



# Cases on Transparency in DFS

CGAP Photo Contest

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Greater transparency contributes to positive customer outcomes

# Why has traditional consumer protection not worked well?



## Customers

- Not receive adequate value
- Exposed to risks that may leave them worse off



## Providers

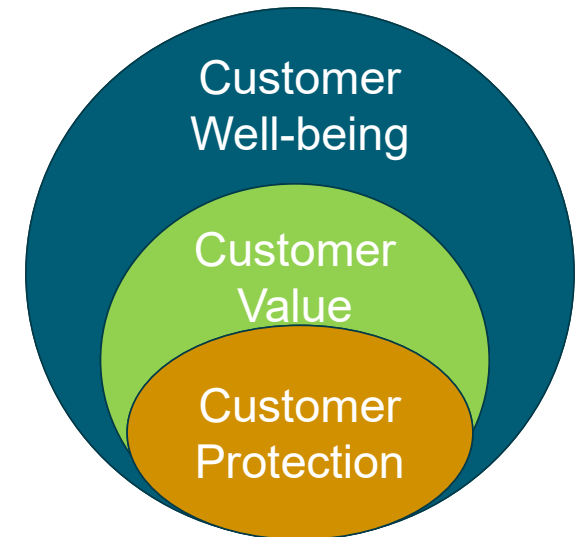
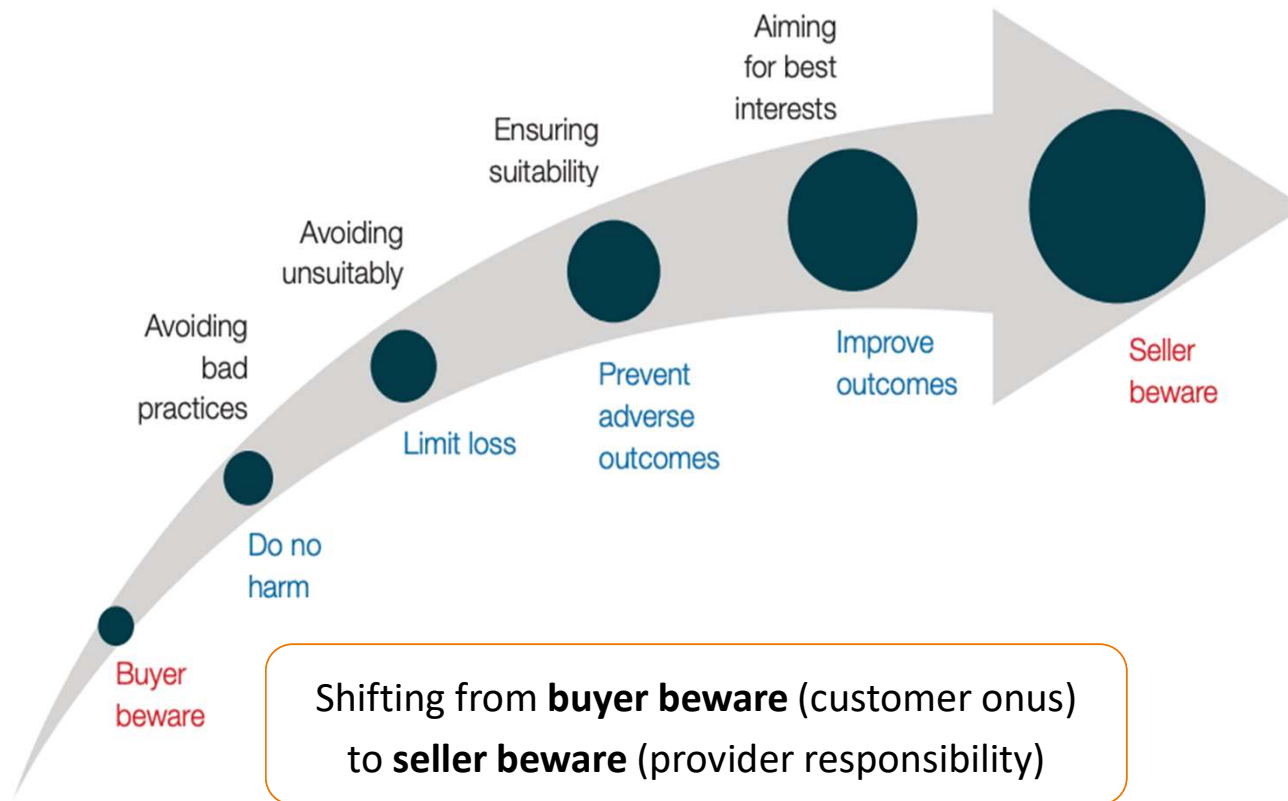
- No major culture change that links business value and customer value
  - Costly box-ticking compliance



## Authorities

- Detailed rules lead to continuous catch-up
- Quick wins focus on customer harm do not foster a proactive and holistic approach

# Shifting the consumer protection paradigm



# Core common customer outcomes



I can make an informed choice among a range of products, services, and providers based on appropriate and sufficient information and advice that are provided in a transparent, affordable, and easy to understand way.

