



# 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

**Xavier Giné**

*Academic Lead  
Consumer Protection*

**Rafe Mazer**

*Initiative Director  
Consumer Protection*

**Rebecca Rouse**

*Program Director  
Financial Inclusion*

**Daniel Putman**

*Postdoctoral fellow*

**Kathryn Glynn-Broderick**

*Associate Director*

**William Blackmon**

*Research Manager*

**Johann Roldan**

*Program Coordinator*

**Up next:**

Presentation:

**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

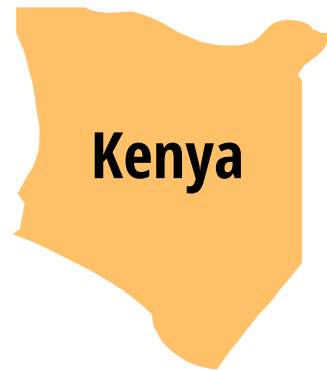
# Some evidence on financial consumer protection

## Consumer redress processes:

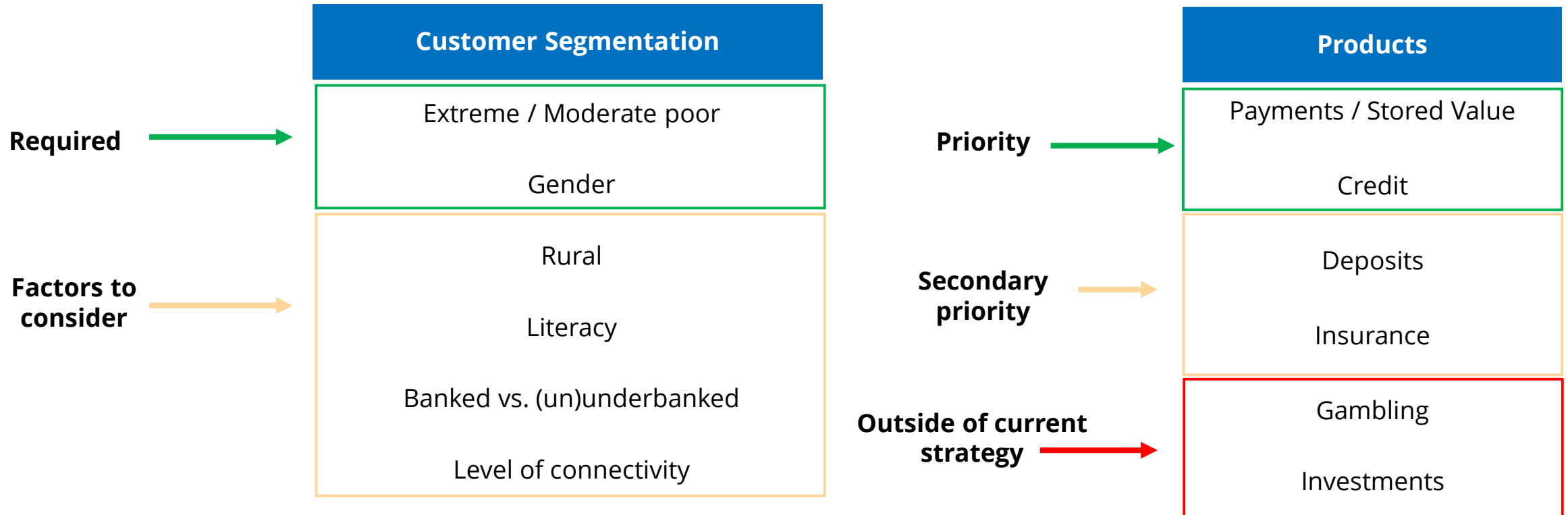
- In the US, there are more complaints against financial institutions in lower-income neighborhoods
- Potential project in Colombia to use chatbots to improve and personalize the complaints and redress process

# 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<sup>1</sup>



# Prioritization of 3 key issues facing digital finance customers:

## 1. Fraud in digital finance

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- Third party: SMS/phone product offers, reversal requests, account credentials
- Internal: Missing money, unexpected charges, agent fees

## 2. Insufficient consumer redress in digital products

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- Insufficient use of redress rights and options
- Digital channels offer new methods for consumer engagement and monitoring of complaints processes

