# A Question of Trust
## Mitigating Customer Risk in Digital Financial Services

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*MicroSave*
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Customer risk mitigation in digital financial services (DFS) matters – not just ethically, but also for the scaling of the business. DFS depend on customers' trust in the systems and agents used to deliver the service even more than traditional financial services. Protecting the customer and minimising the risks as he/she uses the service is essential to build and maintain that trust.

# Background

DFS are beginning to play quite an important role in financial inclusion. By the end of 2014, there were 255 DFS deployments in 89 countries and mobile money is now available in 61% of developing markets. GSMA's MMU notes that in December 2014, there were over 103 million active mobile money accounts globally.[1] However, despite the rapid growth, only 34.4% of registered mobile money accounts were active in December 2014.[2] Given the cost of on-boarding customers, this represents a real challenge.

There is a growing interest in and appreciation of the importance of customer risk mitigation for DFS, and GSMA has recently launched a code of conduct for mobile money service providers. CGAP is also playing a leading role in understanding DFS consumer risks and promoting measures to enhance responsible digital finance – see CGAP's Focus Note, "Doing Digital Finance Right: The Case for Stronger Mitigation of Customer Risks ". As part of this, CGAP commissioned *MicroSave* and BFA to examine the risks that consumers are vulnerable to with DFS and that can potentially cause financial loss or other harm; and how these perceptions or experience affect their trust, uptake and usage. The research was undertaken in four countries (Bangladesh, Colombia, Philippines and Uganda), selected for their maturity but different market profiles (see Table 1.).

| Table 1. Registered Customers (millions) | 2011 | 2012 | 2013 |
|---|---|---|---|
| Bangladesh* | 0.4 | 5.3 | 15.0 |
| Colombia | 3.2 | 3.5 | 5.2 |
| Philippines | 8.5 | 9.3 | 8.0 |
| Uganda | 2.9 | 8.9 | 14.2 |
| *Bangladesh data to March 2012, 2013 and 2014 | | | |

The sample sizes were relatively small (see Table 2.) as these studies were not intended to be nationally representative, but were backed with analyses of nationally representative surveys including *The Helix's* Agent Network Accelerator surveys, InterMedia's Financial Inclusion Insights surveys and BFA's Demand Study of Domestic Payments in the Philippines. The secondary data from these surveys corroborated the primary data collected for the CGAP/*MicroSave*/BFA studies.

| Table 2. Interviews and Focus Group Discussions Held | | | | |
|---|---|---|---|---|
| Country | Individual Interviews | FDG Participants | Agents Interviews | Expert Interviews |
| Bangladesh | 172 | 52 | 15 | 10 |
| Colombia | 8 | 72 | - | 17 |
| Philippines | 155 | 60 | 10 | 4 |
| Uganda | 166 | 61 | 13 | 16 |

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[1] In addition, many more are conducting over the counter (OTC) transactions without registering for the service.
[2] GSMA's State of the Industry 2014 report
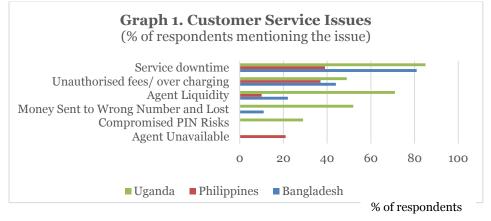
# Findings

There is strong evidence that DFS are both needed and appreciated by users. In fact, such is the value that DFS provide that customers choose to overlook or tolerate many of the issues and challenges that they encounter when using these services. DFS remain primarily a simple personal remittance (P2P) offer in Bangladesh, Philippines and Uganda, and a utility payments (P2B) offer in Colombia. Nonetheless, sub-optimal customer service is clearly affecting customer experience, which in turn reduces their trust and thus the uptake and usage of these services. It is therefore, in the interest of providers to improve customer service; for many prospective (and some existing) customers, basic levels of service are hygiene factors that will determine whether they will use the service at all. For others, good quality customer service is the the difference between extending and expanding their use of the services from over-the-counter transactions (OTC) to higher value added services.

