


Mind the gap: Closing the loopholes in consumer protection in digital financial services

November 2024

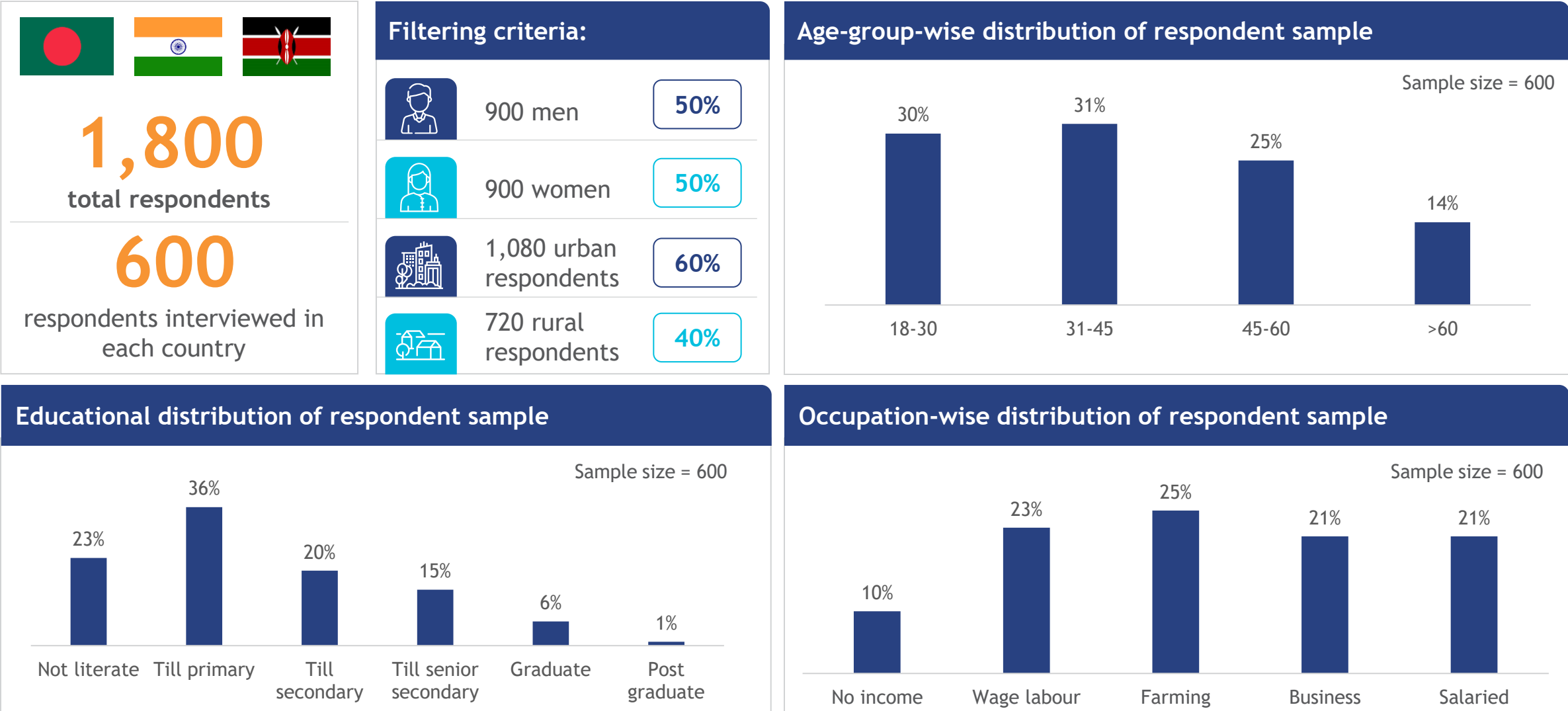


Executive summary

- In 2024 alone, the total cost of financial fraud in 99 countries was reported to be USD 42 billion. Consumer protection, therefore, is increasingly becoming vital, particularly for low- and moderate-income (LMI) populations who face more risks of financial fraud. Recognizing these vulnerabilities, we undertook this study to explore the experiences of LMI individuals across Bangladesh, India, and Kenya. With a sample size of 1,800 respondents (600 per country), the study offers insights into vulnerabilities and risks faced by LMI respondents against their susceptibility to fraud and awareness of grievance resolution mechanisms.
 - Our findings reveal that more than 50% of the respondents reported exposure to deceptive financial practices, particularly through fake calls and SMS. The prevalence of fraud, such as impersonation and compromised PINs, disproportionately impacts urban residents and women. Moreover, more than 60% of respondents were unaware of formal grievance resolution options. As a result, only a small portion of those who experienced fraud filed complaints. Even among those who reported issues, nearly 60% saw no resolution, and a significant number of complaints were rejected due to incomplete documentation.
 - This report builds on survey findings and MSC's extensive experience in consumer protection across multiple countries and presents a comprehensive set of recommendations for policymakers and financial service providers. The recommendations include targeted policy reforms and operational strategies to enhance financial customer protection, particularly for vulnerable populations. These cover various practical steps, which include strengthened regulatory frameworks and user-friendly grievance resolution platforms. Collectively, these recommendations seek to establish a more secure financial ecosystem and advance financial inclusion for low- and moderate-income groups in the surveyed regions.