Behavioral tools have helped providers identify issues with disclosure

## Kenya: Few users knew the cost of person-to-person transfers

M-Pesa disseminated changes to P2P fee tariffs

However, most users didn't know the right cost of transferring Ksh500 or Ksh100. Many were anchored to older, higher fees

Transaction Value	Old Fee	New Fee as of August 2014	% Change in Fee
10-49	3	1	-67%
50-100	5	3	-40%
101-500	27	11	-59%
501-1,000	33	15	-55%
1,001-1,500	33	25	-24%
1,501-2,500	33	40	21%
2,501-3,500	33	55	67%
40K-45K	82	110	34%
45,001-50K	110	110	0%
50,001-70K	110	110	0%

Cost to Send Ksh55 + Ksh55 = Ksh6

Cost to Send Ksh110 = Ksh11

*It was actually cheaper to send Ksh55 twice than to send Ksh110 once*

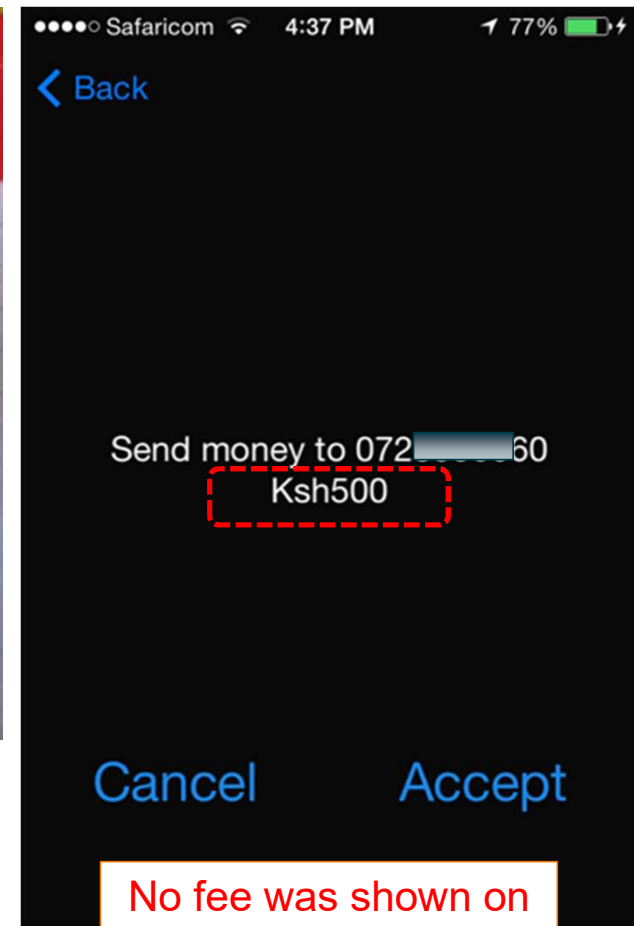


# No disclosure of P2P transfer fees on mobile screens

Pre-transaction

Transaction Range (KShs)		Transaction Type and Customer Charge (KShs)		
Min	Max	Transfer to other M-PESA Users	Transfer to Unregistered Users	Withdrawal from M-PESA Agent
10	49	1	N/A	N/A
50	100	3	N/A	10
101	500	11	66	27
501	1,000	15	66	27
1,001	1,500	25	66	27
1,501	2,500	40	66	27
2,501	3,500	55	88	49
3,501	5,000	60	105	66
5,001	7,500	75	143	82
7,501	10,000	85	171	110
10,001	15,000	95	220	159
15,001	20,000	100	237	176
20,001	25,000	110	275	187
25,001	30,000	110	275	187