Graph 1. shows the issues experienced by DFS customers in Bangladesh, Philippines and Uganda - the countries where we have data from small surveys of users and non-users.

**Graph 1. Customer Service Issues**
(% of respondents mentioning the issue)



Three customer service issues are common.

1. ***Service downtime*** is the most prevalent issue in all four countries studied. The underlying reasons for this vary across them. In Bangladesh, it arises from a hotly debated combination of factors which include the interface between systems of banks and MNOs, the limited bandwidth allocated to mobile money and limits on the USSD session time allowed for customers to complete transactions. In Uganda, MNOs' mobile money systems are struggling to keep pace with the growth of the market and are now being upgraded in response. Service downtime not only causes inconvenience, but also erodes trust. It is particularly frustrating for customers, who feel that they are unable to access their money and in some cases, complain of missing important opportunities or deadlines because there was a downtime in service. It also often results in customers leaving money with agents to complete the

transaction when the system resumes – creating a significant opportunity for fraud. This is also common in Colombia where network unreliability has given rise to "*jineteo*" – wherein cash deposited by clients to agents for the purpose of paying bills are kept and used by agents for their personal purposes and those clients' bills are sometimes paid at the last minute.

2. ***Unauthorised fees/over-charging*** is common, and is often practised by agents failing to display approved or current pricing schedules for the services they provide. Customers are left unsure of the costs of using the service and often form the impression that they are being over-charged. Unauthorised fees are most commonly charged for over-the-counter (OTC) transactions, since these already involve cash passing between customers and agents. As a result, agents get easy opportunities to charge additional amounts for OTC transactions, particularly in rural areas and during periods of peak demand. In Uganda, such unscrupulous practices have led many customers to believe that <u>all</u> fees charged by agents are unauthorised and fraudulent, and this reduces their willingness to transact as well as creates distrust in the minds of potential new customers. Unauthorised fees undoubtedly create real additional costs for customers, but are increasingly being accepted as part of the fee-for-service – particularly where agents conduct OTC transactions and thus reduce the risk of sending money to a wrong number. Given some of the losses that can result from sending money to a wrong number, perhaps we should not be surprised that people are willing to pay a premium to protect themselves against this risk. However, this is clearly a sub-optimal solution for both consumers (who limit their transactions in response and are confined to agent-assisted transactions, thus limiting the opportunities for cross selling additional products and services), as well as the provider (who <u>becomes dependent on agents</u> and <u>thus limits his profitability</u>) in the long run.

3. ***Agent illiquidity*** is also a common experience, and can result in a customer losing access to his or her own money. In Uganda, customers are either denied transactions or are required to visit two/three agents to send or receive money. In Bangladesh, where liquidity management systems are much more sophisticated and robust, this is less of an issue, but does happen occasionally, particularly in rural areas. This was not highlighted as an issue in Colombia, presumably since the majority of transactions are cash-in utility bill payments. Agent illiquidity may also mean lost access to money or necessitate splitting of transactions which increases both transaction fees and the time customers must spend to transact.[3] These inconveniences and supplementary costs undermine the

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[3] However, it is important to remember that service downtime and illiquidity also occur with, and are tolerated by customers of, ATM-based systems.

trust of users (who will entrust less of their money to the system and conduct fewer transactions) and non-users (who will not sign-up for DFS for fear of not being able to access their money when they need it).

Some issues are confined to one or more of the countries under study.

1. ***Sending money to a wrong number*** and thus losing it to a recipient who refuses to return it is a common experience in Uganda and a widespread fear among customers in Bangladesh. Indeed, this may be driving the popularity of OTC transactions, as customers can check with their intended recipient before they pay the agent conducting the transaction on their behalf.

2. ***Risks related to compromised PINs*** are common in Uganda which has an [extensive history of DFS fraud](). These risks are not just of losing money to unscrupulous agents or friends/relatives, but also arise from the complicated procedures to unblock accounts when PINs are forgotten or after a customer makes three unsuccessful attempts to enter a PIN.