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- An illustration of a smartphone with a dark blue interface. The screen shows a large blue shield with a white exclamation mark, indicating a warning or alert. Below the shield, the text 'SCAM LIKELY' is displayed in white. To the left of the shield, there is a red envelope icon, and to the right, a red location pin icon. The background is a light gray gradient.



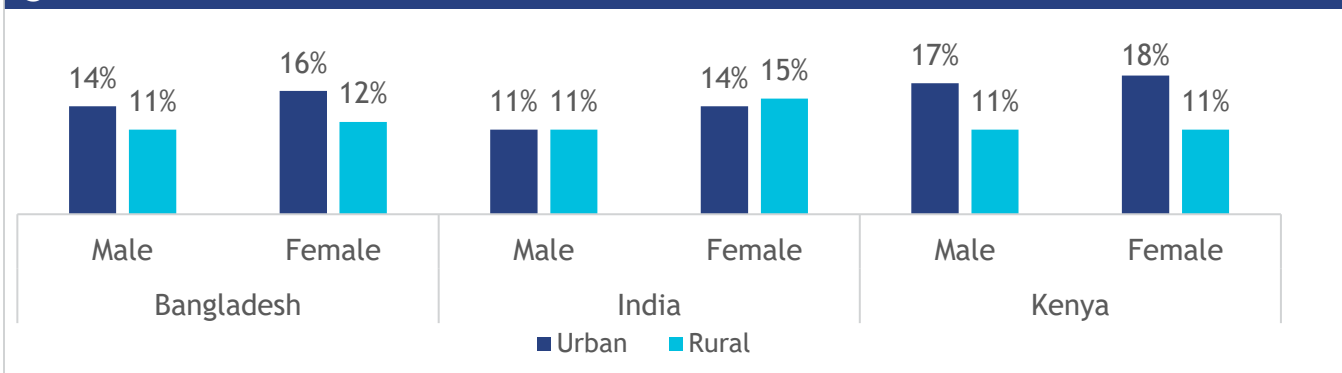
MSC’s study explored financial fraud vulnerability among 1,800 LMI* respondents in Bangladesh, India, and Kenya



*LMI: Low- and moderate-income individuals (LMI) are defined as those who earn less than USD 10 per day or USD 300 per day.

Low-income individuals, especially young people, and urban women, are highly susceptible to incidences of financial fraud

The percentage of customers defrauded—a comparison by gender and residence



Insights

- Respondents in urban areas (15%) have been defrauded more than those in rural areas (12%) across all three countries.
- In addition, women (14%) reported higher incidences of being defrauded than men (12%), more so in urban areas.
- Younger population (15%) are more prone to being defrauded. This may be because they are more responsive to fraud calls related to job fraud, which have led to cases of loss of money, sextortion, and human trafficking across [Bangladesh](#), [Kenya](#), and [India](#).

Recommendations for policymakers

- Policymakers should mandate financial service providers (FSPs) to develop consumer protection frameworks in policies, processes, and strategies that specifically address the needs of LMI segments. These frameworks must incorporate regulatory guidelines on public disclosure of FSPs' CP policies and specify penalties for non-compliance and SoPs around the use of the latest digital technologies to prevent and detect financial fraud, among others.
- Policymakers should build their capacity to collect and analyze disaggregated data by gender and geography. These insights are critical to understand the unique vulnerabilities of specific groups, such as rural women targeted by financial scams.
- Policymakers should implement regulations that hold financial service providers (FSPs) primarily responsible for safeguarding customers. For instance, these regulations could require FSPs to compensate fraud victims if the fraud results from inadequate security measures or delays in response (Clause 76, 73, 100, and 90 of the UK's PSR 2017 regulations).

