Board and Senior Management Oversight

**PURPOSE:** To require that all Financial Service Providers have a compliance management system in place that effectively ensures conformity with Consumer Financial Protection Laws.

**CONTENT:**
1. The Board or a committee of the Board of a Financial Service Provider must ensure that appropriate systems and processes are in place to maintain compliance with Consumer Financial Protection Laws.

**COMMENTARY:**

a) Compliance. Providers themselves bear the primary responsibility for ensuring compliance with consumer financial protection laws and regulations. The board should be vigilant in ensuring that policies and procedures are in place to follow all such requirements. Most issues should be self-identified by the provider and corrective action should be implemented independently. Ensuring compliance by their managers, employees, agents and third-party providers should be an integral part of the operations of the provider.

b) Compliance Systems. Requiring providers to formulate an internal compliance management system not only increases the chances the providers will be in conformity with consumer financial protection laws, but also provides an important tool for regulators. Providers should be given flexibility to design compliance systems that fit their size and product class, but in general, an effective program will include top-management oversight, training, mechanisms to respond to client complaints, assessment of third-party relationships, regular
compliance audits and corrective action as needed. These compliance systems should also ensure that the provider prevents and detects fraud and acts on alleged or actual fraud that is detected. Regulators should examine the internal and external controls put in place by providers and focus regulatory attention in areas where these controls are the weakest.

c) Third-Party Compliance. The approach taken in the Handbook is that when a third party, like individual agents, are directly managed by the provider, the provider is responsible for training and oversight. When high discretion services are provided by a third party (which is nearly always the case with loan sales, client selection and onboarding, complaint call centers and collections), the provider should require high standards in their contractual arrangements with third parties and should exercise oversight and demand training, as feasible. When third parties provide an off-the-shelf service with limited discretion, such as cash-in/cash-out or routine transaction processing, the degree to which the provider can ensure good practices through training, oversight or other means is likely to be limited. In these cases, where feasible, providers should embed requirements for high standards of service into contractual arrangements with third parties. Some jurisdictions impose specific obligations on third parties. For example, in Ghana, regulator guidelines for third-party e-money issuers extend beyond providers and also obligate e-money issuers to fully adhere to the rules of the primary regulator pertaining to consumer protection. Where industry standards exist, these can also be useful. Business correspondent banks and their agents in India adhere to an industry code of conduct established by the Business Correspondents Federation of India (available at http://bcfi.org.in/wp-content/uploads/2018/12/Code-of-Conduct.pdf). GSMA, a global association of mobile operators, established a Code of Conduct for Mobile Money Providers in 2014 and a Mobile Money Certification initiative in 2018, which provides specific guidance for MNOs.

d) Reinforcing a Culture of Compliance. Culture influences individual behaviors and decision-making at every level. Therefore, providers should establish an ethical and compliant culture. To do so, the board and senior management must clearly establish written guidelines, norms, and expectations that employees must meet. Ethical behavior should be incentivized (e.g., awards, social reinforcements, etc.) and reinforced by the actions of the Board and senior management so that ethical and compliant behavior continues, whereas unethical behavior is reprimanded. The board should reinforce an ethical and compliant culture within a provider.
4.1 Design, Implementation and Monitoring

PURPOSE: To require Financial Service Providers to design, implement and regularly monitor their Product and Delivery Channels to minimize the risk of harm they pose to Clients.

CONTENT: 1. When designing and implementing a Product and Delivery Channel, a Financial Service Provider must have and follow adequate written policies and procedures to prudently identify and manage the risks of harm to Clients associated with each Product and Delivery Channel whether designed or offered by the Financial Service Provider directly or through Directly Managed Agents or Third-Party Providers. At a minimum, such policies must:

a. Identify risks likely to cause harms to Clients including risks associated with authorization, pricing, marketing, sale, delivery, distribution, portfolio management, accounting, and ongoing service and maintenance, whether or not offered directly or through a third party, and incorporate features in the design of each Product and Delivery Channel to mitigate these harms.

b. Define mechanisms for confirming that the terms and conditions of a Product and Delivery Channel are adequately understood by Clients pursuant to [Section 6—Transparency].

c. Identify material fraud and security risks of a Product and Delivery Channel and set out strategies and processes to mitigate these risks in compliance with [Section 4—Appropriate Design of Products and Delivery], [Section 5—General Requirements for Financial Service Providers] and [Section 9—Privacy and Security of Client Data].

d. Define the process for the authorization and introduction of a new Product and Delivery Channel, including clear identification of decision makers and the process for evaluating the affordability and suitability of the Product and Delivery Channel for prospective Clients.
e. Require periodic training of staff, Directly Managed Agents and Third-Party Providers engaged in Client onboarding or selection, on the appropriate design and delivery of any Product and Delivery Channel.

f. Define the process for authorization and use of Directly Managed Agents and Third-Party Providers when a Product and Delivery Channel is designed, marketed, sold, delivered or serviced through a Directly Managed Agent or Third-Party Provider and implement the mechanisms to ensure they offer safe and reliable Product and Delivery Channels and comply with all relevant operations, legal, and conduct requirements.

g. Define the process for regularly and systematically monitoring Client feedback, experience and performance data to evaluate risks and mitigants in compliance with this Act.

2. A Financial Service Provider must conduct regular assessments to monitor the risks of harm to Clients and mitigants associated with each Product and Delivery Channel at least [annually] or whenever there is a material change in a Product and Delivery Channel. On the basis of such assessments, Providers must review and update policies and procedures where necessary, and document responsive actions taken to make changes in practices relating to a Product and Delivery Channel.

**COMMENTARY:**

a) **Principle.** The client protection principle of appropriate design of products and delivery asserts a provider’s responsibility to design products, services and delivery channels in such a way that they do not cause clients harm and do take into account client characteristics and feedback. A supervisory authority should require that providers have appropriate policies and procedures to manage the risk of harm to clients as part of the design, implementation and evaluation of their products, services and delivery channels.

b) **Rulemaking and Design.** While regulators are granted powers to promulgate additional rules and guidance related to appropriate product and delivery design, actual product design should be left in the hands of providers. Requirements should be focused, instead, on ensuring proper internal controls are in place within providers to facilitate appropriate design of products, services and delivery channels.

c) **Consumer Protection by Design.** For digitally delivered products or services, when client selection, onboarding and product use are all managed without human intervention, product design becomes the critical moment for ensuring consumer protection. Consumer protection principles should be embedded into the digital interfaces and channels. Financial capability and behavioral insights should be taken into consideration in the design process. For example, digital interfaces should ensure that products terms, conditions and use are clear to clients and allow clients to make informed...
decisions (see Section 6—Transparency). Consumer protection by design involves oversight of the design process by the provider to avoid aggressive or deceptive marketing and to ensure fair treatment, protection of privacy and data security, and robust complaints management. Product, service and delivery channel design should prevent predatory sales and should not mislead or deceive clients. Providers should not design products in a way that leads to deception for their own benefits (see Section 4.2, Commentary (f)—Predatory or Deceptive Sales and Marketing Techniques). Product, service and channel design should avoid discrimination on the basis of protected classes and other sensitive variables (see Section 8.1, Commentary (c)—Non-Discrimination). Similarly, product, service and channel design should support transparency, data privacy and security, complaints handling, etc. Staff or third parties involved in the design of products, services or channels should be sensitized to consumer risks. Each topic is discussed further under the relevant Client Protection Principle.

d) Regular Monitoring. This section and Section 4.2—Suitability and Affordability Assessments require that providers have systems in place that consider and monitor the risks their products pose during the product life cycle. Monitoring systems must, at a minimum, ensure that performance data is reviewed and client feedback is captured in some way. These systems may be functions of the provider’s audit and/ or compliance function. Regulators may also consider whether board and senior management regularly review the effectiveness of products and services at mitigating client risks, using means such as performance indicators, complaints data and customer surveys, consistent with the recommendations under Section 3.2—Board and Senior Management Oversight. A particular concern is market monitoring to check for over-indebtedness in the client base (see Section 5—Preventing Over-Indebtedness).

e) Analysis of Client Feedback and Experience. The provider’s monitoring obligation under this section includes gathering feedback systematically from clients to support a provider’s ability to improve products, services and delivery channels (e.g., customer satisfaction surveys). This could include data on product usage, client characteristics and product terms (e.g., term, amount, frequency or timing). Providers should use client feedback and data analysis to implement measures intended to improve the suitability of products. Digital delivery enables providers to leverage technology platforms for data collection and analysis. Providers should also obtain and analyze data from their third-party service providers or other partner organizations, when available, to assess value to clients and client satisfaction. Examples of data for mobile money operators could include the number of operations, up-time, and client complaints. Examples of product usage data for call centers could include the complaint resolution ratio, average time in queue for operator response, monitoring reports from call center supervisors and satisfaction ratings from clients.

f) Choice of Partners. When working with partners in various aspects of product design and delivery, providers should carefully consider the choice of partners to align with their commitment to responsible finance.

g) Training. All employees and third parties engaged in client onboarding or selection should be required to engage in training on suitability. The provider should verify that the third party providers are training their customer representatives so that they will be well-qualified to carry out their roles in determining the suitability of a given financial product or service for a prospective client. Such training should be tailored to the services conducted and updated when there are modifications in the systems, processes and products. Refresher trainings should also be conducted if systemic complaints
4.2 Suitability and Affordability Assessments

**PURPOSE:** To require Financial Service Providers to have suitability and affordability procedures for each Product and Delivery Channel.

**CONTENT:**

1. A Financial Service Provider must:

   a. Have written procedures for determining and monitoring whether a Product and Delivery Channel is suitable and affordable for a given Client segment, and where applicable, for a specific Client.

   b. Determine whether the amount and terms of an offered Product and Delivery Channel allow the Client and/or Client segment to meet the obligations of the Product and Delivery Channel with a low probability of serious hardship and a reasonable prospect that the Product and Delivery Channel will provide value to the Client.

**COMMENTARY:**

a) **Suitability.** Providers should be mindful of designing products, services and delivery channels that suit client needs and avoid characteristics that may be detrimental to their clients or that take advantage of client inexperience or underdeveloped markets. Providers should evaluate their product offerings and delivery channels using appropriate product suitability assessments by client segment to inform future actions. Providers should also gather sufficient information from clients to ensure that the product or service is likely to meet the target client segment’s needs and capacity. Product design should take into account the processes and technology by which products will be sold, used and serviced, encompassing the entire customer experience. Where a provider is offering a product or service in violation of this section, regulators should have the authority to require the provider to remove
or withdraw that financial product or service from its offering and take enforcement action if the provider refuses. The point of suitability is not to over-design products for narrowly defined purposes but to ensure that the products are designed to be useful for clients.

b) Simplicity. In assessing a provider’s compliance with this section, regulators should consider that a key concept underlying suitability is simplicity in product and delivery channel design. This concept suggests that simple products, including simple pricing, are easier for clients to understand and compare, and may be more affordable and flexible. Simplicity implies minimizing the use of bundled products and services as set forth in Commentary (e) of this section. Simplicity is not an absolute value—it must serve relevance and usefulness to the client.

c) Minimum Changes. The concept of suitability implies that providers should design products and services in a way that minimizes the possibility that unexpected changes in pricing, terms or fees will become necessary during the course of the product’s life. This also applies in the early stages of product development, where iteration from an initial minimum viable product can lead to changes for the client. Additional risks to clients in the experimentation phase of developing and delivering new products and services should be borne by the provider.

d) Affordability. This section requires providers to have appropriate mechanisms in place to assess and monitor affordability. Affordability consists of two elements: the cost to the client in the form of interest rates, fees, premiums, etc. (see Section 7—Responsible Pricing) and, for loans and insurance products, the size of the product (loan size or insurance coverage amount) and periodic payment required. These costs should fit reasonably within the client’s paying capacity, considering the client’s overall financial situation. At the time of issuance, providers should confidently expect that clients will not have to make significant sacrifices to their standard of living or business affairs in order to pay for their financial products. These assumptions by the provider should be tested at critical junctures in the client relationship, such as loan or insurance renewals. See also Section 5—Preventing Over-Indebtedness.

e) Bundling. Regulators should consider prohibiting tying and bundling products when they unduly limit client choice or hinder competition, or at a minimum, standardize these packages and encourage transparency. “Tying” or “bundling” is the practice of conditioning the sale of one product or service on the sale of another financial product(s) or service(s).

f) Predatory or Deceptive Sales and Marketing Techniques. Marketing practices should prevent predatory sales and should not mislead or deceive clients. Aggressive, unsolicited sales tactics can lead clients to over-borrow or take unnecessary or even detrimental loans, which can subsequently lead to client stress and defaults that can damage credit history, contravening the recommendations in Section 5—Preventing Over-Indebtedness. Regulators should require providers to refrain from such tactics as set out in Section 8—Fair and Respectful Treatment of Clients. In the DFS context, push marketing, unsolicited offers and marketing approaches do not always assess the suitability of a financial service to a client’s needs and may exploit behavioral biases. For example, DFS providers sometimes use push marketing tactics to drive loan uptake by targeting borrowers that do not have any prior intention or serious need to borrow. When clients receive such messages to their phones, some of them may be prompted to take out loans they would not otherwise want or need. The supervisory authority should devise ways to rein in aggressive push marketing tactics. One initial step could be to issue regulatory guidelines for advertising of digital credit products, with reinforcement in the form of enforcement actions against providers who continue to engage in aggressive push marketing tactics that prove to be harmful to Clients. In addition to regulatory guidelines and enforcement, the supervisory authority may need to undertake multiple initiatives, perhaps focusing on behavioral nudges and/or regulator guidelines that recommend introduction of some
friction (e.g., multiple screens that a user must click to double check intent to enter into a loan agreement, or reminders of the loan’s terms and conditions) into the loan application process to encourage clients to pause before taking on debt.

**g) Prohibition Against Borrowing on Behalf of Another.** Also implied in this section is that Clients should be prohibited from borrowing on behalf of another person, except (i) where explicit consent is provided in the familial/business context; or (ii) where individuals are permitted to act by proxy (e.g., power of attorney).

**h) Adjusted Terms and Conditions.** Results of affordability assessments for individual clients during the application process may affect terms and conditions offered. Such differentiation should be consistently applied, stated in advance and made with the goal of benefitting clients. In other words, differentiation in the terms and conditions for clients should not be used as a proxy for discriminatory treatment toward clients as further described in Section 8—Fair and Respectful Treatment of Clients.

**i) Additional Considerations — Product-Specific Issues in Appropriate Design of Products and Delivery.** In assessing compliance with this section, regulators may also consider the following product-specific risks and issues:

**a. Credit Products**

**i. Over-Indebtedness.** A major focus of credit product design is the prevention of client over-indebtedness. A provider’s use of eligibility criteria and other terms that balance loan size against a client’s capacity to repay may mitigate some over-indebtedness risk. Other safeguards against over-indebtedness are discussed in Section 5—Preventing Over-Indebtedness.

**ii. Appropriate Repayment Schedule.** Appropriate loan repayment schedules should correspond with the borrower’s cash flow. Small, regular payments are a convenient way for providers to encourage borrower discipline and monitor performance. However, the needs of clients with seasonal cash flows, such as farmers should also be considered by providers. Large bullet and balloon payments should be avoided because they put a burden on the client to accumulate a large sum of money. Large prepayment penalties can also reduce a client’s ability to use loans for productive financial management.