During transaction



No fee was shown on the screen

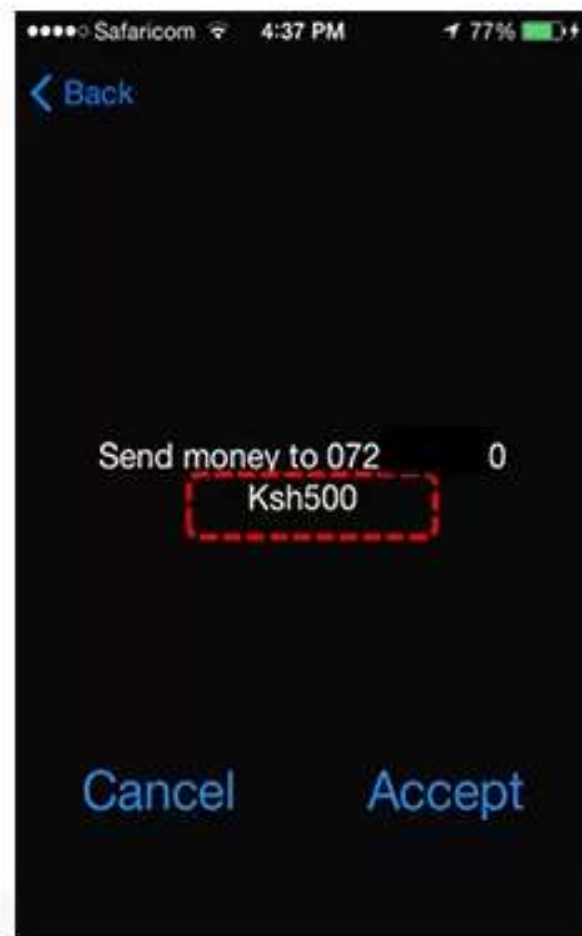


## Improved disclosure of fees

CAK required all DFS providers to:

- Disclose all transaction charges to customers before executing the payment and issuing the receipt
- Disclose information in the same screen on which the consumer is transacting

BEFORE



AFTER

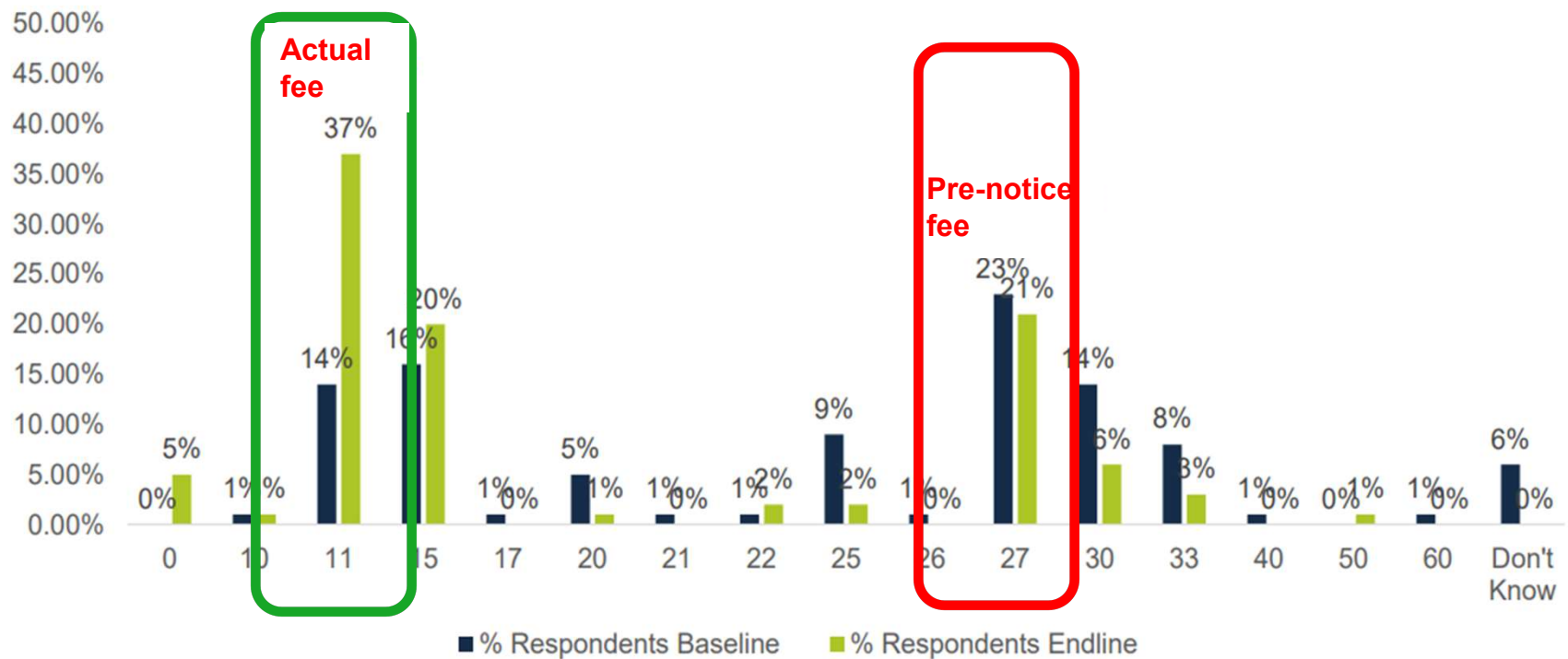


# Overall price awareness improved

CGAP conducted a follow-up survey 1 year later (after most providers had complied with CAK rule).