Recommendations for FSPs

- Continuous and targeted efforts are needed to raise awareness and educate DFS users on emerging financial fraud and self-protection. Airtel Payments Bank's recent social media campaign with celebrities exemplifies this approach.
- To curb financial fraud in rural areas, FSPs can implement AI-based fraud detection, such as Airtel's AI-powered spam detection system, which provides real-time fraud alerts and can protect younger customers.
- Awareness programs and fraud detection technologies should be complemented with efficient grievance resolution mechanisms (GRMs). Recommendations on efficient and effective GRM can be found [here](#), [here](#), and [here](#).

55% of respondents received fake calls, and, of these, 13% lost their money through these deceptive calls or messages

Respondents defrauded through phone calls or SMS a cross-country comparison



Insights

- 55% of the respondents across Bangladesh, India, and Kenya reported that they received fake calls or SMS. Of them, 13% fell victim to financial scams or fraud due to those deceptive calls or messages.
- Financial fraud is widespread in these three countries. Scams, such as impersonation and compromised PINs, drive this.
- Kenya has incurred losses that exceed USD 83 million. While in Bangladesh, the actual impact is challenging to quantify due to underreporting. Reports suggest that cybercrimes have doubled in 2023, which makes up 11.85% of all crimes. Per a 2023 McAfee report, 64% of people in India fell victim to fake job offers and 52% to fraudulent bank alert messages, which resulted in losses of up to USD 195 million between 2020 and 2022.

Recommendations for policymakers

- Regulators can develop an anti-cybercrime toolkit that assesses FSP's fraud prevention readiness, delivers real-time threat alerts, simplifies reporting through a single platform, promotes online safety through community education, and equips law enforcement with advanced tools and training to tackle evolving fraud.
- FSPs can be encouraged to test innovative fraud detection and prevention tools in a controlled environment, such as regulatory sandboxes, before deployment. CGAP's practical guide on the topic is useful for policymakers.
- Regulators can mandate the use of multi-factor authentication for an added layer of security, such as facial recognition for higher-risk transactions, as exemplified in Singapore, and user-defined security and transaction limits, as introduced in Brazil.
- Policymakers should mandate the use of Digital ID systems that will allow FSPs to streamline customer identification and detect suspicious transactions more effectively. The integration of digital ID with centralized databases can support real-time monitoring of high-risk accounts and ensure compliance with anti-money laundering (AML) regulations.

Recommendations for FSPs

- Recent technologies to combat financial scams include mobile number masking, local SMS firewalls, and flagging scam messages or calls. Financial service providers can apply these measures across all segments vulnerable to scams.
- Financial service providers (FSPs), with support from self-regulatory organizations (SROs), can establish a centralized system for fraud prevention through monthly complaint reporting, regular fraud audits, and peer collaboration. Institutions can dynamically adapt to emerging trends and enhance collective security measures through the integration of AI and ML algorithms to assign risk scores and predict fraud patterns. Examples of such AI-powered fraud prevention tools can be found in the Philippines.
- Tools and features, such as "kill-switch" and "money lock," as implemented in Singapore, can be implemented for victims to limit losses if their accounts are compromised.

Awareness of grievance resolution mechanisms to report fraud remains low among respondents in these three countries, especially among women

Experience of grievance resolution mechanisms after fraud—a cross-country comparison



Insights

- More than 60% of respondents across the three countries were unaware of a clear course of action after a fraud incident. The remaining 20% of respondents did not take any action, and only 20% of respondents proactively filed complaints. Some reasons why respondents do not raise official complaints include complex and rapidly changing technology, cumbersome processes, low resolution rates, and a lack of digital access for women.
- Among the respondents who reported financial fraud, almost 20% preferred to file their complaints through the customer complaint center, followed by the financial service provider (15%). Cyber cell or police complaints are seen as the last resort for financial fraud victims (12%).
- Female respondents (12%) registered fewer complaints than their male counterparts (18%). Innovations for Poverty Action's (IPA) 2021 report on "Bangladesh Consumer Protection in Digital Finance Survey" has also highlighted poor respondent care as a major challenge that hinders mobile banking for low-income respondents. In India, women, especially from the low- and moderate-income segments, lack digital access, which lowers their chances of filing complaints.