**iii. Collateral Requirements.** Collateral can be an important element of good loan product design. However, the availability of collateral should not be the primary loan approval criterion. Excessive over-collateralization can create undue hardships for the client if the collateral is liquidated, and careful consideration should also be given to the results of liquidating collateral that is critical to the borrower’s livelihood or home.

Providers should have policies and procedures that ensure fair collateral requirements and appropriate disclosure of those requirements and prevent clients from suffering severe hardship or total loss of income earning ability. The policy, at a minimum, should provide for the following: (a) clearly defined collateral registration for purposes of internal-record keeping and tracking, and valuation procedures; (b) prohibition against requiring excessive (to be defined by the supervisory authority) collateral values as a percentage of the loan amount; (c) prohibition against collecting “mandatory” savings from clients other than as cash collateral, with cash collateral being capped at the percentage threshold determined by the supervisory authority of the loan disbursed; (d) a clearly defined list of unacceptable assets that cannot be pledged based on local norms and potential to create severe hardship on the client; (e) a verifiable method for valuing collateral that is determined based on market price/
resale value; (f) collateral documents (e.g., title deeds) to be returned to clients after the loan is repaid. To the extent that a client does not have access to traditional forms of collateral, the provider should accept certain forms of informal or non-traditional collateral and document its policies and procedures with respect to accepting these forms.

iv. Compulsory Savings. For loan products for which compulsory savings serve as collateral, the savings product should be designed specifically for that purpose, with full disclosure. Clients should have the right to withdraw their savings after the loan has been repaid. The pros and cons of combining voluntary and compulsory savings in one account or keeping them in separate accounts should be part of a provider’s assessment. Compulsory savings also raise prudential regulatory compliance issues.

v. Guarantees. Although guarantees can be useful to protect a provider’s interests in case of default, clients should not be approved for a product or service primarily or solely based on a guarantee or insurance coverage. Approving a client for a loan on this basis creates the potential for default. Providers should have standard procedures for evaluating the creditworthiness of guarantors as well as the effective relationship to the client, and the consequent ability to call on that guarantor in case of default. Guarantors must be fully informed of terms and conditions (see Section 6—Transparency).

vi. Foreign Currency Risk. Devaluation risk should also be considered in affordability assessments where loans are provided in a non-local currency. In general, when customers are lower income and vulnerable, providers should not place devaluation risk onto customers.

b. Savings Products

i. Minimum Balances. Minimum balances may be used to help compensate for the cost of maintaining the account. However, providers should only require payment of a reasonable fee based on costs incurred if the balance falls below the minimum, as further discussed in Section 4.4—Rescission Period. Consideration should also be given to whether the minimum balance level might exclude part of target markets and thwart financial inclusion goals.

ii. Fee Structure. Fees that significantly deplete small account balances can be harmful to clients. Product viability and value to clients should be balanced. This is discussed further under Section 7—Responsible Pricing. The importance of transparent fee structures is discussed in Section 6—Transparency.

iii. Account Closing. Fees or other restrictions on closing savings accounts should not be used unless such fees or restrictions represent a reasonable representation of costs incurred in promptly closing the account (if any).

iv. Overdraft Protection. Overdraft protection refers to providers allowing clients to overdraw savings accounts when they submit payment or withdrawal requests that deplete the account and then charging interest and/or fees for this service. In some jurisdictions, overdraft protection creates a risk of over-indebtedness and unexpected fees for inexperienced clients. Regulators may assess providers on whether they analyze a client’s creditworthiness before providing overdraft protection, whether they have adequate mechanisms in place to ensure that the client understands and agrees to the terms of the service and whether they obtain client consent prior to activating such a service.
v. Eligibility Criteria. For providers mobilizing voluntary savings, regulators should also ensure that prudential regulations for institutional safety and soundness, including legal and regulatory permissions as well as capital adequacy requirements, are met.

c. Insurance Products

i. Exclusions for Health Insurance Policies. Policy exclusions are not always well understood by clients and can be difficult and expensive for providers to monitor and enforce, even if they contribute to viability of the product or service. The number or scope of exclusions and/or whether alternative mechanisms in design, like waiting periods, are utilized should be assessed.

ii. Credit Life Products. Mandatory credit life products are inappropriate when premiums are significantly higher than expected payouts or when clients are not made aware that they are purchasing insurance.

iii. Eligibility Criteria. Insurance products offered by or through the provider should be underwritten by a licensed insurer. An exception can be made, where permitted by applicable local law, for credit life insurance, or if the provider can demonstrate that 1) no insurer is willing to offer appropriate products; and 2) the associated credit risks are minimal and clearly disclosed to clients. If the provider is bearing the risk of insurance products that it offers its clients, it must be licensed to do so by the insurance regulator, as applicable. If the provider is selling insurance products on behalf of a regulated insurer, it must be legally allowed to be an insurance agent.

iv. Third Parties. When insurance is offered through agents and third-party providers, the provider should have a transparent process for selecting insurers which involves competitive bidding and/or a market study and consideration of the value and appropriateness of the products and services offered. The provider’s contract with its insurer should provide it with frequent opportunities to review and cancel, taking into consideration complaints by clients and responsible pricing and delivery. Performance data from insurance products (e.g., product uptake, claims ratios, claims rejection ratios, renewal rates, coverage ratios, demographics, complaints, claim resolution, etc.) should be analyzed to assess the products’ value to clients and client satisfaction.

d. Payment Products

i. Reliable Payment Agents. For domestic and international payments, the paying agents that receive and disburse cash are central to product delivery. Pursuant to Section 4.1, Commentary (f)—Choice of Partners, payment providers are required to evaluate agents prior to using them to ensure that the organization receiving and making the payment is reliable. It is also recommended that payment providers inform their clients if the agent is not known to them.

ii. Excessive Delay of Payment. Money transfer payments should be made within a reasonable period, although this advantage should be considered against the potentially higher cost of the service.

iii. Predictable Exchange Rate. For international transfers, it is recommended that payment providers develop a standard system for fixing the exchange rate that can be advertised to their clients. It is recognized that fixing the exchange rate is often the prerogative of a third party and can therefore be beyond the control of the payment provider.
4.3 No Waiver of Rights

**PURPOSE:** To prohibit Financial Service Providers from requiring Clients to waive their rights as a condition to receiving a Product and Delivery Channel.

**CONTENT:**
1. No provision of a contract for a Product and Delivery Channel shall be lawful or enforceable if it waives or otherwise deprives a Client of a legal right to sue a Financial Service Provider, receive information, have their complaints addressed and resolved, have their Client Data protected, or cancel the use of the Product and Delivery Channel without an unreasonable penalty.

**COMMENTARY:**

a) **Arbitration Clauses.** This section prohibits arbitration clauses where a client waives the right to sue in court and agrees to only pursue action against the provider in arbitration. However, arbitration itself is often beneficial for both the client and provider. In many contexts, arbitration programs may be better for clients than more elaborate formal dispute resolution mechanisms if they are faster or less costly.

b) **Limited Exception.** Providers have a responsibility to actively prevent client over-indebtedness. In order for a provider to determine a client’s capacity to repay a debt, financial privacy and banking secrecy laws often have exceptions for mandated credit reporting as further addressed in Section 5.2, Commentary (f) — Bank Secrecy, Open Banking, and Data Privacy and Protection Laws which aligns with concepts of transparency and client consent set forth in Section 6 — Transparency and Section 9.2 — Client Rights. In addition, open banking standards further information sharing, as further described in Section 9.4 — Disclosure of Client Data.

4.4 Rescission Period

**PURPOSE:** To mandate a period during which a Client can rescind a contract for a Product and Delivery Channel, where applicable, and have any fees and advances returned.

**CONTENT:**
1. A Financial Service Provider must provide Clients the right to terminate any contract for a Product and Delivery Channel within a reasonable time after the date on which the contract was executed, or within the time period, if any, promulgated by the Supervisory Authority for that Product and Delivery Channel.
2. When a contract for a Product and Delivery Channel is terminated under the terms of this section, the Financial Service Provider:

a. Must refund any money the Client has paid under the contract within a reasonable time after the delivery of the notice to terminate.

b. Must cancel any automatic payment plans and give notice of termination to any Credit Reporting Systems to which the credit agreement has been reported.

c. May only require payment from the Client of a reasonable fee to compensate it for the costs incurred or benefits accrued in accordance with [Section 7.2—Permitted Fees].

3. A Financial Service Provider must provide notice of the Client’s right of rescission in all contracts and disclosures regarding a Product and Delivery Channel.

4. For a Product and Delivery Channel where a rescission period is inapplicable, a Financial Service Provider must provide Clients with the option to cancel the account without penalty within a reasonable time after the date on which the contract was executed, or within the time period, if any, promulgated by the Supervisory Authority for that Product and Delivery Channel.

**COMMENTARY:**

**a) Reasonable Cooling-Off Periods.** Under this section, clients are provided a cooling-off period that allows them to consider the costs and risks of a product or service free from sales pressure or to compensate for situations when the client simply changes their mind. The length of the cooling-off period may be determined by the provider based on a reasonable expectation of the time required for a client to fully evaluate all the terms and risks of the financial product and contact others who may be affected by its terms and conditions (such as family members or business partners). Some jurisdictions, however, do set a specific length for the cooling off period. For example, the European Union (EU) provides consumers with a fourteen-day cooling off period to withdraw from a credit agreement without giving any reason or rationale. Australian consumers who enter into an unsolicited contract are given ten days to rescind. The applicability and reasonableness of a rescission period differs from product to product and may encompass more than just a set time period. Cooling-off periods for loans may be based on the loan size and term. For example, it is conceivable that a reasonable rescission period for small or short-term loans may be limited to the time before the funds are disbursed. If a client rescinds a credit contract after disbursement, a prorated interest may be charged. It may be useful for regulators, based on the local circumstances, to set rescission periods for certain types of products or a minimum length of a rescission period. Regulators should also consider the applicability of cooling-off periods for long term savings products with limits or penalties for access, which create additional risk for clients. Similarly, cooling-off periods for insurance products should be considered, particularly for clients of low income or limited education.
b) Method and Process for Rescission. Just as with the length of the cooling off period, the method and processes for rescission should be determined by the individual provider based on the product and the local context. Regulators should evaluate these rescission programs for reasonableness and fairness, particularly the ease with which the client may invoke the rescission without burdensome requirements.

c) Digital Credit. In digital lending, especially when delivered by mobile phone, loan approval can take place very quickly, if not almost instantaneously, and without any direct human interaction. As a result, several unique consumer protection issues emerge:

(i) The seamless nature of digital credit products reduces the amount of “friction” in the loan application process, making it more likely that clients will engage in impulsive borrowing or not fully consider the consequences of default.

(ii) In digital lending, and particularly for clients with limited financial literacy, the lack of ability to ask questions directly to a person may result in limited understanding of a selected product. (See more findings in the Uniting Tech and Touch (November 2017) report by CFI Fellow Alexis Beggs Olsen.)

(iii) Particularly when loans are applied for and delivered through mobile phones, borrowers are often likely to accept loans without reading the terms and conditions.

(iv) Digital credit products may not be offered or delivered to a mobile phone interface in a client’s own language, which can lead to misunderstandings about loan terms.

In recent pilot studies on consumer protection in digital credit, CFI has observed that a 24 to 48 hour cooling off period for short term (e.g., 30 day) loans mitigated some of these risks. CFI has released several resources on digital credit including Smart Brief: Tiny Loans, Big Questions (September 2017) and CFI Fellows research Responsible Digital Credit (July 2018).

d) Fees. Upon termination of a contract for a product or service under this section, the client should receive a refund. The provider may withhold from this refund a fee that (i) is no greater than the actual or reasonable approximation of costs incurred by the provider in providing the financial product or service to the client prior to termination or (ii) represents a pro rata charge for any benefit accrued by the client through use of the product or service (e.g., pro rata interest fees). See also Section 7.2 — Permitted Fees.

e) Alternatives to Rescission Periods. Some analysts advocate requiring friction devices in the digital lending process so that clients can consider whether the loan is appropriate. Whereas a cooling off period is a concept of time (e.g., days) that allows a borrower to rescind a transaction after further consideration, a friction device can be an additional step or series of steps (e.g., multiple screens that a user must check to confirm their intention to enter into a transaction, reminders of key terms and conditions) that causes the borrower to pause, if even for a few seconds, to re-confirm that he/she would like to enter the transaction. While such devices may be reasonable substitutes for rescission periods in small, short term lending, cooling off periods are recommended for larger, longer term loans.
4.5 Fraudulent or Mistaken Transactions

**PURPOSE:** To prevent fraudulent and mistaken transactions and establish conditions of liability for such transactions.

**CONTENT:**

1. A Financial Service Provider must establish minimum protective measures to enable transaction verification, which must include:
   
a. The use of systems and interfaces that are clear and easy to use to reduce the risk of Client confusion.

b. Design interfaces and processes that incorporate triggers that require Clients to confirm and verify the details of the transaction they are executing.

c. The provision to Clients of proof of each transaction and access to clear and understandable transaction and account records.

d. Mechanisms for Clients to dispute fraudulent or mistaken transactions, and in some specific instances, allow Clients to revoke such transactions.

e. System capacity and network reliability and related processes in place to respond to interrupted transactions.

f. Escalation procedures and specially trained personnel in place to quickly resolve reported fraudulent or mistaken transactions.

2. A Financial Service Provider must limit a Client’s liability for fraudulent or mistaken transactions, which must not exceed [the threshold determined by the Supervisory Authority], and must promptly refund or reverse the fraudulent or mistaken transaction and any associated fees and reverse any negative consequences.

3. A Financial Service Provider must make disclosures regarding Client and Financial Service Provider liability for fraudulent or mistaken transactions in compliance with [Section 6 — Transparency].