- More than double the number of consumers correctly answered questions on the cost of sending Ksh500 –but several remained anchored to older fees

Cost of sending a Ksh500 P2P Transfer, estimated by User

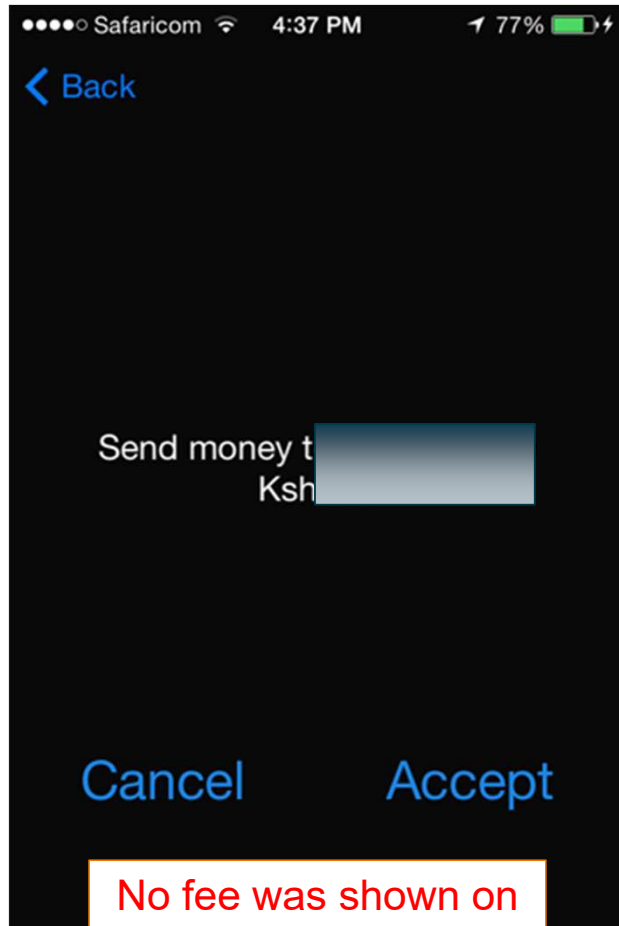


## Kenya: Most users did not know the cost of bill payments

- Bill payments and good purchases were marketed as free to consumers
- However, merchants and vendors could charge users (many charged ~ .5% of transaction value)
- 80% of users did not know the cost of their last bill payment transaction
- 40% (incorrectly) thought the fee was zero.
- But they were paying \$4.3 in hidden fees over 6 months
- Those who were aware of the fee underestimated it dramatically: they guessed that the amount was only 2-3% of its actual level!

# No disclosure of bill payment fees on mobile screens

## During transaction



No fee was shown on the screen

## Post-transaction

A screenshot of an SMS message from 'MPESA'. The status bar shows 'Safaricom', signal strength, Wi-Fi, time '8:57 AM', and battery '85%'. The message content is as follows:

loan on MShwari

Tuesday 2:57 PM

GB59MD022 confirmed. You bought Ksh500.00 of airtime on 2/12/14 at 2:57 PM  
New M-PESA balance is Ksh21,471.00. Save & earn interest on MShwari

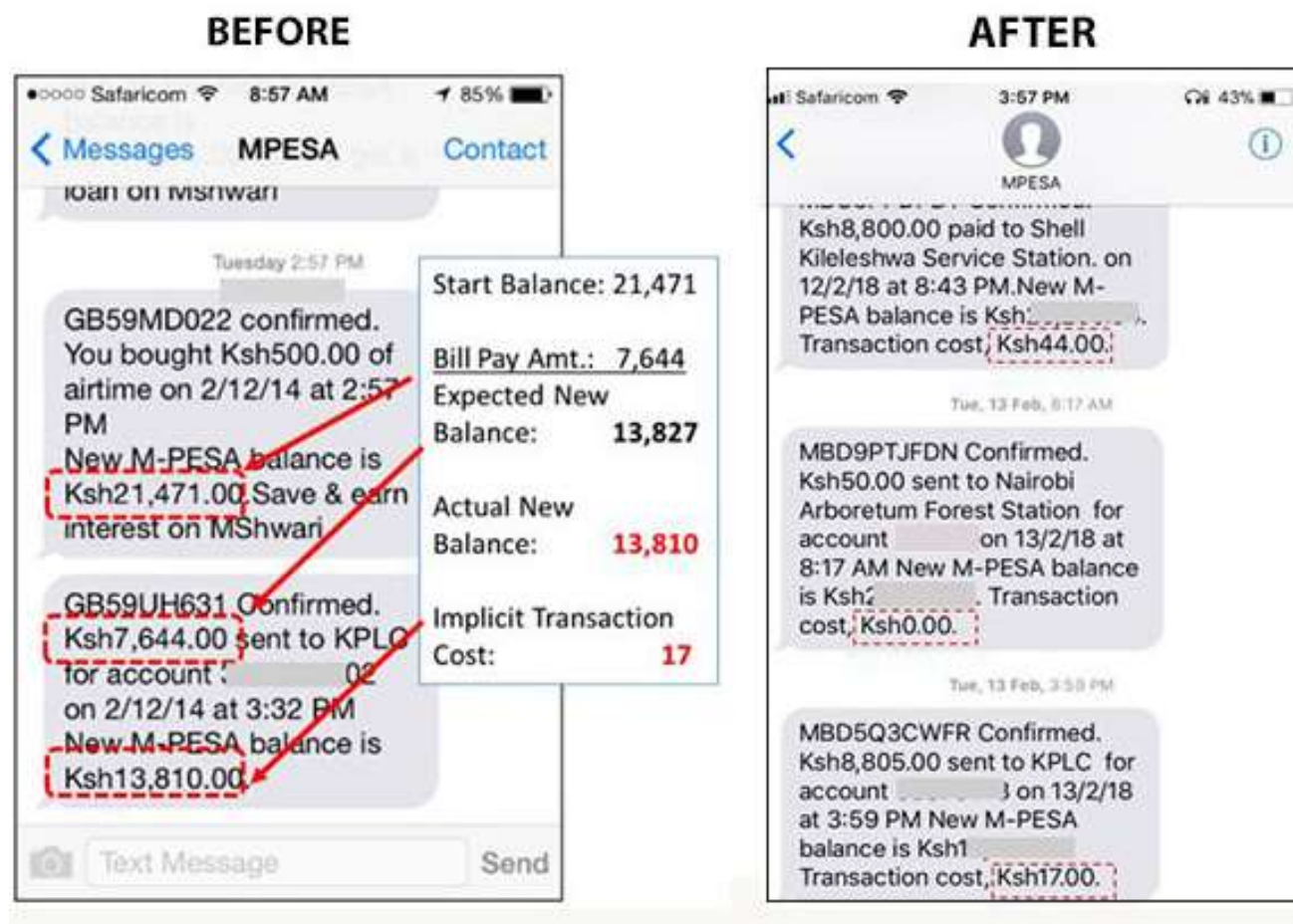
GB59UH631 Confirmed. Ksh7,644.00 sent to KPLC for account 3387614-02 on 2/12/14 at 3:32 PM  
New M-PESA balance is Ksh13,810.00.