Recommendations for policymakers

- Policymakers can develop and publish a GRM-based ranking system for FSPs based on regular audits to boost competition, enhance service quality, and drive innovation. This ranking should prioritize the needs of underserved communities, such as LMI segments, and enable customers and regulators to assess and compare customer support systems. The Government of India's GRAI for central ministries and departments is a useful method to follow.
- Cultural factors, societal norms, and unequal access to information and resources contribute to gender disparities in complaint registration. A two-pronged approach is necessary to tackle this disparity. This approach includes gender-sensitive GRM solutions to address women's specific needs, such as dedicated helplines for women and gender-sensitive capacity building* for customer service teams, to foster trust and improve accessibility.

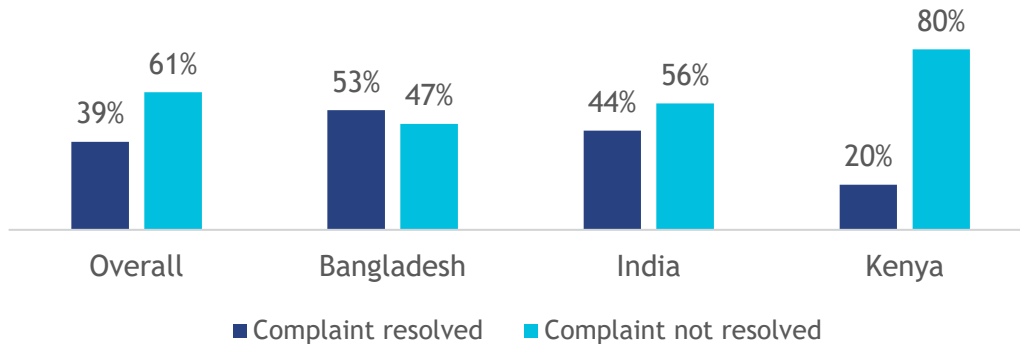
Recommendations for FSPs

- FSPs can incentivize grievance reporting to manage scams and frauds effectively. For example, BRAC's grievance redress mechanism (GRM) uses customer service assistants and agents to facilitate reporting. Others can replicate this model.
- FSPs can enable multichannel access to grievance resolution. This can include in-person support that involves agents, SMS-based systems, user-friendly apps that promote GRM systems, toll-free helplines, and social media platforms. Community partnerships can further help underserved groups and ensure accessible, inclusive complaint options that empower all consumers.

*Best practices for designing such training programs and successful case studies can be found [here](#).

Of the 20% respondents who filed a complaint, less than 40% saw a resolution

Complaint resolution—a cross-country comparison



Insights

- ▶ Almost 60% of respondents who filed a complaint did not see any resolution. More specifically, Kenya has shown the poorest complaint resolution among the three countries, with 80% of non-resolved cases, followed by India with 56% and Bangladesh with 47%.
- ▶ These low complaint resolution rates have been reported extensively in these three countries. Specifically, in India, a mere 17% of complainants recovered their funds successfully. Conversely, the resolution rate in Bangladesh was comparatively higher, at 30%, with about 1.2 million victims. These figures underscore the urgent need for enhanced mechanisms and interventions to address the challenges around complaint resolution in the financial sector.

***Please note:** Complaints about financial fraud often fall under multiple jurisdictions, which include FSPs, financial regulators, and law enforcement agencies (LEAs). Victims or customers are often unaware of these jurisdictional boundaries, which leads them to file complaints with the wrong authority and results in unresolved grievances and complaint rejections.