3. ***Lack of available agents*** is a Philippines-specific risk reflecting the limited number of active agents in the country. As of December 2013, of 24,000 registered agents, only an estimated 10,000[4] were active. For an archipelago of more than 7,000 islands and with the highest population density in South-East Asia[5], this number is too low for effective delivery of digital financial services.

***Customer redressal or recourse systems*** (customer care offices and call centres) ought to play a key role in managing and rectifying all six of these customer service issues. However, across all markets and particularly in Bangladesh and Uganda, customer recourse systems are often unable to help with the issues raised above. Customer care call centres are usually described as difficult (and in the case of Bangladesh, expensive, since the call is not free) to reach and staffed with unresponsive or poorly trained staff - so they are used only as a matter of last resort. Despite all the problems they create for customers and providers, agent illiquidity and the charging of additional unauthorised fees are increasingly accepted as the norm in these markets. Most commonly, customers call customer care when they have transferred money to a wrong number. DFS providers have consistently struggled with repudiation for money sent to wrong numbers (see "[Fraud in Mobile Financial Services]()" page 23), and have typically adopted a policy of "repudiation only with consent of both parties". As a result customer care typically can do little to help customers resolve this issue. Moreover, customer care offices are often too far away for easy access, thus deterring customers from visiting them. In Colombia, although customers have relatively fewer reasons to complain, there is a prevalent concern that they have no idea how or where to seek redress should they need to do so.

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[4] Source: Interview with Pia Roman, Head Inclusive Finance, Bangko Sentral ng Pilipinas
[5] [World Bank country profile - Philippines]()

Once again this concern is likely to limit the trust and thus the customers' willingness to rely on the system.

Customers report fewer risk-related problems in the Philippines, perhaps in part because the regulator has issued guidelines and monitors providers' adherence to them. This is done so effectively that there are even suggestions from some quarters that the regulations will need to be relaxed to encourage further market development. Colombia's DFS consumers use the services primarily to make utility payments, and thus the scope for customer service issues is more limited than in the P2P dominated markets.

# Implications and the Case for Providers to Better Address Customer Risks in DFS

There are however, important consequences of these issues and risks for uptake and usage of DFS by customers. Fears and perceptions suppress uptake and tarnish the reputation of DFS and their providers as non-users are often actively aware of these issues. In the words of one customer, *"We keep hearing mobile money users complaining about unstable network, delayed service, missing money and many other negative comments about mobile money. Why then should we register for these services?"* CGAP has highlighted how debilitating high-levels of customer inactivity can be – with only 34.4% of registered customers transacting, active customer registration is effectively three times as expensive.

There is strong evidence that poor customer service/protection is reducing not just uptake but also usage of DFS services. Many registered customers lapse into inactivity when they find it impossible (due system downtime or absent/illiquid agents) or too scary (due to the risks of sending money to a wrong number or losing/compromising their PIN) to make transactions. Others choose to protect themselves by using OTC services in preference to registering or keeping money in their m-wallets. All these limit the use of digital financial services. This was a repeated theme across the studies and reflects the findings of Intermedia's work in eight leading markets across the globe. *MicroSave's* recent work for UNCDF's MM4P on the customer journey highlighted that, "*Moving people from knowledge to trial, and from trial to regular usage will require providers to address issues that erode trust: system instability, poor customer service; and improve access which is limited by current KYC requirements*".

System downtime and sending money to a wrong number, in particular, seem to damage the reputation of DFS service providers most seriously. Ironically, these technological issues can be addressed by providers themselves. In many markets, regulations are in place to address several of these issues, but are not yet enforced, thus adding regulatory to the reputational risk arising from them.

# Addressing Customer Service Risks

It is clearly in the interest of providers to respond to these customer service risks, and make improvements to current business models to significantly increase customer trust, and thus uptake and usage.

Proactive providers can address many of the issues.