At the bottom of the message is a 'Text Message' input field and a 'Send' button.

When you paid a bill with mobile money, you could only find the fee if you checked your receipts—and had a calculator handy

Start Balance:	21,471
Bill Pay Amt.:	7,644
Expected New Balance:	13,827
Actual New Balance:	13,810
Implicit Transaction Cost:	17

## Improved disclosure led to greater fee awareness



After CAK rule  
And provider's improved disclosure:

- 80% of consumers became aware that using PayBill comes with a fee

## Kenya: Greater information to prevent wrong transfers

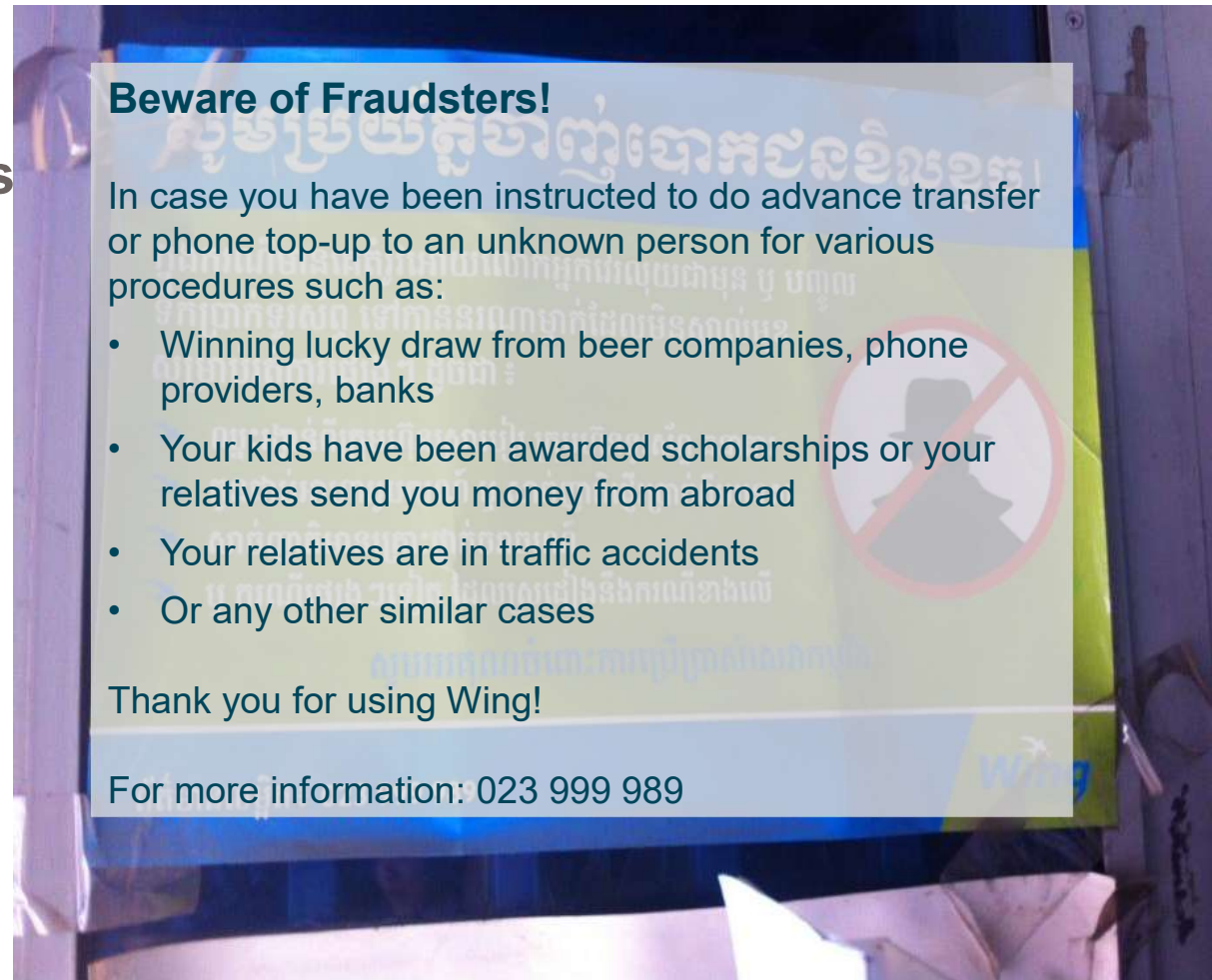
- **Sending money to wrong phone number is a common issue in mobile money**
  - Mobile money call centers report receiving thousands of requests a month to cancel or reverse a mobile money transfer
  - If receiving consumer refuses to reverse the transaction, a consumer may not be able to get their money back, as provider cannot prove the transaction was in error if both parties do not confirm it was
- **Two simple technological solutions from Safaricom:**
  1. Introduction of “Haikikisha”, a service that shows the receiver’s name, not just phone number, and allows the transaction to be cancelled by replying to the confirmation screen within 15 seconds
  2. Introduction of a shortcode a consumer can dial after the transaction to automatically reverse a transaction