**COMMENTARY:**

a) **Protective Measures.** This section speaks directly to DFS providers and addresses the potential for a client’s lack of technological literacy or connectivity issues to produce erroneous transactions (e.g., sending money to the wrong account; connections that drop through no fault of client and interrupt transactions). These errors can occur when clients do not understand a user interface, have difficulty navigating through the interface, hurry through a process to avoid being timed out, or simply make a keystroke error. To prevent these errors, regulators should require that providers provide user interfaces that are easy to use and can be understood by even those new to digital transactions. Providers should have systems to address system capacity and reliability issues. For example, digital menus
may display the recipient’s name when the account or phone number is entered so clients can verify that the numbers they have entered are correct. Additionally, providers can integrate triggers into their digital interfaces that display transaction details and require the client to verify and confirm that the information is correct or require that clients pre-register the accounts authorized to receive transfers and only allow transactions to such accounts.

b) Mistaken Transactions. In the event of a mistaken transaction, clients should be provided with an opportunity to resolve the mistake. In the absence of that opportunity, client trust and confidence in their provider weakens, which may lead them to use the provider less frequently. The resolution of an incorrect transaction can be time sensitive, given that, depending on the jurisdiction, there may be no recourse once the incorrect recipient has withdrawn the money. Therefore, when mistaken transactions do occur, providers should be quick to respond. To do so, providers should have escalation procedures and specially trained teams in place. Clients should also be well informed about how to report a mistaken transaction and the procedures necessary to resolve them. Even in instances where the mistake was not recognized in time and a payment transaction can no longer be revoked, a provider should be required to assist clients in seeking recourse or compensation at a minimum, and in some cases, reimburse clients.

c) Potential Fraud. The ability to revoke a mistaken transaction also opens the door to potential fraud. For example, fraud can occur when a client claims that a transfer to a merchant was incorrect when in fact it was a legitimate purchase, allowing the client to fraudulently retain the purchased good and retrieve the payment. Providers should develop policies regarding revocability of transactions depending on the type of service or product being utilized. Moreover, the policy may be dependent on whether the provider has reliable verification procedures in place to limit mistaken transactions. For example, if a client has confirmed a digital transaction through a verification procedure, providers may deem these transactions irrevocable.

d) Limitations on Client Liability. In the event of a fraudulent or mistaken transaction, a client’s liability should be limited, especially where the client notifies the provider of the mistake or fraud within a reasonable time. For example, under the implementing regulations of the U.S. Electronic Funds Transfer Act (Section 205.6 of Regulation E), the liability of U.S. consumers for unauthorized electronic fund transfers is capped at $50 USD as long as the unauthorized transfer is reported in a timely fashion. In circumstances where (i) the provider’s employees, agents or third-party providers are responsible for the mistake or fraud, (ii) the fraud is caused by a reasonably preventable security breach, or (iii) the fraudulent or mistaken transaction occurs after the client has reported the potential for the fraudulent or mistaken transaction, clients should not be held responsible and should be compensated for any direct losses they suffered. Where the client is not responsible, the Better Than Cash Alliance recommends that providers take responsibility for acts and omissions across their value chain, although as noted in Section 1.2, Commentary (c) — Conduct of Employees, Agents and Third-Party Providers, they may contractually allocate the costs of such liability separately.

For more information on liability for fraudulent or mistaken transactions, see the Better Than Cash Alliance’s Responsible Digital Payments Regulator Guidelines (July 2016).
5.1 Creditworthiness Assessments

**PURPOSE:** To require Financial Service Providers to assess creditworthiness before extending, renewing or refinancing credit.

**CONTENT:**

1. Before extending, renewing or refinancing a credit Product and Delivery Channel valued at or exceeding [the threshold determined by the Supervisory Authority] to a Client, a Financial Service Provider must:

   a. Obtain a reliable statement or proxy(ies) of the Client’s expected income or repayment capacity over the course of the Product and Delivery Channel.

   b. Conduct a reasonable assessment of the Client's overall indebtedness, repayment capacity and willingness to repay, including by obtaining information on outstanding debt obligations from the Credit Reporting System.

2. A Financial Service Provider must:

   a. Determine whether the amount and terms of the offered Product and Delivery Channel allow the Client or Client segment, as applicable, to meet the obligations of the Product and Delivery Channel with a low probability of serious hardship and a reasonable prospect that the Product and Delivery Channel will provide value to the Client or Client segment.

   b. Document the basis for approval of the transaction including the results of the analysis required under this section.

   c. Have written policies and procedures to ensure a Product and Delivery Channel is compliant with the requirements of this Section.

3. After contracting with a Client for a Product and Delivery Channel pursuant to [Section 5.1(1)], a Financial Service Provider must update its assessment of the Client’s creditworthiness at the end of each credit cycle and/or on a periodic basis to identify any material changes in the Client’s expected income or repayment capacity.
**a) Principle.** Over-lending is perhaps the consumer protection problem most likely to cause significant harm, both to individual clients and to providers. Practical experience of overheated credit markets as well as behavioral research have repeatedly demonstrated that borrowers have difficulty in realistically assessing their loan repayment capacity and may be prone to cognitive biases that can contribute to over-borrowing. This section speaks to the principle that providers take adequate care in all phases of their credit approval processes to determine that clients have the capacity to repay without becoming over-indebted.

**b) Requirements for Traditional Credit Products.** Providers should have written suitability and affordability procedures for all products and services. For traditional credit products (e.g., products based on individual client analysis rather than data analytics) providers should be required to have a robust credit analysis and approval process in place. The provider is required to perform an evaluation and assessment of client outcomes, including a credit assessment through a credit reporting system, if possible, and to document the basis for approving the transaction. Regulators may evaluate such assessment processes based on factors such as whether such process includes an analysis of the client's existing cash flow, an analysis of a client's willingness to repay (see Commentary (e) below), that collateral and guarantees are not a fundamental basis for loan approval, and that methodologies for determining loan amounts are accompanied by a quantitative loan approval limit based on the ratio of available cash flow to debt service. Regulators should also consider requiring an adjustment mechanism, where during a period of high, system-wide delinquencies, more conservative ratios may be prudent. Providers should collaborate with industry participants and organizations with oversight to draft, implement and adhere to policies and procedures that mitigate the risk system-wide of over-indebtedness.

**c) Algorithm-Based Lending.** Digital lending models use algorithms, machine learning and AI based on many sources of traditional and alternative data (such as mobile money transactional data, utility payments, social media habits, etc.) in order to assess repayment capacity through alternative credit scoring models. Each proprietary algorithm uses its own set of data points. Accordingly, it is difficult to develop industry-wide benchmarks and best practices to prevent avoidable delinquencies that are detrimental to clients. Predictive algorithm-based models can be opaque and may have flaws such as discriminatory effects or insufficient attention to a client's income or existing debt burden. Privacy concerns are also implicated. As a result of these factors, different methods for controlling over-indebtedness are needed. Providers should be required to practice sound algorithm governance (as further discussed in Commentary (d)) which involves care in constructing algorithms and selecting data (ex ante), coupled with monitoring of the default performance of the resulting portfolio and evidence about indebtedness and client stress among selected borrowers (ex post). Rather than verifying income and expenses for each loan, and especially for very small loans, providers should incorporate ex ante and ex post assessments at the loan portfolio level to verify that automated decision making adequately protects clients from debt stress as set out in Section 5.3—Monitoring Systems.

**d) Algorithm Governance.** This section requires providers to have written policies and procedures to assess a client's repayment capacity. In the context of algorithm-based lending, such policies should reflect algorithm governance principles like privacy protection, internal checks and balances (review of algorithm design by a unit of the organization independent from the algorithm development team, such as internal audit), and non-discrimination (see Section 9—Privacy and Security of Client Data and Section 8—Fair and Respectful Treatment of Clients), as well as
justification of the data sources and factors and variables used in the algorithm. The selection of variables should adhere to the concept of data minimization set forth in Section 9.2, Commentary (d)—Data Minimization, to collect and retain only that data shown to offer the best proxies for or predictors of repayment capacity and willingness to repay. Furthermore, automated lending models should be evaluated to ensure a lack of discriminatory biases. Regulators should consider having the mandate to review the algorithm codes used by a provider. The supervisory authority should also consider investing in capacities to audit such algorithms.

e) Underwriting Process and Repayment Analysis. Repayment capacity analysis is a best practice for assessing creditworthiness. Thus, providers should be required to evaluate client repayment capacity through a cash flow analysis or effective proxies for client repayment capacity and review of client indebtedness. Traditional repayment analysis takes into consideration factors such as income, expenses, debt (both personal and attributable to other sources, e.g., business or family), and collateral and guarantees. A client’s capacity to repay should be evaluated not only before contracting for a credit product, but also prior to loan renewal or, for lines of credit and other loans without a fixed end date, some other periodic interval to identify any changes in the client’s circumstances. Providers’ policies should have mechanisms to permit rescheduling of loan terms on the basis of changes to a client’s repayment capacity in a non-discriminatory manner.

For short term and very low value digital products, individualized creditworthiness assessments may not be feasible. For example, in Kenya, digital loans often have values below $20 USD, a level at which debt service to income ratios may not be meaningful indicators. It is recommended that the requirement for individualized creditworthiness assessments be limited to products exceeding a certain value to be determined by supervisory authority. For these loans the appropriate requirement for providers would be to demonstrate, based on portfolio performance and client feedback that the amounts and terms of the product can be repaid by the client segment without hardship. There is no settled amount at which an individualized repayment analysis must be performed—these best practices are in flux and will depend on the jurisdiction.

Additionally, Section 5.1, Commentary (c)—Algorithm-Based Lending suggests some concerns that may arise when new lending models first enter the market. For example, clients who are early adopters of new loan product may not have understood the long-term damaging effects and related costs of default, particularly if their loans were approved during an “algorithm training” period (also called lend-to-learn or blind lending), during which the predictive power of algorithms is low. Regulators should work with providers to ensure that clients are not unduly penalized for being part of such a provider learning process, as further discussed in Section 5.2, Commentary (b)—Credit Reporting Thresholds.

f) Debt Threshold and Portfolio Performance. It is recommended that the provider, at its sole discretion, define the maximum percentage of a borrower’s disposable income that can be applied to debt service, including debt from the provider and other lenders, and use this amount in determining maximum loan amounts and terms. If that assessment finds that the client cannot reasonably meet obligations without substantial hardship, the financial service should not be provided to the client. Given the difficulty—and perhaps lack of desirability—of promulgating regulations specifically defining the method providers must employ to assess a client’s creditworthiness, regulators should have the authority to utilize enforcement mechanisms (e.g., suspension of license, monetary penalties) if a provider’s assessment method yields a portfolio delinquency or default rate above a certain level. This approach ensures that providers who do not have effective product suitability and assessment procedures in place may be sanctioned, while still providing industry participants with the flexibility to adapt to their business models and individual circumstances.
5.2 Mandated Credit Reporting

**PURPOSE:**
To mandate that Financial Service Providers supply account information to a Credit Reporting System, if one exists, in order to increase the effectiveness of creditworthiness assessments.

**CONTENT:**
1. Upon entering into or amending a contract for a Product and Delivery Channel extending credit valued at or exceeding [the threshold determined by the Supervisory Authority], a Financial Service Provider must make a report, in the prescribed format and within the prescribed time, to the Credit Reporting Systems servicing its geographical location and product categories, if any exist.

2. A Financial Service Provider must report the particulars of the termination, satisfaction, default or entering into arrears of any contract for a Product and Delivery Channel extending credit valued at or exceeding [the threshold determined by the Supervisory Authority] to a Credit Reporting System in a timely fashion.
3. A Financial Service Provider who detects, discovers or is notified of any inaccurate information they have provided to a Credit Reporting System must investigate and provide corrected information to the Credit Reporting System as soon as possible and at no cost to the Client.

4. The Supervisory Authority may facilitate the establishment of a Credit Reporting System, if none is currently available, to service all Financial Service Providers covered by this Act.

**COMMENTARY:**

**a) Credit Reporting Systems.** To effectively perform a creditworthiness assessment, providers need to verify the total outstanding debt obligations of the client, as required in the previous section. And to contribute to a positive credit culture in the marketplace, they must provide timely and complete information on their borrowers to the applicable credit reporting system, if one exists. To make this possible, effective and efficient credit reporting systems should be in place. In addition to helping prevent over-indebtedness, a functioning credit reporting system advances financial inclusion by allowing borrowers to create and benefit from reputation collateral and can help build a positive repayment culture in a market. However, providers offering relatively small loans may find the costs of obtaining a credit report disproportionate to the size of the loan. Regulators should be aware of this problem and seek to develop a credit reporting system that will meet the needs of all providers. Policymakers may want to consider assisting in the process of both establishing credit reporting systems and enabling smaller lenders to incorporate the use of such systems into their businesses. This is not a regulatory function, but the importance of credit reporting systems to consumer protection suggests that governments may wish to encourage their development and use. Research suggests that the lack of or a weak credit reporting system can foster harsh collection practices and over-indebtedness. Additional legislation for the establishment and operation of such systems may be needed but is likely covered in a jurisdiction’s credit reporting laws and is outside of the scope of the Handbook.

For more guidance on credit reporting systems please see the World Bank’s General Principles for Credit Reporting (2011).

**b) Credit Reporting Thresholds.** In developing a credit reporting system that will meet the needs of all providers, regulators should avoid setting minimum thresholds that are too high, so that information on small value loans can still be collected. Thresholds for reporting to a credit reporting system should take into account the adverse effects of reporting very low value defaults and they should consider protecting clients participating in algorithm training (e.g., lend-to-learn or blind lending during early product deployments, as discussed in the previous section). For example, in Kenya approximately two million borrowers were blacklisted by the credit bureau for defaulting on loans smaller than a few dollars. This example (i) highlights the challenges when the costs in time, effort and resources to obtain clearance from the credit bureau are at levels disproportionate to the amount borrowed, and (ii) emphasizes the necessity of properly disclosing to borrowers how their credit information will be reported.
On the other hand, in places where very small loans have appeared recently in the market, some jurisdictions have reduced or even eliminated pre-existing minimum thresholds for reporting to credit reporting systems, to promote the capturing of as much data as possible. For example, Indonesia, Tunisia, and the West Bank and Gaza eliminated their loan thresholds in 2008. Azerbaijan eliminated thresholds for individuals, firms and credit cards. This action was spurred by the rapid growth in consumer loans, which led banks to request more detailed information on a larger group of borrowers. In Brazil, a circular in 2011 reduced the minimum threshold for loans reported by the central bank’s credit information system by 80%.

c) Consumer Disclosures Required.
Section 6—Transparency details certain disclosure requirements relevant to mandated credit reporting at the time the product or service is contracted for. Providers should inform a client that late payments, missed payments or other defaults may be shared with credit reporting systems and that credit reporting systems may share this information with other providers for purposes of making credit decisions with respect to that client in the future. This disclosure should be provided for in the Key Facts Statement. A provider also has an obligation to inform a client when it places negative information on a consumer’s credit report. This will provide clients an opportunity to dispute any information they believe to be inaccurate and give the provider an opportunity to investigate and correct inaccurate information.

d) In the Absence of a Credit Reporting System. Over-indebtedness frequently appears in markets that are especially competitive or expanding rapidly, thus it is important for providers to participate in market-level initiatives to prevent overheating, such as the development of credit reporting systems. When there is no formal credit reporting system servicing the provider’s geographical location or financial service categories, regulators should consider mechanisms to enable providers to disclose to other providers, subject to the requirements of Section 6—Transparency and Section 9—Privacy and Security of Client Data upon a request accompanied by a legitimate and verifiable need for the information, the total outstanding balance and payment obligations of a client and any relevant negative payment information. Clients should be informed of the nature of any such disclosure of account data, including the identity of all recipients of the data.

e) Need for Integration. Where there are multiple credit reporting systems in operation, the information collected should be shared with all credit reporting systems, to the extent practical. This will maximize the comprehensiveness of the data and the effectiveness of creditworthiness assessments. Such information sharing will also remove the need for providers themselves to supply information to, or receive information from, multiple credit reporting systems and will allow providers of credit reporting services to compete on the amount of value added instead of how much data they have acquired.

f) Bank Secrecy, Open Banking, and Data Privacy and Protection Laws. In many countries, bank secrecy and data protection laws restrict the sharing of client information, including client data, whereas other standards, like open banking, facilitate sharing. Where such rules are in place, they should be amended to allow for disclosure to credit reporting systems or to other providers if no credit reporting system exists. Where they cannot be amended, clients should be required to waive their rights under bank secrecy laws when they want to obtain credit, subject to the data privacy and protections set forth in Section 9—Privacy and Security of Client Data.
5.3 Monitoring Systems

PURPOSE: To require Financial Service Providers to monitor Client indebtedness levels.