Recommendations for policymakers

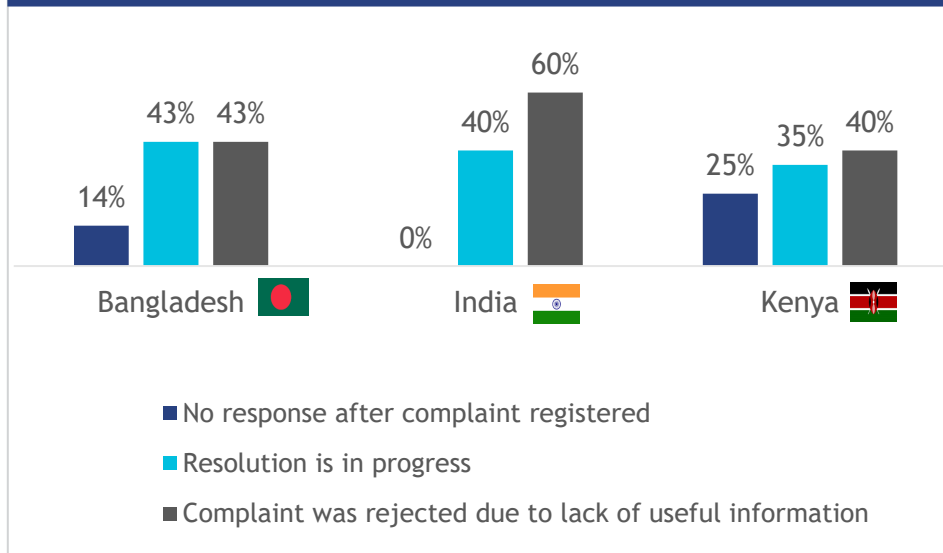
- ▶ Policymakers can introduce policies that mandate a minimum complaint resolution rate and impose penalties for non-compliance, especially in cases where complaints go unresolved for extended periods.
- ▶ Policymakers can mandate opportunity cost assessments as part of grievance resolution to fairly compensate victims, recognize broader impacts, and foster trust through improved accountability.
- ▶ Policymakers can run regular awareness campaigns to educate underserved populations on financial rights. Recent campaigns in India show that such efforts effectively boost complaint numbers and empower people to voice concerns.

Recommendations for FSPs

- ▶ FSPs can establish a centralized system to collate monthly complaint reports that detail the type and volume of issues and demographic breakdown, and map actions to resolve these grievances. This will help the providers, which includes banks, to proactively monitor and address the incidents and ensure consumer protection.
- ▶ FSPs can empower first responders, such as CICO agents, to help their consumers file the required complaint documentation. This can improve grievance resolution rates and reduce complaint rejections*. To ensure sustainability and reduce the risk of fraudulent claims, FSPs can integrate a quality monitoring system and provide non-monetary incentives, such as recognition programs that promote them as role models in the wider network and certifications for agents who deliver exceptional customer service and accurate complaint processing. This approach will allow agents to deliver excellent customer service and thus enhance customer loyalty.

Key reasons for unresolved complaints include lengthy resolution processes, insufficient information in complaints, and a lack of response from the authorities

Status of complaint—a cross-country comparison



Insights

- 40% of respondents whose complaints have not been resolved yet are still waiting for a response. The incidence of not receiving any response is approximately 20% in Kenya and Bangladesh. However, none of the respondents in India expressed this concern.
- The authorities dismissed about 48% of registered complaints in all three countries due to the respondents' inability to furnish evidence or a lack of useful information. This highlights the need for enhanced customer education and support mechanisms to address these challenges.
- India has shown the highest percentage of complaint rejection at 60% due to "a lack of useful information." Data from the Reserve Bank of India (2019) also shows that a staggering 32% of complaints were rejected by the Banking Ombudsman (BO) as the complainants did not provide complete information in the complaint.*
- The [IPA report 2020](#) indicates that Kenyans file complaints about financial fraud with the provider or customer care number but have received inadequate responses from customer care services.
- Bangladesh has a [culture of non-reporting](#), and it [lacks national data](#) on filed complaints related to financial fraud. Therefore, it becomes difficult to ascertain the status of complaints.

Recommendations for policymakers

- Regulators can develop a dashboard that provides a transparent view of complaints and resolutions, updated monthly on a dedicated portal. For instance, the Reserve Bank of India's [Sachet platform](#) offers an effective model where customers can track their complaints easily.
- Most complaints are rejected due to a lack of necessary documentation. The Insurance Regulatory and Development Authority of India (IRDAI) recently launched a series of rules that [mandate that no insurance claim should be denied](#) due to inadequate documentation. Regulators across the globe can develop such regulations to improve grievance resolution rates.

Recommendations for FSPs

- FSPs can strengthen and simplify the grievance resolution process for customers through a [user-centric design approach](#), [automatic escalation of grievances](#), regular updates of the relevant status of the grievance on the bank portal, and strict audits of GRM processes.
- Customers should be provided with clear, accessible information on the proper touchpoints to file a complaint. This can include process flowcharts, step-by-step guides, and details on which authority handles specific types of fraud and the expected resolution timeline.