<http://www.cgap.org/blog/Safaricom-launches-feature-prevent-errant-transfers-haikikisha>



# Cambodia: Agents' disclosures to prevent fraud

- **Wing trains their agents to prevent fraud against consumers before it happens**
  - Agents may be more accessible, and consumers may feel more comfortable asking for information and raising a complaint to them than bank staff
- **Raising Awareness of Fraud Risks and Types:**
  - Posters warning of “Lucky Draw” style fraud at agent locations
  - Ability to report up-charging by other agents directly to Wing



# Lab testing: Disclosure formats in digital credit

Separating finance charges leads to better borrowing decisions

Choose your repayment plan:

1. Repay 228 in 45 sec
2. Repay 236 in 1min and 30sec
3. Repay 244 in 2min and 25sec

VS

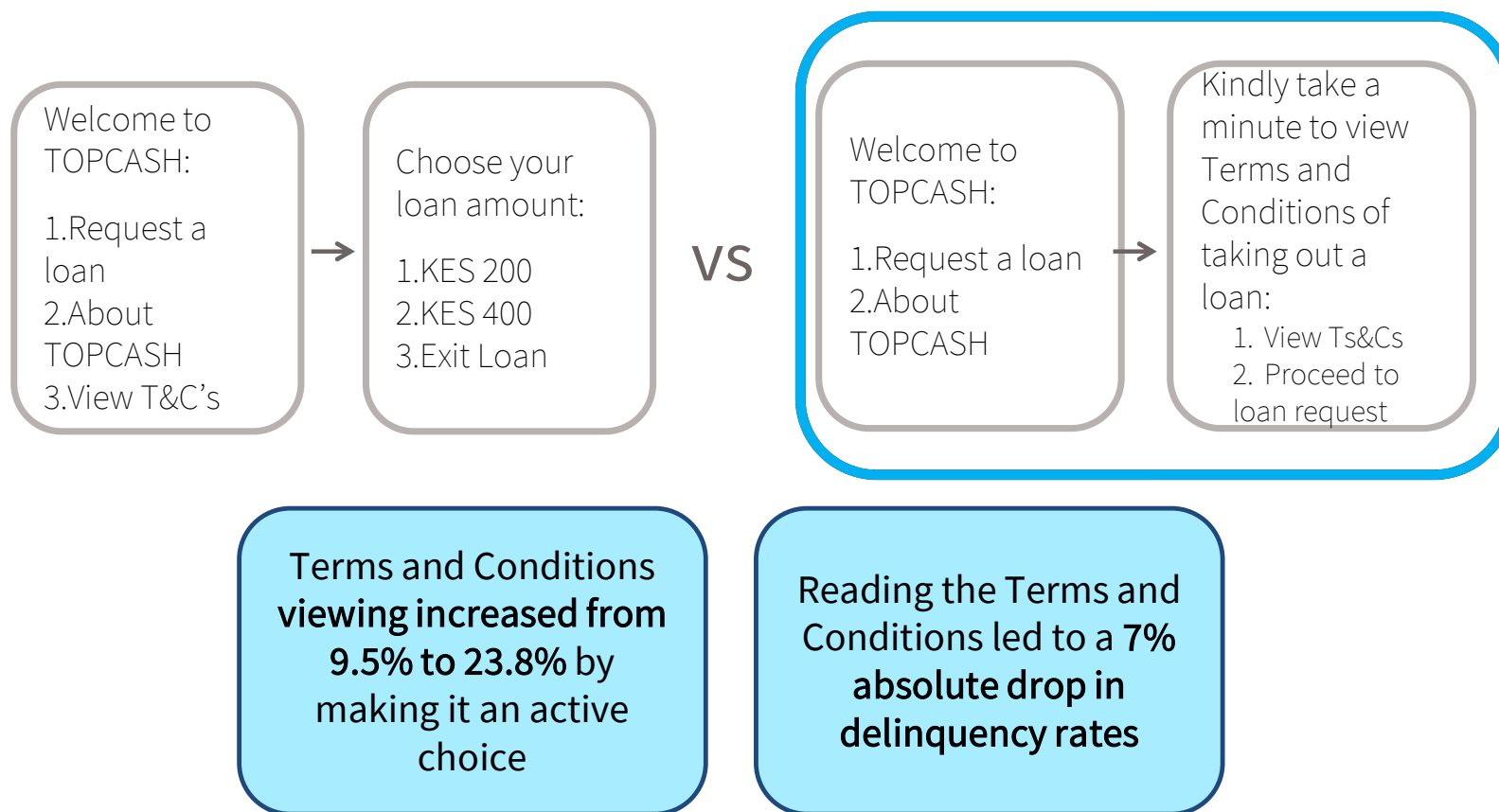
Choose your repayment plan:

1. Repay 200 + 28 in 45 sec
2. Repay 200 + 36 in 1min and 30sec
3. Repay 200 + 44 in 2min and 25sec