CONTENT: 1. A Financial Service Provider must monitor Client indebtedness at the portfolio level and the market level on a periodic basis by Product and Delivery Channel category and Client segment.

COMMENTARY:

a) Portfolio Quality and Market Monitoring to Prevent Over-Indebtedness.

Regular analysis of a provider’s portfolio quality supports identification of clients, products or segments with higher risks of over-indebtedness or debt stress. The provider’s internal policies on responsible lending maintain an operative definition of over-indebtedness that takes into account client debt stress. If a portfolio generates a consistently high arrears and default rate, and especially if late fees fully compensate the provider for these arrears, this suggests a lending model that generates debt stress and needs to be adjusted. Experience shows that many clients suffering over-indebtedness continue to repay their loans while making high personal sacrifices. Providers should monitor the market and undertake direct-to-client monitoring to assess for indebtedness levels.

OVER-INDEBTEDNESS ARISES IN A MARKET OR PORTFOLIO, THE PROVIDER CAN ADOPT RISK MITIGATING STRATEGIES AND OTHER RESPONSES. AS PART OF RISK MITIGATION STRATEGIES AND FURTHER TO THE REQUIREMENTS IN SECTION 4.1—DESIGN, IMPLEMENTATION AND MONITORING, THE BOARD AND SENIOR MANAGEMENT SHOULD REVIEW THIS DATA AND THE AVERAGE TOTAL CREDIT RISK OF THE PORTFOLIO ON A REGULAR BASIS AND IMPLEMENT SUITABLE MEASURES THAT WILL REDUCE RISK OF OVER-INDEBTEDNESS AND MAINTAIN PORTFOLIO QUALITY.

Regulators should require reporting of portfolio quality according to specifically prescribed formats and definitions regarding delinquency and default ratios, refinancing, rescheduling and write-off. Restructured, rescheduled or refinanced loans should be tracked separately. All lenders should conform to such standards, which may be derived through dialogue with sector participants.
6.1 Disclosure Principles

**PURPOSE:** To prescribe basic principles for communicating the terms and conditions of any Product and Delivery Channel and to empower the Supervisory Authority to issue product-specific disclosure requirements.

**CONTENT:**

1. A Financial Service Provider must ensure that, in its communications with Clients, it adopts the following disclosure principles:

   a. Clear and Concise Disclosures in Simple and Predominant Language(s). Information about a Product and Delivery Channel must be expressed in simple language and presented in a clear and reasonably understandable format in the predominant language(s) of the region.

   b. Timeliness. A Client must be provided with the most up-to-date information at the moment that information will be most useful for the Client. This requirement applies to information provided in advertisements, during the pre-contractual stage, at the point of entering into a contract and during the term of the contract.

   c. Accurate and Relevant Information. The information provided must be true, accurate and relevant. Terms and conditions should not include extraneous material irrelevant to Client decision-making.

   d. Key Facts Statement. The information most helpful to Clients should be highlighted in a “Key Facts Statement,” a discrete, compact but highly conspicuous section of any disclosure form. This Key Facts Statement should be presented to Clients through multiple information and technology channels.

   e. Consistent and Comparable. Disclosures should be made in a consistent manner to facilitate comparison between similar Product and Delivery Channels.

   f. Accessibility. Disclosures must be accessible to Clients with disabilities. Standards used to determine whether this section has been violated shall be the standards applied under Applicable Laws.
2. Before contracting for a Product and Delivery Channel with a Client, a Financial Service Provider must disclose to the Client terms and conditions for the Product and Delivery Channel and give the Client a reasonable amount of time to review such disclosures before entering into the contract.

a. For a credit Product and Delivery Channel, terms and conditions that must be disclosed to the Client include, without limitation:

i. All fees and charges that may be imposed, with all interest rates expressed as a Standardized Metric.

ii. The total, aggregated cost of the Product and Delivery Channel and, if the Product and Delivery Channel requires the Client to pay in installments, a repayment schedule for the life of the Product and Delivery Channel.

iii. Key features of the Product and Delivery Channel including the benefits, rights and obligations the Client is entitled or subject to, or may become entitled or subject to.

iv. Significant risks, if any, associated with the Product and Delivery Channel.

v. A summary of the Financial Service Provider’s Privacy Policy in compliance with [Section 9—Privacy and Security of Client Data].

vi. A clearly defined policy on credit prepayment, if allowed, that (i) identifies when Clients are permitted to prepay loans, (ii) provides for a cooling off period between two loans, and (iii) lists any associated charges.

vii. An explanation of collateral requirements and seizure proceedings.

viii. An explanation of member or guarantor obligations (if applicable).

ix. An explanation of any complaint procedures and contact information for the Financial Service Provider’s Complaint Handling Mechanism and for the Supervisory Authority.

x. An explanation of cancellation or rescission rights.

xi. The Financial Service Provider’s liability for the Product and Delivery Channel being provided.

b. For an insurance Product and Delivery Channel, terms and conditions that must be disclosed to the Client include, without limitation:

i. The Financial Service Provider’s contact details.

ii. Premium amount and payment timing.

iii. Events covered.
iv. Individuals covered, including name and contact information, and amount and term of coverage.

v. When and how to file a claim.

vi. Required documentation to prove damage.

vii. Any major exclusions.

viii. Terms related to cancellation and prepayment.

ix. Cooling off periods, cancellation rights, and other relevant rights under policies.

x. Certificate of coverage delivered to Clients promptly after enrollment.

c. For a savings Product and Delivery Channel, terms and conditions that must be disclosed to the Client include, without limitation:

i. Type of savings product.

ii. Fees (including closure fees).

iii. Standardized Interest Rate and how amount will be calculated.

iv. Minimum and maximum balances.

v. The term for a term deposit.

vi. Penalty for terminating a term deposit early.

vii. Limits on deposit insurance.

viii. Overdraft practices.

3. The Supervisory Authority may issue additional product-specific disclosure requirements by mandating specific disclosure practices for any specific category of a Product and Delivery Channel.

4. The Supervisory Authority may issue model disclosure forms or Key Facts Statements for any specific category of a Product and Delivery Channel. Such forms may be used at the option of a Financial Service Provider. Any Financial Service Provider using an accurate model disclosure form issued under this section shall be deemed to comply with the applicable disclosure requirements.
5. Before any changes to the terms or conditions of a Product and Delivery Channel, a Financial Service Provider must disclose any such change in accordance with the disclosure principles of this section, including all modifications and their effects on the aggregated cost of the Product and Delivery Channel. Changes detrimental to a Client may not come into effect unless the Client has previously and meaningfully consented to such changes or has an opportunity to terminate the contract for the Product and Delivery Channel before the detrimental change comes into effect.

6. A Financial Service Provider must provide product disclosures upon request by the Client at any time during the life of a Product and Delivery Channel.

7. Any contract for a Product and Delivery Channel offered or provided in violation of this section shall be invalid and unenforceable against the Client.

**COMMENTARY:**

*a) Principle.* The principle of transparency requires that providers communicate clear, sufficient and timely information in a manner and language that clients can understand, so that clients can make informed decisions. It highlights the need for transparent information on pricing, terms and conditions of products. Disclosure of information is only effective to the extent it is comprehensible, relevant to the client’s decision-making process, readily available and appropriate given the medium on which it is disclosed. This section reflects general disclosure practices recommended for all financial services as well as specific disclosure requirements for particular product categories. In the absence of more specific requirements, providers should determine which information is most important and relevant for informed client decision-making. To promote consistency and comparability, regulators should monitor the marketplace, research client behavior and decision-making, and seek to identify the specific disclosure requirements that should be made applicable within specific product categories pursuant to authority set forth in Section 2.2 — Authority and Jurisdiction.

*b) Clear Use of Language.* Transparency requires the use of plain wording and straightforward terms, in the client’s own language wherever possible, and no matter the means or type of presentation, including advertising, product descriptions, user screens and contracts. Complex wording, extensive footnotes, small font and information provided in obscure locations should be avoided. In jurisdictions where more than one language is spoken, the requirement is to provide disclosures in the predominant language(s) of the geographic area of the target client. For illiterate or low-education clients, or clients lacking experience (e.g., youth), disclosures should be made orally and with materials specifically designed to communicate with that segment. Providers should adopt means of communication such as videos, comics, flipcharts or other visual tools explaining the key terms and conditions, how the services function and safety tips, according to whether clients are served at physical locations or through internet or other media channels. Digital user interfaces should be easy to understand and navigate while making available essential disclosures.
c) **Accessibility.** Where not unreasonably onerous, or as required in compliance with applicable disability laws, reasonable accommodations should be made by the provider to enable effective communication of disclosures to clients with disabilities, such as visual, hearing or cognitive impairments. Providers should provide notice to clients on how to request reasonable accommodations.

d) **Complete Information.** Accurate and relevant cost and non-cost information are required to be disclosed and readily available to clients in multiple locations (e.g., posted, in marketing materials, on websites, on apps and in the client’s own account documents). Examples of cost information include interest rates, exchange rates, penalties, premiums, third party fees and commissions, advance termination penalties and late payment fees, and account opening and closing fees, together with when such costs are payable and what events will trigger them. Clients should also be informed of whether and by how much any product terms, such as interest rates, can change during the client’s contract period, under what circumstances and how notice will be provided. Automatic renewals are one such example: If a product renews automatically, the provider should provide notice of such renewal after assessing the client’s repayment capacity, with an opportunity to opt out. Such communication should be made orally and in writing. Experience has demonstrated that clients should be informed not only of initial requirements and related disclosures, but also of ongoing obligations. Examples of non-cost information or attributes of products include switching barriers, consequences of a loan default, client rights, waivers of rights, how to make complaints and privacy information (see also Section 4—Appropriate Design of Products and Delivery, Section 9—Privacy and Security of Client Data, and Section 10—Complaints Resolution).

e) **Appropriate Timing of Disclosures.** Relevant information needs to be provided in a time frame that enables clients to review product information and contracts, compare options and ask questions before making a decision. The concept of timeliness also requires regular account statements to be delivered or otherwise accessible to the client over the lifecycle of the product. Generally, this will include monthly or quarterly account statements of transactions, outstanding balances and fees charged during the applicable period. To ensure clients receive such statements and have ongoing access to account information, they should be offered multiple delivery methods, including paper or electronic formats. Where account statements are readily accessible to a client electronically and can be accessed at any time, regular paper statements may be unnecessary. In such instances, electronic access to account transaction information on demand might be preferable. Clients should be provided with at least one free account statement per period, but providers may charge reasonable fees for duplicate account statements. Additionally, the provider should prepare and distribute to clients receipts for every transaction, whether via email, hard copy or text message. The European Union, Uganda and the Central Bank of West African States, among other jurisdictions, require receipts for electronic transactions. The appropriate format for and content of a receipt varies based on channel and client capability and should be tailored to the specific transaction. Automatic messages may increase service quality by providing timely notifications to clients as well as enabling detection of fraudulent transactions. For example, providers should ensure that any automatic deduction from the client’s account is accompanied by an automated message. Clients should also be notified a reasonable number of days before loan repayments are due.

f) **Disclosure of Partner Relationships.** The requirement for disclosure of accurate and relevant information should be read, in general, to require that the nature of the provider’s relationship with agents and third-party providers be disclosed any time they are marketing, selling or servicing financial services, or when they are providing services, including debt collection in connection with a financial product or service, where necessary to enable clients to make inquiries or lodge complaints.
g) Confirming Client Understanding. Providers are responsible for promoting client understanding of the products that are offered. Such a responsibility entails steps to ensure that the disclosures and procedures work, such as client call-backs, checklists to review with clients, Key Facts Statements (KFS), and an analysis of complaints and inquiries. In addition, the supervisory authority is strongly encouraged to consumer-test and refine KFS and model disclosure forms before mandating a specific form. This is particularly important in countries where financial inclusion may be expanding and many clients may be unfamiliar with particular financial issues or products.

h) Key Facts Statement (KFS). The KFS is one component of a broader disclosure framework that can help to address transparency concerns by clearly conveying costs of a transaction, highlighting fees and charges, and explaining key terms and conditions in a way that is understandable and meaningful to clients. KFS are client-specific and offer-specific and should call attention to the most important terms and conditions the client needs to be aware of. Too much information (overload) reduces the usefulness of disclosure. The KFS should be provided to the client before any transaction is consummated. It should be re-validated when the transaction is entered into, with any changes highlighted. A KFS may be delivered via text message or email, or via other elements of computer interaction (pop-up, etc.). While the same general principles apply to provision of KFS in the digital context, the Handbook recognizes that design elements will need to be adapted. Because KFS provided electronically cannot be physically signed, providers should provide ways for clients to digitally acknowledge that they have received the disclosures. A copy of the KFS should be automatically saved and stored in a client account directory so that the client is provided a continuing access to this information.