Annexes

Annex 1: Survey design and techniques

Research elements



Total number of
respondents surveyed

1,800



Respondent qualification criteria:

- Respondent must have a monthly income of less than USD 300;
- Respondent must be more than 18 years of age.

Survey method: We conducted computer-aided telephonic interviews (CATI) to collect responses



Number and types of questions:

- Total number of questions = 20
- Name;
- Four screening questions;
- 12 profiling questions;
- Six questions to understand respondents' vulnerability to financial fraud.

Interview technique: Interactive voice response-based questions



Response collection method: Keypad entry based on options provided via IVR



Sampling technique: Our survey partner, INJ Partners, randomly selected the respondents from its existing pool



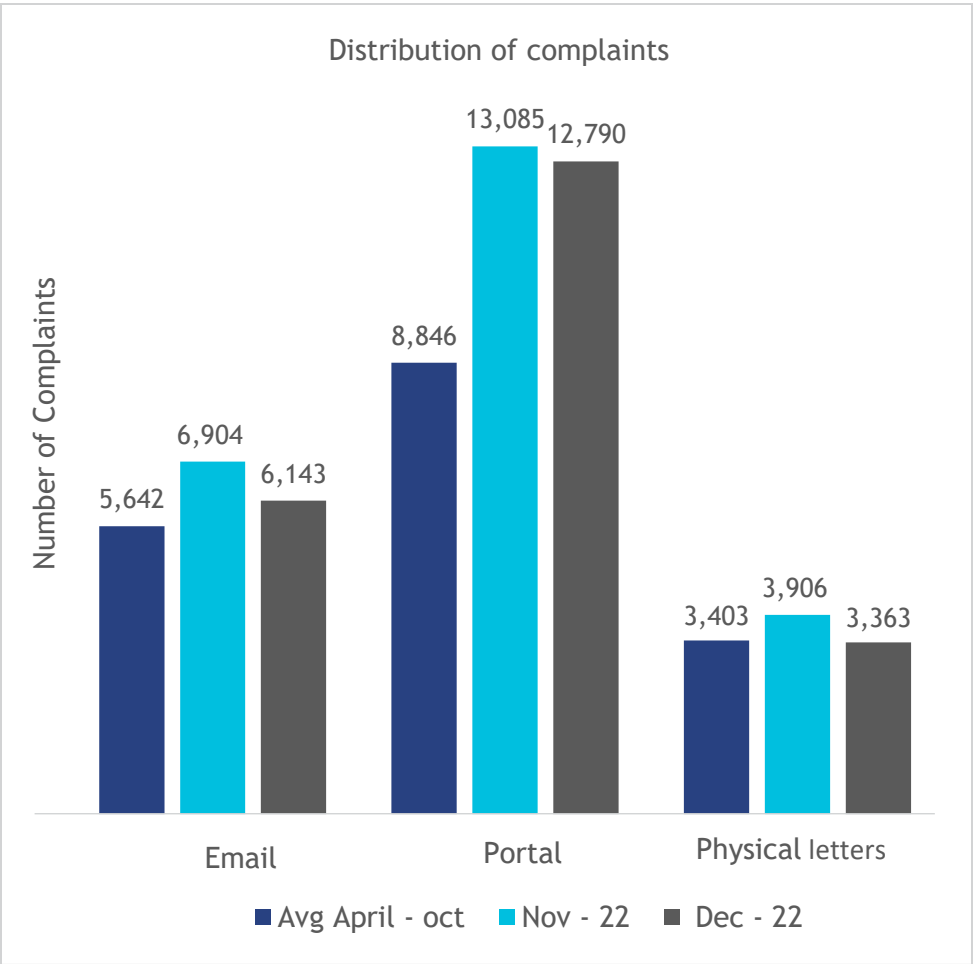
Survey duration: Two months, from March to May 2023



Annex 2: The impact of the nationwide intensive awareness program on public financial literacy and grievance awareness

The initiative reached millions across remote areas through physical and online campaigns. It targeted vulnerable groups and educated recovery agents on fair practices.