Clarifying interest rates led to a **reduction in default rates** on first loan cycles from **29.1% to 20%**

# Lab testing: Disclosure formats in digital credit

Active choice approach increases viewing of T&Cs and reduces delinquency rates



# Jumo changed loan disclosure screens

## 1. Separating finance charges from principal

### Choose your repayment plan:

- 1.Repay 1000 + **35** in 7 days
  - 2.Repay 1000 + **170** in 14 days
  - 3.Repay 1000 + **205** in 21 days
- \* **Back**

## 2. Separating line of loan fees with percentage

### Loan term details:

Loan: 1000  
Loan Fees: 135 (13.5%)  
Loan term: 7 days  
Repayment: 1135 to be deducted from Airtel Money Wallet on <date>  
**Confirm**  
\***Back**

## 3. Adding new screen with late payment penalty

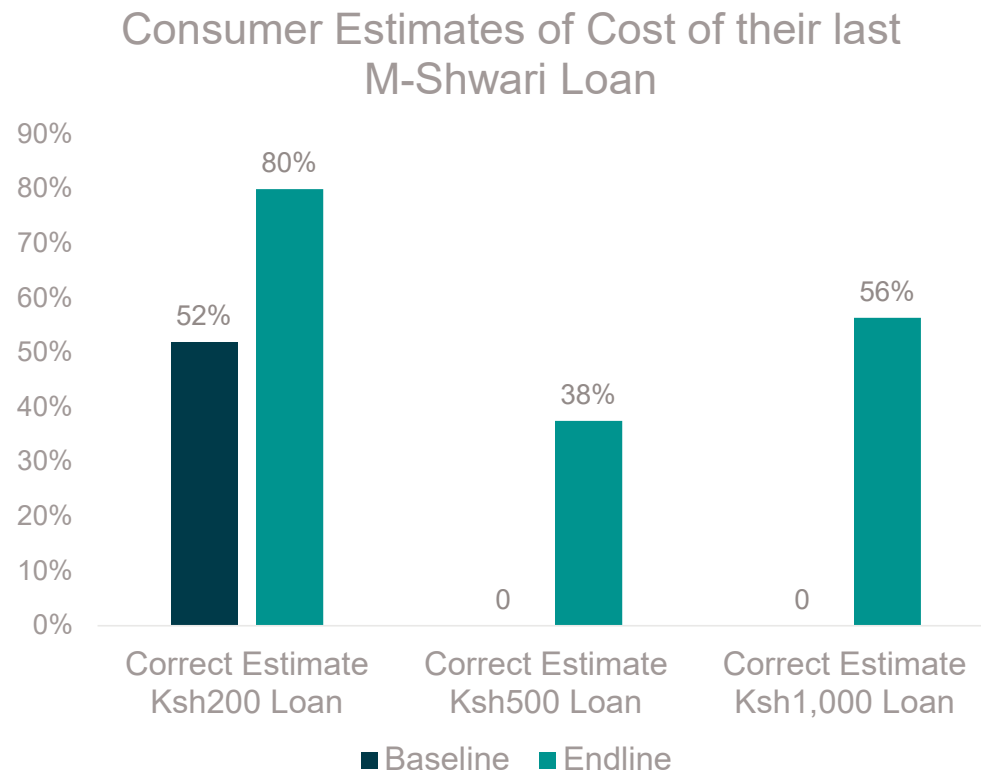
Failure to repay your loan by the due date will result in a late payment fee of <pct> being added. You may also lose access to KopaCash  
**Next**  
\* **Back**

