Consumer Protection Research Initiative

Rafe Mazer, Initiative Director
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Welcome!

Agenda:
https://sites.google.com/poverty-action.org/cpilaunchmeeting/agenda

General notes:
- This meeting will be recorded
- *During presentations:* Note your questions in the chat, and we'll address them at the end
- Mute your mic when not talking
- Let the meeting host know of any difficulties
The three pillars of our work

1: Create stronger evidence
To deepen public knowledge on how to reduce poverty

2: Share evidence strategically
To influence conversations & inform decisions

3: Equip decisionmakers to use the evidence
To improve the lives of the global poor
Our Team

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Consumer Protection

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Consumer Protection

Rebecca Rouse
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Financial Inclusion

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Postdoctoral fellow

William Blackmon
Research Manager

Kathryn Glynn-Broderick
Associate Director

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Program Coordinator
Why do we need the consumer protection research initiative?

By Xavier Giné
Research on financial inclusion

At the beginning, studies focused on **access to financial services**

- World Bank measurements and goals still focus on percentage of adults with bank accounts

Focus have steadily moved towards the **usage of financial services**

- Despite opening bank accounts, usage remained low

Financial liberalization and particularly **information technology**, have brought about a proliferation of (digital) financial products.

Yet, it is not clear that individuals are well-equipped to make sound financial decisions

- Financial consumers may not necessarily choose the most cost-effective product or the one most suitable to their needs, i.e. they make **mistakes**
Research on financial inclusion

When households make mistakes, they lower their own welfare which can also have broader consequences for the economy

• Mistakes can create rents that distort competition (DellaVigna and Malmendier, 2004; Akerlof and Shiller, 2015 and Zingales, 2015).

To attract consumers prone to mistakes, financial institutions may lower the up-front costs and raise the hidden costs of financial products, effectively subsidizing consumers who are sophisticated enough to avoid the hidden costs (Gabaix and Laibson, 2008).

• Sophisticated consumers then have no incentive to adopt easier-to-use financial products

• Even with competition, financial institutions will not want to offer more transparent products
Facts about financial markets in low-income countries

- Financial capability is low for a sizeable market segment
- Little comparison shopping
- Substantial price dispersion
- Consumers are uninformed about the terms and prices of their financial products
- Some evidence of limited consumer protection
  - Firms charge hidden fees, with sales agents maximizing commissions rather than disclosing costs.
- Customers report fraud and unauthorized charges
- Complaints channels appear underused
Rationale for consumer protection research initiative

**Limited evidence**
- On the actual state of financial consumer abuses in low-income countries, let alone evidence-based consumer protection interventions

**Fill in this evidence gap**
- Close the gap in empirical research to establish causal connections between interventions and consumer welfare

**Using complementary approaches with partners**
- Use experimental methods to complement administrative data, descriptive surveys and existing qualitative evidence
Some evidence on financial consumer protection

Costs and terms disclosure:

In Mexico, found that mandated disclosure of total loan costs to clients has no impact.

In Mexico and Peru, standardization of KFS leads to higher prob of choosing cheapest product, especially among less experienced individuals (lab exp).

In Brazil:
- Clients with more experience always respond to interest rate of a credit.
- Clients with less experience respond only when made salient.

In Chile, customers with less experience:
- Do benefit from a standardization of products because banks cannot hide costs.
Some evidence on financial consumer protection

**Regulating costs:**

- In the US, regulating fees and rate changes (CARD Act) led to smaller costs for clients
  - Consumers saved US$12 billion per year
- In Chile, interest rate ceilings led to
  - Lower interest rates
  - A decrease in the number of credits granted
Some evidence on financial consumer protection

Consumer redress processes:

- In the US, there are more complaints against financial institutions in lower-income neighborhoods

- Potential project in Colombia to use chatbots to improve and personalize the complaints and redress process
IPA Consumer Protection Research Initiative

Four year program to support policymakers, financial service providers, and civil society to develop and test consumer protection solutions in four emerging markets.
General framing for research in consumer protection