Physical letters	This complaint channel is the least used, as it involves the articulation of issues in clear technical terms and the knowledge of the correct location to submit the letter, which complainants find cumbersome.	3,906 in Nov 2022
Emails	This method is more effective than a physical letter. However, it remains limited to digitally literate, tech-savvy customers and is not widely accepted by low- and moderate-income (LMI) customers to lodge complaints.	6,904 in Nov 2022
Portal	This popular complaint channel is user-friendly, with clear steps for various issues, which makes it highly accessible for quick submissions via websites or mobile apps.	<u>13,085</u> <u>in Nov 20 22</u>



Source : RBI Report 2022-2023

Source: RBI

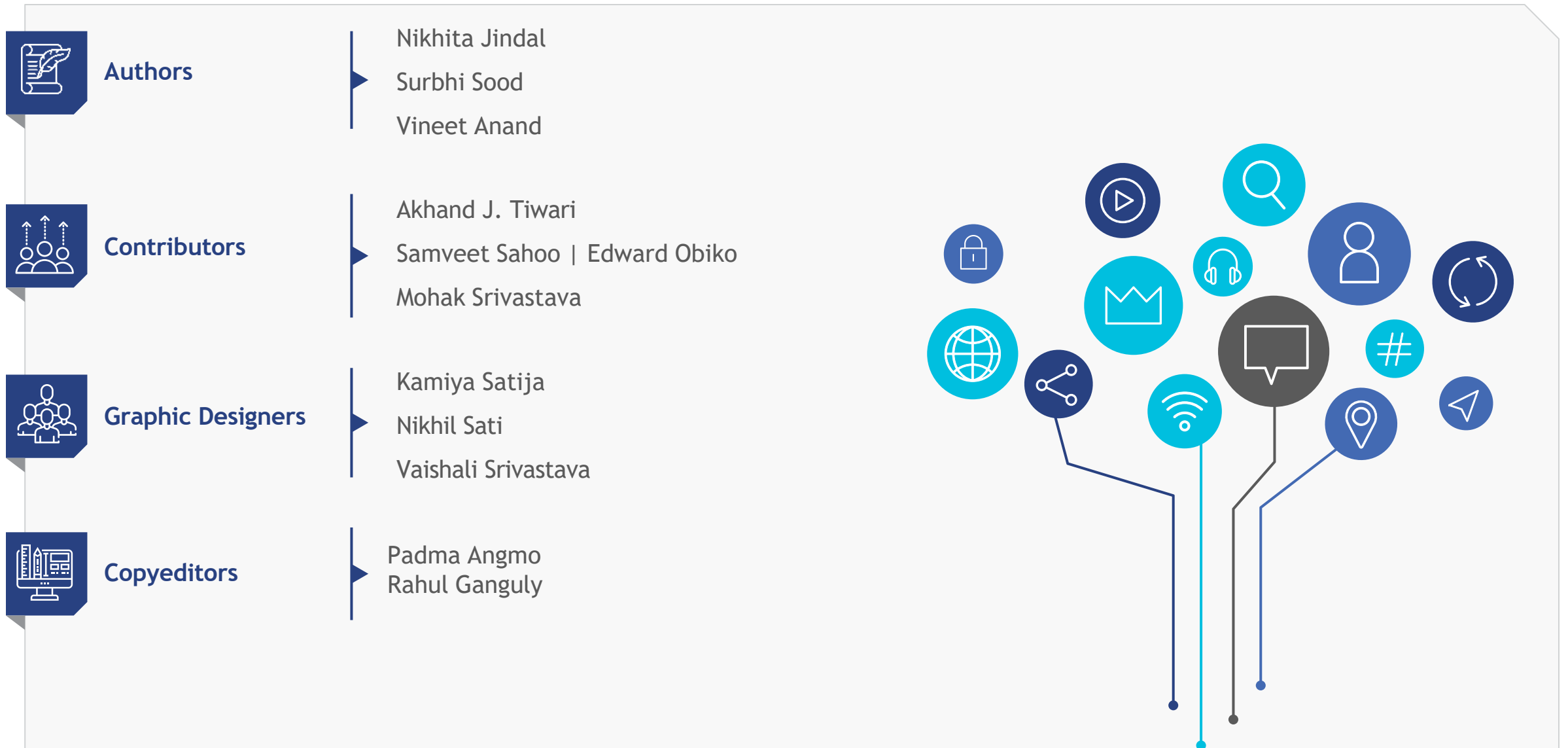
Annex 3: A note for the readers

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Abbreviations

Abbreviation	Full form
AML	Anti-money laundering
BO	Banking Ombudsman
FI	Financial institution
FSP	Financial service provider
GRM	Grievance resolution mechanism
LEA	Law enforcement agencies
KYC	Know your customer
NPCI	National Payments Corporation of India
RBI	Reserve Bank of India
RMF	Risk management framework
RMS	Risk management system
FI	Financial institution



