How will you do digital finance right?

By Jamie Zimmerman

Editor's note, this is a cross posting by CGAP, which originally appeared on their blog. IPA, CGAP and others will be partnering to address these issues in the upcoming Responsible Finance Forum.

> "A massive data breach at All-In-Pay, a digital payments provider has resulted in $15 billion loss of customer funds: government inquiry forthcoming."

This is the hypothetical news headline most feared by participants at CGAP's June 30th event, which released Doing Digital Finance Right, a focus note which explores how and why low-income customers of digital financial services (DFS) perceive and experience a variety of risks of financial loss and other harm. These risks include fraud perpetuated on the customers, poor and confusing interfaces, opaque disclosures, poor or no access to recourse, inability to transact from network downtime, agent misconduct or mismanagement, and even (as feared above) weak data privacy and protection.

The evidence (PDF) reveals a clear tension: while DFS customers appreciate and want accessible digital financial services, a variety of customer risks negatively impact confidence, uptake and usage; limit financial inclusion achievements; and threaten to derail progress toward financial inclusion. It also reveals an urgent need: DFS stakeholders— from providers to policymakers to researchers, funders and advocates— must do more to ensure DFS enhance consumer financial well-being and mitigate potential customer risks.

But in the vast and fast-paced world of DFS, what are the priorities for ensuring responsible digital financial services innovation at scale, and who is responsible for enacting them?

CGAP has been exploring many dimensions of this question in an ongoing blog series on the risks and opportunities of digital finance. And while the CGAP focus note considers several core priorities for industry action, in particular, the reality is that DFS providers cannot and should not be expected to act alone.

Here are 5 initial food-for-thought ideas for the four core DFS stakeholder groups to consider:

1. **Providers:** Concentrate now on improving agent management and monitoring, and

develop more effective recourse mechanisms. To get to the core of the issue, start by defining and mapping customer risks by service, channel, and industry in order to understand the dynamics of both the incidence and consequences of risks throughout provider and service types. This would likely require both industry to industry and industry to regulator collaboration. Finally, consider how to leverage these new technologies and emerging evidence on consumer behavior to embed financial capability into the design of new products and services.

2. Policymakers: You also need to understand the incidence and consequences of risks in order to build the most innovation- and consumer-friendly regulatory environments for DFS. So, work with providers on the mapping exercises mentioned earlier. Also, take advantage of these new digital tools, too: build or enable mechanisms for mobile-based recourse, monitoring and supervision. And now that central bank, telecommunication and competition regulators all have some component of DFS in their purview, increased intra-regulatory dialogue and debate is in due order.

3. Researchers: Help us all understand even better the nature and impact of customer risks of digital financial services. For example, what design and delivery elements will help low-income DFS clients build trust & confidence to transact correctly? What are the most effective user interfaces on both feature phones and smart phones for understanding and using DFS? And finally, can you please quantify the business case for providers to mitigate customer risks? For example, are there small, low-cost tweaks that can have a really big impact?

4. Donors and Development Partners: In many ways, you provide or enable a bridge between the three stakeholder groups above. Concentrate, for now, on leveraging your resources and energy to support building the evidence base for understanding risks and measure effectiveness of solutions. That also means working to improve collaboration, dialogue and learning between all stakeholders, both globally and in key markets.

5. All: Continually seek ways to collaborate and find collective solutions that leverages the strengths of all groups while sharing the responsibility of responsible digital finance equitably. Indeed, there are already existing platforms for this: The global community of practice and platform, Responsible Finance Forum, brings together these core stakeholder groups annually to discuss inclusive and responsible finance issues, both at hand and on the horizon, and work together to develop solutions.

Ultimately, this complex question posed above will require a complex answer. Yet there this is one simple truth we should embrace: we are all responsible for responsible digital finance. And although it is difficult to define our individual and collective priorities in order to set concrete agenda for action, failing to take on this hard task increases the risk of opening tomorrow’s paper to a headline none of us want to see.

So, let’s talk: What are your top priorities for “doing digital finance right”?

Many of the above suggestions emerged from a small stakeholder workshop of 35 experts from these four stakeholder groups. In just one week, in Antalya Turkey and kicking off a week of G20 Global Partnership for Financial Inclusion event, 125 of the world's leading DFS providers, policymakers, researchers, funders, development partners and advocates will convene and the 6th Annual Responsible Finance Forum to develop sector-specific and collective pathways to responsible digital finance. This year, RFF is teaming up with IPA to ensure that discussions on responsible innovation in financial services are grounded in the last evidence from financial-services impact research. You can follow and contribute to the discussion on Twitter at #2015RFF.

September 02, 2015