An example of a KFS for credit is available at http://www.smartcampaign.org/tools-a-resources/1047/sample-key-facts-statement.

i) Total Cost of Credit and Repayment Schedules. Total cost of credit is the entire amount the borrower must repay over the life of a loan. Multiple studies suggest that total cost of credit is easier for clients to understand than standardized interest rates (such as APR, EIR or MPR); however, standardized interest rates facilitate product comparison. If a variable rate is offered, the provider must disclose how the interest rate could change in the future and show a comparison to the standardized interest rate for comparability purposes. To facilitate comparison shopping, the form of the standardized interest rate should be consistent with industry practice, so long as the disclosure is adequate in all other respects. Clients need the exact information on the amount and timing of repayments, provided in a repayment schedule. Client comprehension, therefore, is furthered by mandating the disclosure of the total cost of credit and repayment schedule in addition to a standardized interest rate. As with the standardized interest rate, regulators should establish standard definitions for charges associated with other DFS transactions, including money transfers, insurance, savings accounts and other relevant products.

j) Product Disclosure Forms. Where clients are presented with identical formats for the key information for a particular class of financial services, their ability to compare those financial services is greatly increased. Having model forms facilitates side-by-side comparison of products and makes clients more familiar with the terms and language used to describe the costs of financial services. Model disclosures that provide a safe harbor give providers greater certainty and lower compliance costs while giving clients a document that makes comparing offers from competing providers easier and more efficient. This section requires that providers provide clients a product disclosure form in connection with any financial product or service. This section outlines the minimum disclosure requirements for any financial product or service. In Section 6.1.2 regulators are authorized to produce product-specific model disclosure forms, based on the specific requirements for those specific financial services.
k) **Contents of Contracts.** As part of the requirement to be accurate, clear and concise, contracts for financial services should not contain illegal or unenforceable clauses or provisions. For example, in Kenya, providers who mandated arbitration as the sole method of dispute resolution were in violation of Kenya’s consumer protection laws. Regulators should monitor and review providers’ contracts with clients at a frequency determined by a risk-based supervisory approach to enforce existing regulations and identify areas in potential need of new rules. Regulators should publish, in multiple channels likely to be seen by clients, a list of examples of unfair terms and practices. Regulators should review contract forms. Further, as discussed below, the use of standard form contracts should both ease the supervisory burden as well as allow providers greater certainty over the legality of contracts. Contracts may not be overly long, convoluted or burdensome and must be in a readable size font. If the contract contains terms that conflict with any other disclosure materials, such as a KFS, marketing materials or product disclosure form, the disclosure document shall control the contract. Clients should receive a fully executed and complete contract for their records, in a format accessible to the client.

l) **Form of Contracts — DFS.** General principles regarding client contracts (e.g., minimum content of the contract) are applicable in the DFS context to the extent reasonable. DFS have certain limitations depending on the medium in which the contract is presented. For example, in a text message, the size of the screen of a phone imposes space constraints. Providers will need to consider how best to present information such that a client will read and accept the terms in a meaningful way. In order to better ensure that a client has read and comprehended such information, it should be available through a variety of mediums (to the extent allowed by local law). DFS contracts must be available to the client either in print or through digital channels used for the delivery of the financial product or service, such as an Unstructured Supplementary Service Data (USSD) menu or smartphone app. The client’s email address or online account may be used for laptop or tablet based online services. Providers may also send a message encouraging the client to obtain a hard copy from the nearest point of service free of charge. Experience shows that many contracts are not developed with the intention of being read or understood by low literacy clients, and regulators should promote and enforce consumer-friendly contract forms.

m) **Insurance Cum Loan Considerations.** In the case of insurance enrollment at the time of the loan application, the enrollment certificate should be delivered at or before loan disbursement. Clients should also be informed about the importance of informing beneficiaries of their coverage under the client’s insurance products. If the disclosures are made orally, the provider should record them, and the disclosures should be made in writing to the client as soon as reasonably practical. When initiating an insurance claim, clients should be provided information on their prospective benefits.

n) **Exchange Rate Risk.** In the case of a foreign currency loan, the provider must provide additional explanations that illustrate clear pricing and cost scenarios for the client together with their translation into local currency equivalents, including pessimistic scenarios that reflect the effect of currency fluctuations.

o) **Summary of Privacy Policy.** Section 9 — Privacy and Security of Client Data requires providers to develop and implement privacy policies and procedures. Under the provisions of this section, providers are required to include a brief summary of that policy. Such a summary should inform the client of any third-parties having access to client data and refer clients to where they may read the privacy policy in its entirety.
6.2 Publication of Fees, Rates, Terms and Conditions

**PURPOSE:** To authorize the Supervisory Authority’s collection and publication of fees, interest rates and terms and conditions charged by Financial Service Providers.

**CONTENT:**

1. The Supervisory Authority may require a Financial Service Provider to report or publicly post their current fees, rates and other terms and conditions on a regular or continuous basis.

2. The Supervisory Authority may publish the fees, rates and other terms and conditions of any Product and Delivery Channel in any manner designed to facilitate the ability of Clients to compare them.

**COMMENTARY:**

**a) Pricing Transparency to Promote Market Competition.** Providing clients the information they need to compare financial services is a cornerstone of consumer protection and an efficient marketplace. When clients have the ability to shop around for the best terms and conditions, providers are forced to compete by offering lower prices, better products and services, and better client treatment. In this sense, provider staff and relevant third parties interacting with clients on the provider’s behalf should be trained to communicate pricing, terms and conditions effectively and to verify the client’s understanding. While requirements mandating disclosure in the course of a specific transaction promote this goal, many clients, particularly those with lower incomes, may not have the time, energy or other resources to effectively collect and compare the important aspects of various financial services. Making fees and rates from all providers available to the general public can help facilitate comparison shopping and thus promote increased market competition, together with appropriate client education and capacity initiatives in place to facilitate client understanding. Further, collecting and publishing this information can assist the media, the academy and consumer watchdogs in drawing attention to providers charging unusually high fees.

**b) Market Monitoring.** Collecting the fees and rates charged by providers also provides regulators with a valuable market monitoring tool. Large disparities in the prices providers charge for similar services may indicate a breakdown of competitive forces, which is a sign that clients’ ability to comparison shop is limited and that some sort of corrective action may be needed. Existing global, as well as local or country-specific, transparency initiatives (through central banks, trade associations and the like) can aid in identifying and correcting price disparities resulting from irresponsible pricing practices.

**c) Transparency Initiatives.** Providers should participate in various industry transparency initiatives to share data and monitor benchmarking across supervisory authorities, agencies, countries, etc. Such initiatives are critical in order to collect pricing data that can then be analyzed to ensure that providers are engaging in responsible pricing practices. For microfinance institutions, an initiative is underway that will centralize data on providers’ pricing, social and environmental performance, and benchmark such performance to peers. More information is available at [https://www.mf-rating.com/products/data-platform](https://www.mf-rating.com/products/data-platform).
6.3 Fees

**PURPOSE:** To prevent Financial Service Providers from charging fees without disclosure, thereby disguising the true costs of a Product and Delivery Channel.

**CONTENT:**
1. A Financial Service Provider must not charge a Client fees that have not been previously disclosed to that Client.

**COMMENTARY:**

**a) Hidden Fees.** Some providers may attempt to disguise the true costs of their financial services by charging fees to clients that are not included in the pricing disclosures. Providers should not be allowed to assess unexpected or hidden fees. The use of hidden fees has become particularly widespread in DFS. While certain providers may find it necessary charge extra fees to compensate for unreasonably low interest rates (often mandated by interest caps in certain countries) to serve vulnerable clients, such fees should be included in pricing disclosures.

**b) Option to Cancel.** The Supervisor Authority should require the disclosure of fees prior to the completion of a digital transaction, with the option for the client to cancel the transaction after such disclosure is made.

**c) Disclosure of Agent and Third Party Fees and Compensation.** Since product disclosure forms must include all fees, the disclosure forms must also include all agent and third-party fees. Clients often see these fees and believe that agents are defrauding them. This means that proper disclosure is imperative to legitimize those fees. For example, in the Philippines, agents are allowed to determine the rate they charge (as long as it is within a certain percentage range). However, since this is poorly disclosed, many consumers believe that the price discrepancies are due to agents overcharging them. This causes consumers to lose trust in DFS.

6.4 Standardized Calculation Methods

**PURPOSE:** To establish a standardized way of describing the charges, fees, terms and conditions of a Product and Delivery Channel.

**CONTENT:**
1. In all communications describing the cost of or yield on a Product and Delivery Channel, that cost or yield must be prominently expressed as an all-encompassing Standardized Interest Rate that:
   
   a. Incorporates the present value of all commitments, future or existing, agreed by the Financial Service Provider and the Client.
   
   b. Incorporates the total cost of the Product and Delivery Channel inclusive of fees and compulsory insurance products or mandatory savings.
   
   c. Is expressed as a single rate only.

2. The Supervisory Authority may amend or replace the formulas for the Standardized Interest Rate.
a) **Standardized Disclosure Calculations.** Clients should know and understand the terms and conditions of a particular product or service in order to make an informed decision. However, without standardized calculations mandated, providers may calculate and quote such terms in a wide variety of ways, making it impossible for clients to understand the features of financial services or compare the true and total costs of one product to another. Providing standardized calculation methods for the calculation of interest (see Commentary (c) below), and defining how the interest can be expressed are among the most common tools used by regulators to improve client comprehension. However, in markets in which prevailing market practice is to quote interest rates in a non-standard form (for example flat rates) by nearly all providers, the prevailing country-specific format may be used in addition to the standardized interest rate, as long as it is used in a standardized, consistent manner. Regulators should work to address any gaps in transparency through country-specific regulations.

For more information on interest rate disclosures, please visit [http://smartcampaign.org/tools-a-resources/81-understanding-interest-rates](http://smartcampaign.org/tools-a-resources/81-understanding-interest-rates).

b) **Standardized Interest Rate.** Financial services are offered with a variety of compounding periods (daily, monthly, quarterly, annually and so forth). To be able to compare the true costs or yields of financial services with different nominal interest rates, providers must be required to restate the interest rate using a standardized calculation. In most cases, the most appropriate method is to express the price or yield of the product or service as an annualized rate. To make this rate as accurate a representation of the cost as feasible, all mandatory fees should be factored into the calculation. If such fees are not included in a disclosure calculation, providers have greater incentive to disguise the costs of the product or service by including additional fees, making comparison more difficult.

c) **EIR, APR and MPR.** Around the globe, there are a few dominant methods used for standardized interest rate calculations: effective interest rate (EIR), annual percentage rate (APR) and monthly percentage rate (MPR). While each method takes into account all the mandatory fees charged the client, EIR accounts for the effects of compounding interest while APR and MPR do not. The Handbook makes no recommendation between the methods but notes MPR may be more relevant for short term loans. Regulators should implement the calculation method that is best suited to the local context while maintaining alignment with international standards.

d) **Standardized Interest Rate Schedule.** Different types of financial services will require slightly different calculation formulas for calculating standardized interest rates and other standardized pricing methods. The supervisory authority should promulgate a schedule of appropriate standardized interest rate formulas while adopting a uniform approach across all financial services.
7.1 Pricing Procedures

**PURPOSE:**
To require Financial Service Providers when setting prices to take account of Client needs in the context of Applicable Laws against anti-competitive practices.

**CONTENT:**
1. A Financial Service Provider must have Pricing Procedures for setting the prices for a Product and Delivery Channel.

2. The Pricing Procedures must be aligned with the interest of Clients and provide for reasonable pricing procedures and practices. The Pricing Procedures must also include a commitment to market-based, non-discriminatory pricing.

3. Pricing Procedures must include examination of competitors’ prices, the cost to provide the Product and Delivery Channel, and affordability to Clients. The Pricing Procedures must require documentation of the reasons for setting the price of each Product and Delivery Channel.

4. As part of the Pricing Procedures, in calculating installment payments for a credit Product and Delivery Channel, a Financial Service Provider must calculate interest charges using the Declining Balance Calculation Method. For a credit Product and Delivery Channel, interest charges payments made by a Client must:
   
   a. Be allocated to clearing any principal amount in arrears before any fees and charges.
   
   b. Be allocated to the principal balances assessed with the highest interest rate first.
COMMENTARY:

a) **Principle.** Pricing, terms and conditions should be set in a way that is affordable to clients while allowing for providers to be sustainable. Providers should strive to avoid excessive loan interest rates and to provide positive real returns on deposits.

b) **Responsible Pricing.** Regulators should foster an environment where providers are required to price their financial services in a way that contributes to the long-term financial health of their clients while meeting their own needs for financial stability and sustainability. Pricing practices that result in poor outcomes for clients, particularly lower income and less resilient clients, may be indicative of unfair treatment of clients; insufficient, unclear or misleading disclosure practices; and lack of competition. Although responsible or fair pricing practices are complex, responsible pricing can be regulated in terms of fair and respectful treatment of clients (see Section 8—Fair and Respectful Treatment of Clients) and appropriate disclosures (see Section 6—Transparency and Section 7.2—Permitted Fees).

c) **Pricing Procedures — Generally.** Instead of setting specific pricing limits, this section requires providers to have, follow and document pricing procedures. Requiring pricing procedures and documentation gives regulators a window into the rationale for why and how prices have been set. Furthermore, the process by which providers create and follow their pricing procedures should also be of importance to regulators. For instance, the board and senior management have an overarching responsibility to monitor compliance (see Section 3.2—Board and Senior Management Oversight). This monitoring responsibility should explicitly include monitoring pricing procedures. Where a provider’s pricing procedures are inadequate or result in harm to clients, regulators should use its regulatory powers and authorities to require the appropriate corrective action. While setting specific pricing limits (e.g., interest rate caps) may lead to market distortions, such as hidden fees and withdrawal from the market, regulators may request valid justification for prices and/or ratios (whether of fees or interest rates) that do not fall within the ranges a competitive market would yield.

d) **Product-Specific Comparisons.** This section requires a comparison of the provider’s pricing with that of competitors offering similar products. If the provider’s pricing is substantially higher or lower, responsible pricing implies that the provider should be able to justify this difference to its clients and other stakeholders. Lower pricing is inappropriate if it reveals that the provider is unsustainable or has a strategy to gain market share and then raise prices later. Higher pricing should raise concerns if the provider has higher operating costs than the competition (e.g., the provider is passing the cost of its inefficiencies to its clients). Particular attention must be paid to low-competition markets, in which competitor comparisons are unlikely to provide a full picture of whether a provider’s pricing is responsible.
**e) Profitability.** In assessing responsible pricing, regulators should consider how product pricing and product costs are reflected in the provider’s overall profitability. Providers that appear to be unusually profitable on a sustained overall basis compared to their competitors may raise questions as to whether their level of profitability is consistent with the long-term benefit of clients. Some responsible providers have established target return on assets, return on equity or other relevant profitability targets in order to signal to investors and clients their intent to keep prices as affordable for clients as is consistent with institutional sustainability and service quality. Notwithstanding the foregoing, regulators should not automatically assume that high profits are inconsistent with responsible pricing. Such high profits could be justifiable over a period of time, for example, when client needs are being served and the profits are being used to build up equity (and attract loans and investment) to strengthen the provider or grow the ability to serve clients over the longer term.

**f) Pricing Floors and Caps; Debt Caps and Ratios.** In general, regulators should not enact usury laws, should avoid setting price or interest rate floors or caps, and should not prescribe debt caps or debt ratios. Due to political pressure, caps are often set too low for providers to be able to offer financial services to the hardest-to-reach or low-income clients. Further, interest rate caps often encourage providers to disguise the true price of their financial services through the assessment of fees and other charges, especially when services are aimed at the low-end market. Alternatively, providers may simply pull out of markets where interest rate limits do not allow them to break even. When this happens across an entire market, lower income clients remain financially excluded. Where adequate disclosures and other consumer protections are in place and the market for financial services is competitive, the collective force of informed client choice should keep prices responsible. Where unreasonably high prices are present, the best long-term solutions are generally to improve disclosures, to enhance fair treatment of clients and to facilitate competition among service providers. Generally, where market failures required regulators to impose pricing restrictions, such actions should only be undertaken after extensive stakeholder discussions in order to avoid counterproductive results.