## 4. Making active choice to view T&Cs --old version had web link only

Agree to the T&Cs below in order to proceed with your loan application.  
tc.jumo.world/akec  
**Agree**  
**View T&Cs**  
\* **Back**

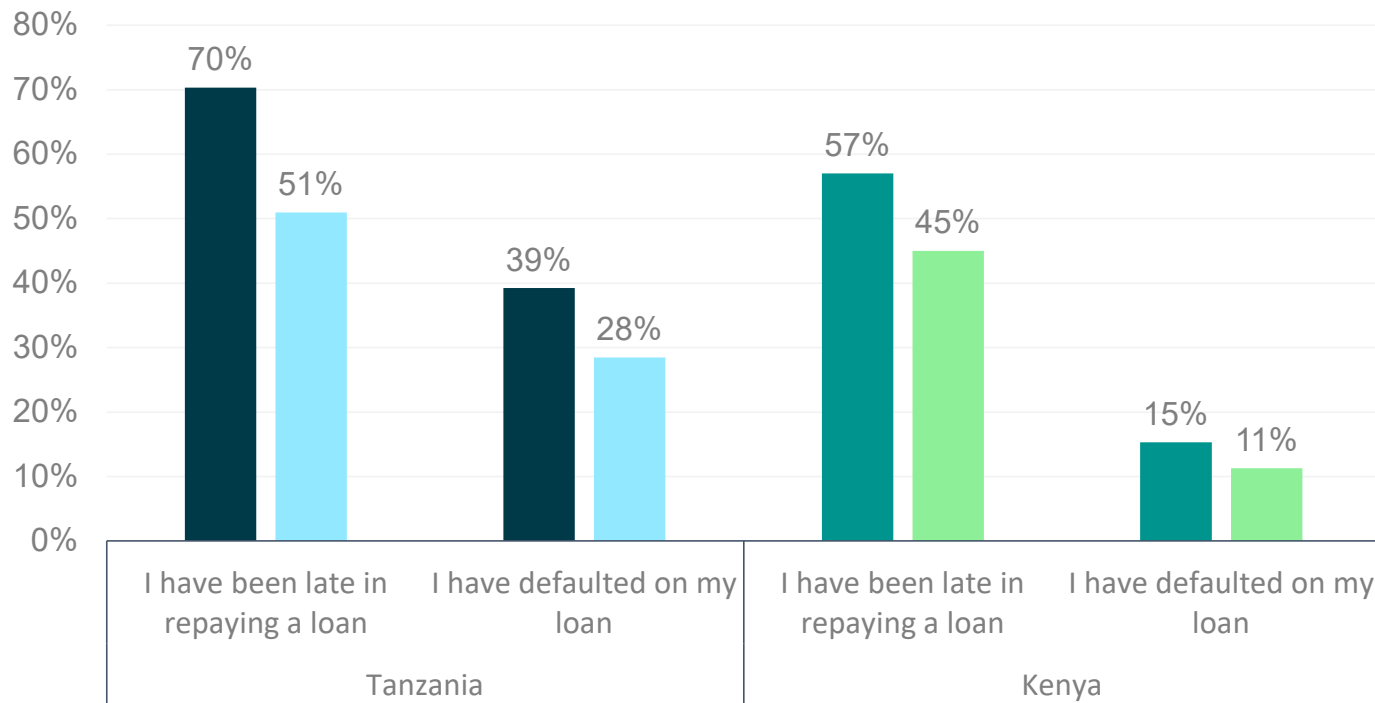
# Greater transparency brings greater customer knowledge

After Kenya's Competition Authority required DFS providers to better disclose costs



# Poor transparency is correlated with late repayment and default

*Late repayment and default among digital borrowers who reported and did not report poor transparency*





## Effective transparency can lead to good outcomes

- Going beyond point-of-sale disclosure, avoiding information overload and present biases
- Focusing on simple, non-misleading communication throughout the product lifecycle
- And monitoring whether information empowers customers to make better financial decisions

# Thank you

To learn more, please visit  
[www.cgap.org](http://www.cgap.org)