1. System downtime, particularly where MNOs are running the entire system, is technically easy to minimise, but requires investment. In "[Platforms for Successful Mobile Money Services](#)", Fionán McGrath and Susie Lonie noted that the first wave of providers, unsure of the likely returns from mobile money, underinvested. As a result, "… *platforms lacked sufficient functionality and capacity. A number of high profile mobile money services were unable to scale up their platform and meet the capacity demands of mounting numbers of customers, bringing their growth to a screeching halt …. half of GSMA's 14 "mobile money sprinters" are in the process of migrating or planning to migrate their platforms."* As we have seen in Bangladesh, addressing the problem may be more difficult where there are multiple players in the system and each blames the other for problems with the system. Nonetheless, it is clearly in the interest of all to resolve this. The biggest costs for providers arise from deploying the agent network and then paying agents to (initially) register customers and (subsequently) conduct transactions for them.[6] If customer service issues significantly undermine adoption and usage, even the initial investment made in the platform and to register customers will be wasted. New entrants or providers seeking to increase their market share can create real competitive advantage by offering reliable service. Perhaps it is unsurprising therefore that GSMA's MMU notes in its [recent blog on investments by MNOs](#), *"Platform migrations was a key area of investment during 2014, reflecting the changing technical requirements needed to accommodate an increasing number of companies and third party users of mobile money. By June 2014, half of all survey respondents had either already migrated their platform or planned to do so within the next 12 months."*

2. Where this is an issue, USSD sessions can be lengthened to allow customers to complete their transactions – a simple step that could significantly reduce the number of transactions rejected.

3. Liquidity management systems in Bangladesh already highlight how agent illiquidity might be reduced, and *The Helix*'s recent note on "[The Ebbs & Flows of Liquidity Management](#)" provides some valuable guidance. However, it is important to note that in Kenya, perhaps the

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[6] GSMA notes that in the second year of MTN Uganda's mobile money deployment, [66% of costs associated with it were variable in nature](#) and that [within 4-5 years typical capital expenditure costs will be but 8% of the total spending](#) (if the provider chooses a fully managed service model that keeps CAPEX low).

most sophisticated DFS market, the accepted norm is that all agents should be able to conduct small transactions (around US$50), but larger transactions must be split across smaller agents or conducted at larger agent outlets. So while improvements are clearly necessary to improve consumer trust, perfect may well be the enemy of the good.

4. Linking customers' address books on SMS-based systems and a check digit, one time password or requirement to enter the recipient's number twice on USSD systems can significantly reduce the risk of sending money to a wrong number – but the process does have drawbacks.[7]

5. Increased monitoring/mystery shopping of agents can help ensure tariffs are displayed which will help to eliminate unauthorised charges, as well as enforce (or at least) encourage prescribed levels of agent liquidity.

6. Agent training and customer awareness on PIN protocols can reduce PIN-related problems and many other frauds.

7. Clearly defined and communicated policies on repudiation and well-publicised, toll free numbers for well-trained customer care call centres will be essential to ensure customers know where to complain and reduce barriers for them to do so.

These measures are essential to build confidence in DFS across the globe. It is in the interest of providers to work diligently on these customer service/protection issues to increase trust, and thus uptake and usage, as well as to create the foundations to allow them to move beyond basic payments (including reducing OTC transactions). And ultimately, it is essential that they do so before questions about accountability for, and ownership of, these risks become too persistent and pronounced so that regulators step in to enforce many of the existing laws, or add new ones.



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[7] The first (implemented in Uganda by Airtel) is to use the registered customer base to display the recipient's name once the phone number is entered. This, of course, requires a comprehensive and accurate database of all customers, and (where there is inter-operability) will not work for customers registered on other providers' systems. The second (implemented in Bangladesh by DBBL and GrameenPhone's MobiCash) is to implement a check-digit system under which every mobile number is assigned an additional digit based on an algorithm.  As a result, if a wrong number is punched in, the transaction does not go through. The third, requiring the sender to enter the recipient's number twice, prolongs the transaction and thus both undermines the customer experience and aggravates the impact of any limitation in the length of the USSD session allocated to each transaction.

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