**g) Declining Balance Calculation Method.** In some countries, providers charge interest on a flat basis (i.e., on the initial principal amount interest calculation methods, charging interest on the original loan amount at the time each installment payment is made, instead of on the current outstanding balance). This calculation method disguises the costs of the loan and leads to quoted, nominal rates that do not reflect the true price a client is paying to borrow money. The flat interest calculation method essentially charges the client for renting money they no longer have use of. This is contrary to the ordinary meaning of interest: the price one pays to have the use of someone else’s money. Experience shows that mandating the use of a declining balance calculation method to calculate interest has an immediate impact on clients’ ability to compare products. In Peru, for example, the introduction of such a mandatory disclosure regime led to a sudden drop in prices due to clients’ increased ability to comparison shop. However, some providers argue for a flat interest calculation method because of difficulties in explaining the declining balance concept to clients. A declining balance method for assessing interest charges must always be used in a provider’s accounts, even if providers quote rates to clients on a flat basis, and always provided that the APR, EIR or locally mandated equivalent is also provided to clients (see Section 6.4, Commentary (c) – EIR, APR and MPR). If flat rates are adjusted downwards and comparable to a higher declining balance rate, the calculation method could be construed as question of transparency rather than responsible pricing.
h) Additional Considerations — Product-Specific Issues in Responsible Pricing. In assessing compliance with this section, regulators may also consider the following product-specific risks and issues:

a. Credit Products.

i. Loans with Compulsory Savings. Loan products with compulsory savings reduce the net loan exposure to the provider and therefore implicitly raise the effective interest rate for the client. Responsible providers should be expected to take this into account when calculating the appropriate loan interest rate, in addition to ensuring that mandatory savings requirements are appropriate for the risk level of the loans.

ii. Pricing Trends. During the early stages, when operations are relatively inefficient, such as during an algorithm “training” and lend-to-learn period, higher prices may be justified. However, as providers become more efficient over time, some of the benefit of increased efficiency should be passed on to clients in the form of a trend toward lower prices.

b. Insurance Products.

i. Claims Ratios. Claims ratios vary according to variables such as whether the product is mandatory and pricing methods used. While Standards for inclusive insurance are still evolving in this area, much-needed innovations for reaching lower income people are being tried and tested. It is likely that claims ratios for such products will be less favorable than products for the mainstream. As benchmarks have yet to emerge in the industry, regulators are advised to collect data on claims ratios that would support the development of benchmarks and to engage in dialogue with providers over such benchmarks, with an eye to also support innovation. A minimum claims ratio of 50% could be used as a lower limit, although providers are encouraged to achieve a higher ratio. It is considered best practice to adjust pricing based on actual claims experience.

c. Payment Products.

i. Competitive Information. Payment providers cannot always control the cost of payment products, because they often rely on at least one other party to effectuate the payment. However, pricing can be compared if using published data.
7.2 Permitted Fees

**PURPOSE:**
To require Financial Service Providers to set any service or penalty fee based on the principles in [Section 6 — Transparency and Section 8 — Fair and Respectful Treatment of Clients].

**CONTENT:**
1. Any service or penalty fee imposed by a Financial Service Provider must be substantiated and based on the principles in [Section 6 — Transparency and Section 8 — Fair and Respectful Treatment of Clients].

**COMMENTARY:**

**a) Reasonableness of Fees.** Fees can contribute to a lack of pricing transparency, both for calculating overall product cost and because some fees are contingent and may not be anticipated or understood by the client. However, fees may be necessary, and where used, should provide a reasonable coverage of the provider’s costs for a specific service and to encourage appropriate client behavior. It costs money for providers to open accounts, accept loan prepayments, pay insurance claims, etc., and it is legitimate for providers to be compensated for those services. Fees can also help to encourage appropriate client behavior, such as late payment fees that encourage on-time principal and premium payments. In encouraging appropriate client behavior, however, it should be borne in mind that lower income clients face a relatively high level of unpredictability in their lives. Therefore, a fee structure that is costly for clients facing unexpected situations, such as one featuring high penalty charges, may not meet the requirements of Section 4 — Appropriate Design of Products and Delivery. Whether or not a particular fee is reasonable will depend on context and circumstances, but in general a fee is reasonable if it is based on a reasonable estimate of the costs incurred by the provider as a direct result of the activity for which the fee is imposed. Fees associated with basic account operations often include prepayment, early termination, set-up, documentation or initial fees. Regulators should consider limiting fees which have been shown to be anti-competitive in the relevant market (e.g., fees that are so high they harm the client, such as late payment fees that make burdens unrealistically high or account maintenance fees that rapidly reduce client savings). Mandatory bundling of products that appear to clients as additional fees may also be considered in this regard. For example, high-priced mandatory credit life insurance bundled with loans has in some markets been a means for providers to circumvent interest rate caps or disguise high overall charges. It is also not appropriate for providers to charge fees that are designed to limit client choice, such as account closing fees.

**b) Savings Products.** Fees that are disproportionately high relative to small deposit balances do not serve the needs of clients. Deposit accounts should not charge fees to clients that absorb a major share of the principal of the account. If this is not possible, the product should be re-evaluated in line with the recommendations of Section 4 — Appropriate Design of Products and Delivery Channels to assess whether it has sufficient value to clients to warrant offering it. Another product that is not well-suited to lower income clients is automatic overdraft protection, in which overdrafts are automatically granted, but charged high fees and interest. Clients should not be required to enroll in such a product if they prefer to opt out.
8.1 Client Treatment Policies and Procedures

 PURPOSE: To require Financial Service Providers to treat Clients fairly and respectfully.

 CONTENT:

1. General. A Financial Service Provider must treat Clients with high ethical standards and with honesty, fairness and respect.

2. Non-discrimination. Client selection and treatment must not involve discrimination on the basis of characteristics protected under Applicable Laws and including without limitation race, ethnicity, origin, gender, political and/or religious affiliation, disability, sexual orientation, age, and/or caste.

3. Detection. A Financial Service Provider must ensure adequate mechanisms are in place to detect and combat fraud, corruption, and/or aggressive or abusive treatment by their staff, Directly Managed Agents and Third-Party Providers, particularly during the sales and debt collection processes. All transactions should be conducted in an appropriate manner.

4. Policies and Procedures. A Financial Service Provider must have in place and follow policies and procedures that educate its employees and Directly Managed Agents on how to behave toward Clients and ensure that employees and Directly Managed Agents are treating Clients with high ethical standards. Such policies and procedures must also set forth penalties (which may include, but not be limited to, employment-related sanctions such as suspension or termination of employment or other contractual arrangement) against any employees and Directly Managed Agents for failure to comply with these requirements:

   a. Any handbooks, policies or similar guidelines established by a Financial Service Provider related to fair and respectful treatment of Clients must be written in a clear, understandable manner so that its employees and Directly Managed Agents can acknowledge understanding of the same.

   b. A Financial Service Provider must not provide incentives to management, staff and Directly Managed Agents that encourage unethical Client treatment or over-indebtedness. Financial Service Providers should review and assess their incentive programs annually to address policies that could potentially harm or put Clients at risk.
c. A Financial Service Provider must not, directly or indirectly, use deceptive or aggressive sales and marketing techniques.

5. Training. A Financial Service Provider must train its employees and Directly Managed Agents to ensure that they are well-informed regarding fair treatment policies, and the Financial Service Provider must create mechanisms enabling verification that those policies and procedures are being followed by employees and Directly Managed Agents.

6. Third-Party Provider Compliance. A Financial Service Provider must confirm that Third-Party Providers interacting with Clients have mechanisms in place related to fair and respectful treatment of Clients consistent with the Financial Service Provider’s obligations under this section.

7. Periodic Audit and Review. At least every [three] years, a Financial Service Provider must audit, review and, as necessary based on the findings of such audit and review, revise in consultation with industry associations and Clients:

a. Its policies, procedures and similar guidelines related to fair and respectful treatment of Clients to ensure that they are reflective of industry standards and in compliance with Consumer Financial Protection Laws.

b. Its training and supervision programs, human resource and employee evaluation systems, internal Complaint Handling Mechanism, internal compliance systems, incentives, and other internal policies and procedures to ensure that management, employees and Directly Managed Agents are adhering to Client treatment policies on a continuing basis.

c. Its contractual arrangements with Third-Party Providers to facilitate and monitor compliance with this section.

**COMMENTARY:**

a) **Client Treatment.** Clients (including past clients) are entitled to being treated with dignity. A respectful attitude from the provider encourages client trust and confidence, thereby promoting the responsible use of financial services and furthering financial inclusion. Providers should consider codifying such rights in a “Client Bill of Rights” or other consolidated document distributed to staff and clients, which describes the client’s rights of privacy, respectful treatment and other rights. The client’s rights reinforce the prohibition of any provider to engage in any unfair, deceptive or abusive act or practice, as set forth in Section 3.1—Prohibited Acts.

b) **Commitment to Code of Ethics.** Policies may include a code of ethics that states the provider’s mission and articulates its organizational values, such as fair and respectful treatment of clients. The requirements of this Section 8—Fair and Respectful Treatment of Clients demonstrate that having such a code in writing is not enough and that the commitment has to be upheld and enforced on an ongoing basis at all levels of the provider, from the board of directors to entry-level staff.
c) **Non-Discrimination.** Non-discrimination means treating all clients equally, regardless of their race, religion, ethnicity, political affiliation, disability, age, orientation, gender or such other characteristics that may or may not be defined by applicable law in the jurisdiction. Terms and conditions may be set based on risk and accommodation (e.g., for disability), but risk assessment cannot be based directly upon the sensitive categories such as those listed above, and care should be taken when substituting proxies for these categories. For example, the results of suitability and creditworthiness assessments required under Section 4—Appropriate Design of Products and Delivery and Section 5—Preventing Over-Indebtedness may affect terms and conditions. Differentiation in the terms and conditions for clients should not be used as a proxy for discriminatory treatment toward clients. When client selection is processed by algorithms, responsible non-discrimination requires prior review of the data used in selection, and periodic assessment of the results to evaluate the existence of any discriminatory biases in the model. As noted in Section 5—Preventing Over-Indebtedness, good algorithmic governance includes internal review of the data and design through ex ante and ex post checks and balances such as internal audit.

d) **Targeting Clients to Correct for Discrimination.** Prohibited discrimination must be distinguished from the practice of targeting members of a particular group to correct for societal discrimination. For example, the practice in the developing world of targeting as clients women or persons with disabilities, who traditionally lack access to financial services, would not be prohibited under this section, provided that specific focus groups are evaluated periodically to ensure such focus continues to be the best option to serve such clients.

e) **Appropriate Incentive Structure and Sales Practices.** It is important to require that staff compensation is aligned with responsible behavior. Providers should not reward irresponsible behavior (for example bonuses linked to sales without regard for loan quality), but providers could also create incentives to reward staff for good client relations. In designing their incentive structure, providers should be vigilant about the risk of mis-selling products that clients cannot afford or that are otherwise unsuited to their clients’ circumstances and needs. Additional discussion is in Section 5.1, Commentary (i)—Production Targets and Sales Incentives.

f) **Responsible Use of Agents and Third Parties.** Providers assume responsibility for the behavior of agents and third-party providers interacting with clients. Providers cannot control every aspect of the treatment of their clients by agents and third-party providers; however, they must take due care that high standards of care are practiced by their agents and third-party providers and that procedures for recourse and problem resolution are available to clients. As discussed in Section 3.2, Commentary (c)—Third-Party Compliance, where providers are not directly managing agents, contractual arrangements can be a useful mechanism to require compliance, exercise oversight and demand training from such third parties, where feasible. It should be noted that outsourcing of client acquisition for loans to commissioned agents has been associated with aggressive sales.

g) **Debt Collection and Defaulting Clients’ Rights.** Clients are particularly vulnerable to inappropriate treatment during the debt collection process, thus it is a prohibited act pursuant to Section 3.1—Prohibited Acts. This Section’s requirement for comprehensive
systems to ensure high ethical standards necessitates that appropriate debt collection policies be put in place with oversight from management to protect clients’ rights even when they are in default or when their collateral is being seized. Providers are liable for the actions of those who collect debt on their behalf, whether they are employees, agents or debt collection agencies. Such policies and related practices should be periodically assessed, and correction measures taken to address lack of compliance. For example, providers should define what are appropriate and prohibited actions to be taken in case of collections (both individual and group), a reasonable timeline and opportunity for the client to remedy the default, permitted rescheduling, refinancing and write offs, and ensure appropriate safeguards are in place for collateral kept by or on behalf of the provider. Staff should be appropriately trained and, where not directly managed, providers should require and verify that third parties have appropriate policies and training in place. Clients should be informed of the collateral seizure process prior to contracting for the product or service. Providers must also comply with applicable laws on collateral, if any exist. Regulators are empowered in Section 2.5—Rulemaking to prohibit specific debt collection practices that are problems in their market. Thus, regulators should consider prohibitions against removal of collateral that deprives clients of their ability to earn a living or their basic shelter, forces clients to sell their collateral to satisfy their debt and restricts collateral from being sold to the provider, provider staff or any third parties involved in the seizure.

h) Preventing Staff Corruption. The responsible treatment of clients clearly excludes obtaining money or other favors from clients in return for providing financial services, as well as other forms of corrupt staff behavior. A strong corporate culture can help limit corruption to some extent, because it should create an environment in which other employees feel safe to be whistle-blowers if conditions warrant. An important tool is a secure way for both clients and employees to report anonymously any inappropriate staff behavior. Robust systems for detecting and correcting fraud and corruption, including effective internal controls and a commitment to address all cases of corruption quickly and, if possible, openly, in order to create deterrents, should be implemented. Clients should be made aware of these policies to help remove any fear they may have of reporting on unethical behavior. Fraud detection and control is discussed further under Section 9—Privacy and Security of Client Data.

i) Client Feedback. Important tools for assessing a provider’s success in fostering the responsible treatment of clients are regular client surveys, “mystery shopping” in which a specialist poses as a client, and an effective system for addressing client complaints. The latter topic is addressed in detail in Section 10—Complaints Resolution.
9.1 General Obligations

**PURPOSE:** To require Financial Service Providers to collect and/or process Client Data in a manner that effectively protects the Client’s privacy, preserves confidentiality and secures against unauthorized or fraudulent access or use.

**CONTENT:**

1. A Financial Service Provider must respect the privacy of each Client. Client Data must be kept confidential, secured and only used for the legitimate purposes specified and agreed to by the Client or as permitted by Applicable Laws.