Customer Segmentation
- Extreme / Moderate poor
- Gender
- Rural
- Literacy
- Banked vs. (un)underbanked
- Level of connectivity

Products
- Priority
  - Payments / Stored Value
  - Credit
- Secondary priority
  - Deposits
  - Insurance
- Outside of current strategy
  - Gambling
  - Investments

Factors to consider
- Required
- Priority
- Secondary priority
- Outside of current strategy

1 Research Facility on Financial Consumer Protection, with the generous support of the Bill and Melinda Gates Foundation
# Prioritization of 3 key issues facing digital finance customers:

<table>
<thead>
<tr>
<th>1. Fraud in digital finance</th>
<th>2. Insufficient consumer redress in digital products</th>
<th>3. Product information and choice</th>
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</thead>
<tbody>
<tr>
<td>Third party: SMS/phone product offers, reversal requests, account credentials</td>
<td>Insufficient use of redress rights and options</td>
<td>Limited interface like USSD/SMS make disclosure of terms hard</td>
</tr>
<tr>
<td>Internal: Missing money, unexpected charges, agent fees</td>
<td>Digital channels offer new methods for consumer engagement and monitoring of complaints processes</td>
<td>Need to increase comparability of product offers across providers</td>
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<td>Consumer data sharing to improve product matching and choice</td>
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Research will cover a wide range of data collection, analysis, and experimentation.

1. Market monitoring & data analysis

   a) Evaluate administrative data for consumer protection issues and opportunities

   b) Collect additional information on consumer protection via surveys

   c) Utilize new channels such as social media and chat to monitor consumer experience

Research will cover wide range of data collection, analysis and experimentation

2. Testing and impact analysis of new solutions

a) Design new solutions that could reduce fraud, improve redress channels, facilitate informed choice

b) Randomly assign different solutions to different consumers and measure the uptake and outcomes

c) Determine which new innovations have the best impact on consumer protection and integrate into products, services and policies

M-Shwari digital credit impact:

- Those who qualified **11% more likely to take a loan of any kind**

- Those offered loan **spend more on education**—despite reporting using loan for other purposes

- No increase in savings or productive assets

Partners are leveraging administrative data to map out consumer protection issues

- **Transaction data**: What is the true cost of...
  - a current account?
  - a digital loan?
  - mobile money accounts?

- **Consumer experiences**: What are the common types of complaints an MNO receives? How does that compare with what consumers self-report in a survey?

- **Analysis of data amidst shifts in policies**: How can real-time information-sharing reduce multiple borrowing and defaults?
Research interests survey responses

Which markets are you interested in working in?

Other markets mentioned: Chile, Egypt, Ethiopia, India, Indonesia, Mexico, Myanmar, Pakistan, Rwanda, Senegal, South Africa, Tanzania, Zambia
Research interests survey responses

Which consumer protection topics interest you?

- Transparency
- Responsible lending/OI
- Product suitability/financial advice
- Fraud and financial scams
- Consumer choice, comparison and shopping around
- Complaints resolution
Up next:

Lightning Talks
Lightning talks

Social media and consumer voice
Dani Madrid-Morales
University of Houston

Using trust to measure consumer sentiment
Matthew Bird
Universidad del Pacifico

Evaluating consumer protection policy: Student borrowing after the CARD Act
Paolina Medina,
Texas A&M University
Up next:

Breakout Sessions
Breakout Sessions 1 & 2

A. Digital data trails and consumer protection
   Moderated by: Rafe Mazer
   Facilitation: Daniel Putman

B. Digital channels and consumer experience
   Moderated by: Dean Karlan & Rebecca Rouse
   Facilitation: Kate Glynn-Broderick

C. Consumer choice
   Moderated by: Xavier Giné & Jonathan Zinman
   Facilitation: William Blackmon
What are the next steps...

1. Summer 2020: Refine priority issues, share initial monitoring data, publish white paper

2. Follow-up with IPA for further discussion (if desired)

3. Fall 2020: RFP opens

Follow-up: Daniel Putman
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Thank you!