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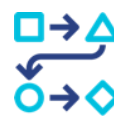
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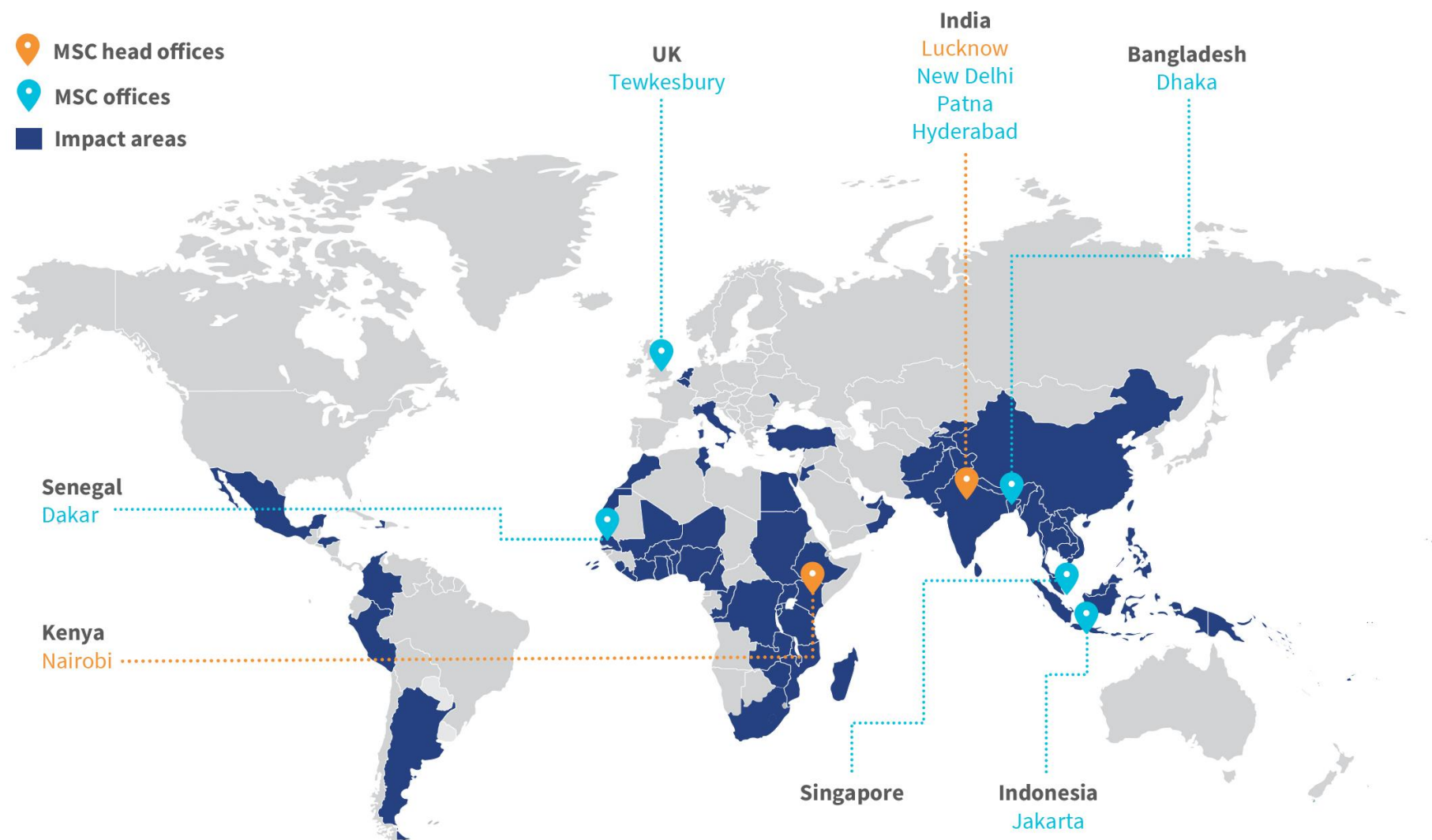
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