**COMMENTARY:**

a) **Principle.** The privacy of individual client data must be respected. Providers should only use client data for authorized purposes and with client consent. Providers should maintain systems to keep client data from being released improperly or misused. Providers should also protect clients from fraud, whether by internal staff, partner companies, or bad actors.

b) **Data Privacy Regimes and Enforcement Capacity.** In many jurisdictions, data privacy may be handled by a distinct data protection law or regime already in place, in which case the recommendations of this section should be reviewed against such frameworks to assess whether there are any gaps in protections and how to address them. Regulators should also carefully consider the capacity or expertise needed to effectively enforce data privacy and protection laws.

c) **Client Data.** This section acknowledges that client data belongs to the client and protects against the potential harm or loss due to fraud, theft or misuse. Data is broadly defined in Section 1.1—Definition of Terms to include any personally identified or identifiable information directly or indirectly collected and/or processed by providers in the life cycle of a product or service. Collection and/or processing is further defined to reflect a broad range of activities and operations as set out in Section 1.1(d)—Client Data.

d) **Privacy Risks.** Further to Section 4.1—Design, Implementation and Monitoring, providers must be able to identify key privacy risks and develop and implement strategies and processes to continually identify and mitigate these risks. Security and fraud issues come in many forms and should be understood by
regulators as well as providers. Illustrative examples include: poorly designed products that expose client data; more rampant and damaging data attacks in an era of big data; agents and third-party providers not complying with requirements or defined processes; clients compromising sensitive or confidential client data and account information due to lack of skill or confidence in using the product; social engineering and phishing attacks; data compromise and transaction failures due to technology risks like system uptime failures, connectivity issues, hardware failure and malware; sharing client data to third parties in increasingly complex value chains without meaningful consent, disclosure or privacy controls; growing demand for superfast, easy transactions compromising transaction integrity; and data breaches through fake account set ups and account take-over attacks. Product-specific issues include, but are not limited to, group lending privacy concerns, which may necessitate group training on protecting the privacy of respective group member client data and establishing procedures for safeguarding data and how to respond to a breach, and additional safeguards and legal requirements required to protect the privacy of health information in the insurance context.

e) Alternative Fraud Mitigation. Just as regulators should familiarize themselves with data security risks, so too should they understand emerging mitigation strategies. Examples include digital identity solutions, hybrid analytics and AI/machine learning. Some providers are working in collaboration with regulators to integrate banking and financial services with digital identity solutions and are leveraging APIs, biometrics, blockchain, machine learning and mobile technologies to allow transactions to become more secure and financial products and services to be increasingly accessible. Estonia (e-Estonia) and India (Aadhaar) have been digitizing access to financial products and services using data and digital identity; however, it is important to note such systems are not fraud-proof. In addition, hybrid analytics and study of consumer behavioral patterns is becoming a common anti-fraud solution. AI/machine learning systems are being used to study data comprised of millions of transactions for anomaly detection and predictive analytics and thereby mitigate fraud. For recommendations as to how providers should be required to handle fraudulent transactions after the fact, refer to Section 4.5 — Fraudulent or Mistaken Transactions.

f) International Benchmarks. The EU’s General Data Protection Regulation (GDPR) went into effect in 2018 and is considered by some a global benchmark for data privacy and protection. GDPR harmonizes data privacy laws across Europe, empowers EU citizens with regard to their data privacy, and modernizes the way organizations approach and integrate data privacy into their systems and products. GDPR significantly expanded individual rights, such as a right of access (right for individuals to obtain confirmation as to whether or not personal data concerning them is being processed, where and for what purpose), a right to be forgotten, and a right to data portability. Further, GDPR requires organizations to incorporate privacy by design and data minimization. However, whereas GDPR contains a “legitimate interest” basis for the lawful use of personal data without obtaining consent, other legal regimes, particularly in Latin America, do not have an exception to the consent requirement.

g) Client Education on Data Privacy. Regulators should also consider requirements for providers to educate clients to act in an informed manner and raise awareness regarding digital safety issues and common fraud scenarios (e.g., phishing, scams or other fraudulent methods). Providers should educate clients through various channels (e.g., SMS, video, posters, advertisement, media campaign). Clients should be reminded not to share their security credentials with anyone (including staff and agents) and informed about safety measures for protecting security credentials (e.g., PIN), including but not limited to changing temporary security credentials upon first use or in the event of a suspected disclosure (accompanied with PIN-changing instructions), maintaining the secrecy of newly assigned security credentials, and keeping security credentials in a safe place.
9.2 Client Rights

**PURPOSE:** To set forth the range of Client rights regarding Client Data and require that the manner in which Client Data is collected and/or processed by Financial Service Providers be disclosed to and authorized by the Client in advance.

**CONTENT:**

1. A Financial Service Provider must make a Client aware that the Client’s Data will be collected and/or processed. A Financial Service Provider must disclose the purpose for which the Client Data is collected and/or processed, the intended recipients of the Client Data, and the contact details of the Financial Service Provider collecting and/or processing the Client Data. A Financial Service Provider must obtain the Client’s informed and explicit consent regarding the use of their Client Data.

2. A Client has the right to review their Client Data to ensure that inaccurate or deficient data is corrected or amended, as feasible.

3. A Client has the right to withdraw their consent at any time.

4. Client Data must be:
   
   a. Collected and/or processed only for specified and legitimate purposes authorized by the Client in advance.

   b. Collected and/or processed lawfully.

   c. Relevant and limited to what is necessary for the specified and legitimate purposes for which the Client Data was collected and/or processed.

   d. Accurate and, where necessary, kept up to date.

   e. Retained only for long as required for specified and legitimate purposes or as required by Applicable Laws.

5. Client Data must be corrected, supplemented, destroyed or restricted, as appropriate, by a Financial Service Provider at no cost to the Client where inaccurate or incomplete.
**COMMENTARY:**

**a) Informing Clients About Data Rights and Obtaining Consent.** The use of “informed consent” as a justification for data practices rests on the assumption that the client has been provided with notice of the proposed treatment of his or her data (and understood that notice) and made a free choice to accept that treatment. In fact, there is often no real notice or consent in these matters as products are often offered on a take-it-or-leave-it basis in which the client has no negotiating power and policy disclosures are often written in language that is either vague or hard to understand. Therefore, there is a need for vastly improved consent procedures and restrictions, though the standards for what constitutes “good practices” continues to evolve. For example, providers should ensure that any client consent is voluntary, unbundled, explicit, fully informed, time limited and requires action by the client to evidence consent (e.g., no pre-checked boxes). Research in mobile financial services suggests that client consent should be provided through multiple screens or through multi-interface menus. The text should include clear and summarized information in local language on the type of data and purpose of data for which consent is requested. For mobile services that operate outside an internet environment (e.g., through USSD), providing an internet link to a privacy policy is not sufficient.

**b) Opt-outs.** Clients should be able to easily withdraw the consent granted to providers, agents and third-party providers with respect to their client data or opt-out of the product or service. Options to opt-out of services should clearly be displayed and accessible to clients, together with an explanation on the consequences of opting out of those services.

**c) Clear Disclosures.** Pursuant to Section 6—Transparency, providers should share the key facts about their privacy policy and procedures in simple language. Key topics include what data is used and for what purposes, as well as procedures for clients to review their data and verify its accuracy, request transfer of data to other parties, and follow up in case of a breach.

**d) Data Minimization.** Providers should limit the collection of data to specified and legitimate business purposes in connection with the financial product or service. Data minimization avoids unnecessary intrusion into client lives and reduces the risk of data misuse, fraud or financial loss. The proliferation of smart devices and Internet-of-Things products allows providers to collect client data directly and indirectly from clients. Providers can track clients’ online browsing history and transactions while engaging third parties to combine the provider’s detailed information on each client with aggregated data from other sources about that client, such as their employment history, income, lifestyle, online and offline purchases, and social media activities. Such data can result in discriminatory conclusions, exploitation, manipulation and exclusion facilitated by the unanticipated aggregation of an individual’s personal information from various sources or biased algorithms, particularly when a client is not provided an opportunity to correct or dispute such information. Providers should also avoid collecting client data that could be used for illegal or arbitrary discrimination, such as but not limited to ethnicity, religion and political affiliation. Note that in algorithmic lending there are often far fewer variables used in effective algorithms than the potential number of variables that are or can be collected. See also Section 5.1, Commentary (d) — Algorithm Governance.

**e) Time Limits.** Client data must be stored and used only for as long as it is necessary to achieve the purpose for which it was processed and all related purposes or, if longer, as long as applicable laws require.
9.3 Privacy and Security of Client Data

**PURPOSE:** To require Financial Service Providers to develop, implement and maintain a Privacy Policy and organizational, physical and technical measures to protect the privacy and security of Client Data in compliance with the provisions of this Act and Applicable Laws.

**CONTENT:**

1. Establishment of a Privacy Policy.

   **a.** A Financial Service Provider that collects and/or processes Client Data must have a Privacy Policy that:

   i. Enshrines the principle that Client Data is owned by the Client.

   ii. Limits the collection and/or processing of Client Data to that directly necessary for the Product and Delivery Channel.

   iii. Clearly sets out the Financial Service Provider’s practices and policies with respect to Client Data collected and/or processed in connection with a Product and Delivery Channel.

   iv. Identifies any sensitive data collected and processed.

   v. Explains the purposes for which the Client Data is collected and/or processed.

   vi. Defines the retention periods for Client Data.

   vii. Provides for reasonable security practices and procedures to safeguard Client Data proportionate to the risks of the Financial Service Provider and the Product and Delivery Channel.

   viii. Identifies whether the Client Data may be shared with Credit Reporting Systems.

   ix. Includes clear procedures for when a Client may voluntarily allow for disclosure of their Client Data.

   **b.** Any Privacy Policy established by a Financial Service Provider must be written in simple language Clients can understand. A Financial Service Provider must highlight the most important privacy information in any Product Disclosure Form provided to a Client in conformity with [Section 6 — Transparency] and Data Protection and Privacy Laws.

2. Data Privacy Procedures

   **a.** A Financial Service Provider must implement reasonable and appropriate organizational, physical and technical measures for the protection of Client Data against unlawful access or destruction, misuse, or accidental loss or destruction, taking into account the risks of collection and/or processing, the types of Client Data, the size of the organization, current privacy best practices, and cost of implementation.
b. A Financial Service Provider must have security standards and protocols for providing safe access to any Product and Delivery Channel by using safe and secure protocols for exchange of information and by using authentication methods. These protocols and methods should be regularly reviewed and audited for compliance and updated regularly.

c. A Financial Service Provider must report security incidents and breaches resulting in the unauthorized disclosure of Client Data to the Supervisory Authority and to affected Clients.

3. A Financial Service Provider must ensure that Directly Managed Agents and Third-Party Providers collecting and/or processing Client Data have organizational, physical and technical measures consistent with the Financial Service Provider’s obligations under this Act.

4. A Financial Service Provider must inform and periodically train staff and Directly Managed Agents about the Privacy Policy, measures and their implementation, and confirm that Third-Party Providers inform and periodically train their staff.

5. A Financial Service Provider must conduct regular assessments of Client Data it collects and/or processes and review and update its Privacy Policy and data privacy procedures, where necessary.

**COMMENTARY:**

a) **Data Privacy Policy.** This section requires providers to have a written privacy policy and associated procedures in place. The policy should establish the principle that client data is to be kept private unless otherwise mandated by law. Client data includes any information the provider collects and/or processes, directly or indirectly, in connection with providing products or services to the client, which may include, without limitation: identity, financial and transaction information, and information obtained from other sources such as mobile phones, credit bureaus or the internet.

b) **Data Privacy Procedures.** Organizational, physical and technical measures enable a provider to protect client data. In assessing compliance with this section, regulators may consider whether such measures adhere to certain good practices, such as overall organizational responsibility for client data privacy based on the size and activities of the provider (e.g., privacy officer(s)); restricted internal staff access to client data; use of initial and regular privacy assessments; procedures to be followed when sharing client data with third parties, such as marketing companies, data processing companies and collections agencies; a business continuity, disaster/downtime recovery plan; procedures specific to the form of data (e.g., written or electronic); and manner of collection or processing.

c) **Data Security.** The concept of data security includes several elements for consideration by regulators. The financial service provider should have robust systems and procedures for ensuring the security of client data. Client data should be maintained in secure systems with protections against unauthorized access as well as theft and damage. Staff should be informed and trained regarding procedures for maintaining data security. Access to data should be limited to authorized users, with robust authentication in place for staff, agents, third-party providers and clients. Good cyber hygiene should address both storage and movement of data, proper use of encryption, and firewalls. Business continuity plans and audit trails should be in place, as well as protocols for response to data breaches. Given the evolving nature of threats, providers should
ensure that security is maintained up to date, with the help of vulnerability and penetration testing, backed up by independent security audits.

d) Fraud Protection. In order to combat fraud, providers should ensure their data security measures include effective measures to prevent, detect and respond to fraud related to client accounts, whether committed by staff, third parties acting on the provider’s behalf, or others such as bad actors. Providers should train staff and directly managed agents on fraud identification and provide channels for fraud reporting and serious penalties for incidents of fraud. Clients should also have a readily available means of reporting loss or theft. Internal controls and audit processes are needed to monitor for fraud. In the event of fraud, providers should compensate clients for direct losses due to fraud. For services delivered through mobile phones and/or agents, network downtime often provides opportunities for incorrect or fraudulent transactions, and therefore, providers should work to ensure that downtime is minimized.

e) Notification of Data Breaches. When a data breach or incident occurs and client data is accessed by unauthorized parties, the provider should notify clients within a fixed timeline from the time it became aware of the breach. Prompt notification will allow clients to protect their client data and explore legal avenues to seek damages for the loss of control over their client data. Where possible and if the breach is significant, providers should coordinate the response with the relevant Supervisory Authority and as required under applicable law.

9.4 Disclosure of Client Data

PURPOSE: To outline the permissible disclosures of Client Data by Financial Service Providers.

CONTENT: 1. A Financial Service Provider may disclose Client Data to a third party in any of the following instances:

a. When the Client has been informed about such disclosure and permission has been obtained in writing or by other means, including, where appropriate, by electronic means.

b. When it is necessary to provide the Product and Delivery Channel requested by the Client and disclosed to the Client in advance.

c. When the third party in question has been authorized by the Client to obtain the Client Data from the Financial Service Provider.

d. When the Client Data is de-identified or aggregated such that the information cannot reasonably identify, relate to, describe, be capable of being associated with, or be linked, directly or indirectly, to a particular Client.

e. When required or permitted under [Section 5.2 – Mandated Credit Reporting].

f. When the Financial Service Provider is legally required to disclose the Client Data pursuant to Applicable Law.
**Commentary:**

**a) Sharing Client Data.** Except at the request of the client, client data should only be shared with third parties who are directly involved in the marketing, sale, delivery or servicing of a financial product or service, and those third parties must agree to adhere to comparable standards of data privacy and protection. When data is shared, good practice is for the provider to provide only the information required by the recipient pursuant to a legitimate business purpose. Whenever possible, access to data identifying individual clients should be limited to those with a direct need to interface with that client or client account. Implied in this requirement is that any use of client testimonials, photographs and/or case studies in marketing or other public materials should be agreed upon in advance in writing by the client. Providers should never disclose client data to harass or publicly humiliate a client, nor should providers disclose information to governments without transparent due process and/or to governments which act without regard to the rule of law.

**b) De-identification of Client Data.**
An example of a permissible disclosure is de-identification, which could take a variety of forms, such as anonymization, pseudonymization, aggregation, tokenization, etc. For example, anonymized data is irreversible—it can’t be re-identified or attributed to a particular individual. In contrast, the California Consumer Privacy Act of 2018 defines “pseudonymization” as processing in a manner that data is scrubbed of any personal identifying information such that any re-identification is not currently practical without the use of additional information, provided that the additional information is kept separately and subject to appropriate measures to ensure that the information is not attributed to an identified or identifiable client. Aggregation summarizes client data without reference to individually identifiable information. Tokenization is the process of substituting algorithmically generated numbers for a client data element. Many data users will be able to perform their functions without access to client identities, and providers should adopt such processes where feasible. However, advances in big data, reverse data capabilities and machine learning techniques make re-identifying data more practical meaning greater care will be required of providers utilizing such techniques.

**c) Sales of Client Data.** Sales of client data to third parties are generally not in keeping with good privacy practice without meaningful client consent and an opportunity to opt out—preferably without loss of access to the service for which the data was originally collected. Where providers share client data with other entities for cross-selling purposes, the client should understand clearly that the data is being shared and have the right to opt out of participating in writing or through electronic means. Note that clients do not typically have the right to opt out of sharing information with third parties contracted as part of the service delivery process, such as marketing, data analysis, collections, etc.

**d) Exception for Credit Reporting.** The existing legal structures in many countries require clients to authorize the sharing of data or otherwise mandate that providers disclose client credit data for credit reporting purposes. Therefore, it is the provider’s responsibility to clearly disclose such requirement to the client. Where credit reporting is not legally mandated, providers should inform clients of the option and the related benefits and drawbacks and obtain affirmative consent prior to disclosure.

**e) Open Banking.** This section supports the disclosure of client data in accordance with open banking standards, if they exist within the relevant jurisdiction. For example, the EU’s Revised Payment Services Directive (PSD2) permits registered third-party providers to, subject to client consent, access client data held by a provider to provide account information services and payment initiation services. This facilitates, for example, collection of client data across all held accounts to produce a consolidated view of a client’s financial health. The directive also provides enhanced client rights in the form of reduced liability for non-authorized payments, removal of surcharges with the use of credit and debit cards, and an unconditional refund right for direct debits.
10.1 Internal Complaint Handling Policies and Procedures

**PURPOSE:**
To require Financial Service Providers to have internal complaint handling mechanisms.

**CONTENT:**

1. Complaint Handling Mechanism.

   a. A Financial Service Provider must establish a written policy for the Complaint Handling Mechanism to manage Client complaints in accordance with the requirements set forth in [Section 10.1.1(b)–10.1.5(a)].

   b. A Financial Service Provider’s Complaint Handling Mechanism must enable receipt of Client complaints through multiple channels, such as in person, in writing, via telephone, via email, via webpage or through another similar method.

   c. The Complaint Handling Mechanism must include escalation processes and procedures based on factors such as but not limited to the complaint type, severity and Client satisfaction with the outcome.

   d. Financial Service Provider staff must be equipped and empowered to act decisively to resolve complaints.

2. Accessibility and Disclosures.

   a. The Complaint Handling Mechanism and all complaint procedures must be designed and operated to be easily accessible and free for all Clients.

   b. A Financial Service Provider must actively inform Clients about their right to make a complaint and how to make a complaint based on the principles set forth in [Section 6—Transparency]. This information must, at minimum, be displayed prominently by the Financial Service Provider and by its Directly Managed Agents and Third-Party Providers, if any, at their physical locations, on their electronic sites and/or as part of the Product and Delivery Channel.
c. All contracts and disclosures given to Clients by a Financial Service Provider regarding a Product and Delivery Channel must include contact information for the Financial Service Provider’s Complaint Handling Mechanism as well as contact information for the complaints mechanism or ombudsman provided by the Supervisory Authority or relevant public sector body.

3. Responsiveness.

a. A Financial Service Provider must establish a reasonable timeline for resolving each complaint and ensure all complaints are addressed in an equitable, objective and timely manner [and within the timeframe, if any, promulgated by the Supervisory Authority].

b. Upon completion of any investigation into a complaint, a Financial Service Provider must immediately communicate its resolution to the Client and should clearly explain the basis of the decision.

c. A Financial Service Provider must inform the Client of the procedure to appeal or to further pursue the complaint in the event of an adverse decision, including referrals to conciliation or mediation and to any complaint process established by the Supervisory Authority, industry association or other external dispute resolution mechanism.

4. Records and Reporting.

a. A Financial Service Provider must retain the records pertaining to each Client complaint, including records of how the complaint was resolved, for the period established by the Supervisory Authority. The Supervisory Authority may require periodic data reporting and may engage in monitoring the complaint handling process.

5. Training.

a. A Financial Service Provider must train its employees and Directly Managed Agents and Third-Party Providers to ensure the Complaint Handling Mechanism is adhered to and create systems enabling the Financial Service Provider to verify that its Complaint Handling Mechanism is being followed by staff, Directly Managed Agents and any Third-Party Providers forming part of the Complaint Handling Mechanism.
6. Periodic Audit and Review.

a. A Financial Service Provider must periodically audit, review and, as necessary based on the findings of such audit and review, revise in consultation with industry associations and Clients its Complaint Handling Mechanism policy and related procedures to ensure that the Complaint Handling Mechanism is working effectively and pursuant to [Section 8.1—Client Treatment Policies and Procedures].

b. A Financial Service Provider must continually review and assess Client complaints to ensure compliance with Consumer Financial Protection Laws and to take corrective action with respect to any Product and Delivery Channel.

**COMMENTARY:**

**a) Principle.** Dissatisfied clients and complaints are inevitable. Providers should be required to address these problems quickly and effectively and should use complaints as feedback for improving operations. Providers should ensure that clients are aware of their right to complain, that they know how to complain and that the process is easy for clients to use. A range of channels can be used to receive and respond to complaints, such as face-to-face meetings, call centers, e-chats or chatbots. Providers should confirm that their channels are effective for clients.

**b) Minimum Standards.** The internal complaint handling process may differ depending on each provider’s circumstances. However, regulators should consider whether the process is, at minimum, (i) overseen and actively monitored by senior management, (ii) focused on resolving client concerns and correcting problems, (iii) sensitive to clients’ needs, (iv) affordable, (v) easily understood, (vi) readily accessible, (vii) provided through at least two channels (with at least one channel or escalation level with live voice interaction e.g., call centers) and (viii) treated confidentially. Chat box support, email or suggestion boxes are not sufficient for fulfilling the voice interaction requirement.

**c) Complaint Handling Policy.** Providers or third parties (in case the complaint handling function is outsourced in part or in full) are required to establish a client complaint handling policy. The complaint handling policy should at least include the use of multiple channels for receiving complaints, determination of roles and responsibilities, and establishment of minimum performance standards (e.g., complaint resolution ratio). A supervisory authority may also consider whether such policy has been approved by the board consistent with the recommendations under Section 3.2—Board and Senior Management Oversight.

The provider is also required to define a complaint escalation process to manage complaints based on their severity and the client’s satisfaction with the outcome. Resolution of the complaints should be prioritized based on their severity. The escalation process should contain information on the means of external recourse for customers who are not satisfied with the solution offered by the provider, as further discussed in Section 10.2—Supervisory Authority Response to Client Complaints and Inquiries. External recourse options should be adequately described and included in all contracts and disclosures given to the client. Apart from complaints that are particularly complex, the provider should resolve complaints within a reasonable period as determined by the supervisory authority.
d) **Flexibility.** Regulators should permit the provider flexibility in tailoring its complaint handling mechanism to the specific clients it serves, the specific financial services it offers and the channels it uses, commensurate with the provider’s own size and complexity. Larger providers should be expected to have a robust process with dedicated employees. Smaller providers, however, should be given more discretion to develop efficient and cost-effective complaint handling mechanisms. However small the provider, its complaint-handling mechanism would also handle complaints made about the activities of a provider’s agents and third-party providers.

e) **Single Point of Contact and Dedicated Staff.** There should be a single point of contact to receive client complaints, which can be made either in person or in writing, and the process should be staffed by individuals specifically equipped and empowered to act decisively to resolve complaints. This contact person should be someone other than the client’s main point of contact for obtaining the product and that person’s supervisor. The provider should ensure that the call center or back office units receiving and handling client complaints are adequately staffed and trained to provide information and address client complaints. Training elements should include the information on the services offered by the provider, complaint categories, and procedures to handle and resolve complaints. The call center or back office units should promptly (e.g., by the next day) receive updates on any new or revised financial services. In order to handle complaints effectively, the average waiting time for call-in clients should be below fifteen minutes, preferably well-below. Follow-up contacts with a sample of clients should be made on a regular basis to ensure client satisfaction with the complaint handling system. The call center or back office units should be closely supervised, including monitoring or mystery shopping. Complaints about third-party service providers can be submitted directly or to the provider. The complaint handling unit should obtain reports about the complaints received by third-party service providers.

f) **Advising Clients of Their Rights and How to Complain.** Clients should receive clear and simple information about their right to complain and how to complain alongside the content of the disclosures pursuant to [Section 6 — Transparency](#). Contact details for complaint handling should be communicated to the client upon registration (whether through SMS, email, toll-free numbers, active explanation by staff, etc.) and in all other in-person, voice or electronic communications with the client. Detailed information on the complaints process should be easy to access (such as steps after a complaint is filed, the time frame for response, and appeals). When providers use agents or third-party providers to deliver services, it is important for signage and written materials to inform the client how to register a complaint. Such communication should make clear who is responsible for resolving complaints and how to lodge complaints concerning the behavior of agents or third parties.

g) **Timeliness and Responsiveness.** A response to each complaint should be made in an equitable, objective and timely manner, in compliance with established timelines for handling complaints. Clients should promptly receive acknowledgments of any complaints they have filed, the contact information of the officer or staff member handling the complaint and the timeline for the complaint’s resolution.
The provider’s senior management should conduct regular audits of the effectiveness of its complaint handling mechanism and its timeliness in resolving complaints. The supervisory authority may provide further guidance on the appropriate response time through rulemaking. Many mechanisms can be effective for receiving and responding to complaints, which are often mixed in with simple inquiries. Providers may use a hierarchy of responses, moving from fully automated (such as chatbots) to personalized, and in that way, they may fulfill information requests efficiently while separating out genuine complaints for a more tailored response. Consumer research reveals that customers prefer to interact directly with a person when they have complaints, but this can take many forms, from face-to-face conversation to call center phone calls to email and e-chat. The important principle is to have a clear and responsive process with eventual access to a person.

h) Process of Appeal. Clients should have access to a process of appeal if a complaint is not resolved in their favor. Such appeal processes may be a further review within the provider or an external process that could involve third-party arbitration or appeal to a resolution mechanism established by the supervisory authority under Section 10.2—Supervisory Authority Response to Client Complaints and Inquiries. Reasonable time limits on when an appeal can be filed should be permitted.

j) Data Reporting. Each provider must report to the supervisory authority at the end of each regular reporting period (e.g., monthly, quarterly, or annually) the number of complaints it has received, those pending resolution and those that have been resolved, with a short description of the nature of the complaints received during the reporting period, the average time period for resolving the complaints and how these complaints were or are planned to be resolved. To facilitate supervision and market monitoring, the supervisory authority should establish a standardized format for such reports. The supervisory authority should also be able to publish complaint data.

k) Investigation. Regulators should investigate providers whose periodic reports reveal (i) an unusual number of, or a significant increase in, client complaints, (ii) a significant backlog in the resolution of complaints or (iii) a material change in the severity or the nature of the complaints. An effective complaint handling mechanism operated by providers, combined with effective data monitoring by the supervisory authority provides an early warning signal to regulators and supervisors on market deficiencies, conduct that harms clients and emerging risks.
10.2 Supervisory Authority Response to Client Complaints and Inquiries

**PURPOSE:**
To authorize the Supervisory Authority to establish or facilitate a Client complaint mechanism or ombudsman.

**CONTENT:**
1. Regulator Response to Clients.
   a. The Supervisory Authority may establish procedures to receive complaints against, or inquiries concerning, a Financial Service Provider.

2. Timely Response to Supervisory Authority by Financial Service Provider.
   a. When the Supervisory Authority gives notice of a Client complaint or inquiry to a Financial Service Provider, the Financial Service Provider must provide a timely response to the Supervisory Authority, including:
      i. Steps that have been taken by the Financial Service Provider to respond to the complaint or inquiry.
      ii. Responses received by the Financial Service Provider from the Client.
      iii. Follow-up actions or planned follow-up actions by the Financial Service Provider to respond to the complaint or inquiry.

**COMMENTARY:**

a) **Supplementary Role.** Providers are in the best position to respond to client complaints. As such, primary responsibility for handling complaints should fall on the provider, and clients should be instructed to first work with their provider. A supervisory authority’s complaint resolution program should supplement the internal complaint handling mechanism required of each provider.

b) **Possible Structures.** Possible external complaint resolution programs may take a variety of forms, each with their own costs and benefits. Courts and formal judicial hearings may provide fair administration but are generally costly, slow and time-consuming. Arbitration may not be an appropriate dispute resolution mechanism for clients because of the likely costs and the complexities of the arbitration procedures, which will typically favor the provider. A financial ombudsman service may be separately established by statute or industry and may be cheaper and quicker as an alternative dispute resolution mechanism. Non-binding mediation may perhaps be faster still, assuming both parties can find a mutually agreeable solution. These alternative dispute resolution mechanisms could be housed in an independent statutory body, an ombudsman’s office or the supervisory authority; however, there may be the potential for conflicts of interest, lack of accessibility, and resource and funding issues if housed within the supervisory authority.
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Consumer financial protection is a responsibility shared among financial service providers, regulators and clients themselves. Although clients will not be adequately protected without effective legal frameworks, regulators should consider the recommendations of the Handbook in parallel with certain client responsibilities for each of the seven Client Protection Principles as set forth below. In collaboration with other financial inclusion stakeholders, regulators should assess how to address such client responsibilities through financial capability or other initiatives in order to achieve responsible financial inclusion goals.

- **Appropriate Design of Products and Delivery** (Section 4 — Appropriate Design of Products and Delivery). Clients should educate themselves about their financial requirements and the responsible use of financial services. Clients should make reasonable efforts to understand the provisions and risks of products they select and work with providers to ensure that they select services that suit their needs and take their financial capacity into account. This does not absolve providers from their responsibilities to clients. Clients should understand that they are not compelled to take any products that do not meet their needs.

- **Preventing Over-Indebtedness** (Section 5 — Preventing Over-Indebtedness). Clients should educate themselves on the process, terms and conditions of the loans they take. Clients should undertake a realistic self-assessment of their capacity to repay a loan before borrowing and should not borrow funds they do not need or cannot repay. Clients should also provide full and accurate information about their financial situation when applying for a loan and inform the provider if they are having difficulty repaying.

- **Transparency** (Section 6 — Transparency). Clients are responsible for taking advantage of opportunities that transparency provides to select products and providers that best suit their needs. Clients should not accept a product whose terms they do not believe they can meet. Clients should also be expected to review the information provided, make comparisons with other products and providers as relevant, and make sure that all questions are answered before making a decision. Clients should also be responsible for being transparent and honest about the information they give to providers.
Responsible Pricing (Section 7—Responsible Pricing). Clients should inform themselves about price, other relevant product characteristics and attributes of the provider. Clients should comparison shop to ensure they have selected products and providers that meet their needs well. Clients should be aware that price is not the only relevant factor in selecting products; other product terms and provider characteristics should be considered as well. Clients should be alert to situations in which the product pricing seems unusually high or unusually low and try to understand the rationale.

Fair and Respectful Treatment of Clients (Section 8—Fair and Respectful Treatment of Clients). Clients should behave responsibly in their dealings with providers, which above all means honesty in representing themselves, good faith efforts to comply with the terms of product use, and non-abusive behavior toward provider staff and agents. Clients should never accept unethical behavior from staff (or from loan group members) by paying bribes or providing favors in order to obtain services.

Privacy and Security of Client Data (Section 9—Privacy and Security of Client Data). Clients have three roles to play in contributing to effective data privacy and security. First, clients should understand their rights and use them responsibly, such as by understanding and thinking through the pros and cons of voluntarily sharing information. Second, clients should protect any access to data over which they have control, such as personal information codes, passwords and account statements. Third, clients should confirm that the data maintained about them is accurate and ensure that inaccurate data is corrected.

Mechanisms for Complaint Resolution (Section 10—Complaint Resolution). Clients should make good faith efforts to resolve problems directly first and then use the complaint procedures available to them. Providers rely heavily on their reputations and it is not fair for a client to make negative comments about a provider to friends and colleagues or to seek assistance from government officials without first trying conscientiously to resolve the complaint. Clients should also be informed to avoid making frivolous complaints about issues that have not caused them serious inconvenience or cost.
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