## 3. Product information and choice

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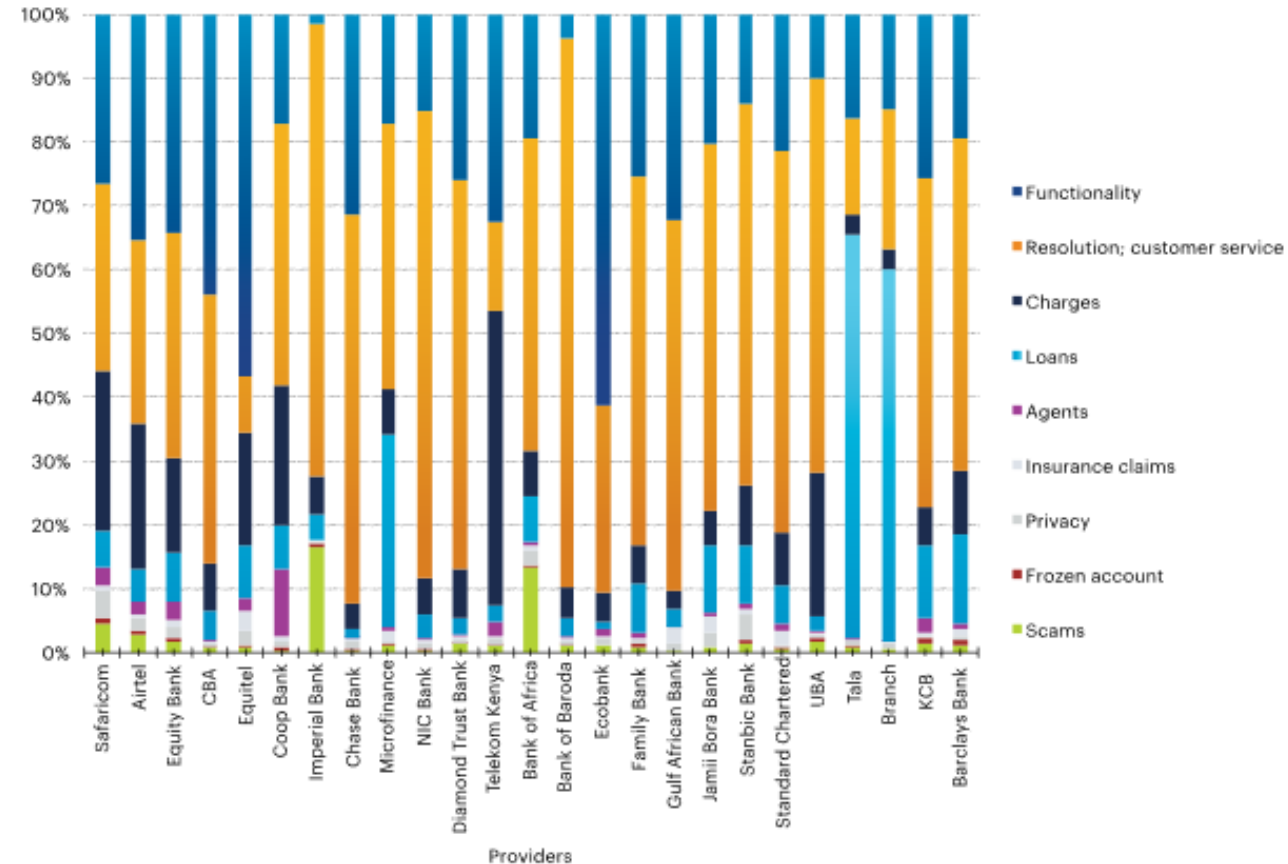
- Limited interface like USSD/SMS make disclosure of terms hard
- Need to increase comparability of product offers across providers
- Consumer data sharing to improve product matching and choice

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

## 1. Market monitoring & data analysis

- Evaluate administrative data for consumer protection issues and opportunities
- Collect additional information on consumer protection via surveys
- Utilize new channels such as social media and chat to monitor consumer experience

Figure 1: Distribution of tweets sent to each provider by consumer protection topic



Source: Mazer and Onchiku (2019) <https://fsdkenya.org/publication/did-you-see-my-tweet-monitoring-financial-consumer-protection-via-social-media/>



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

## 2. Testing and impact analysis of new solutions

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- 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

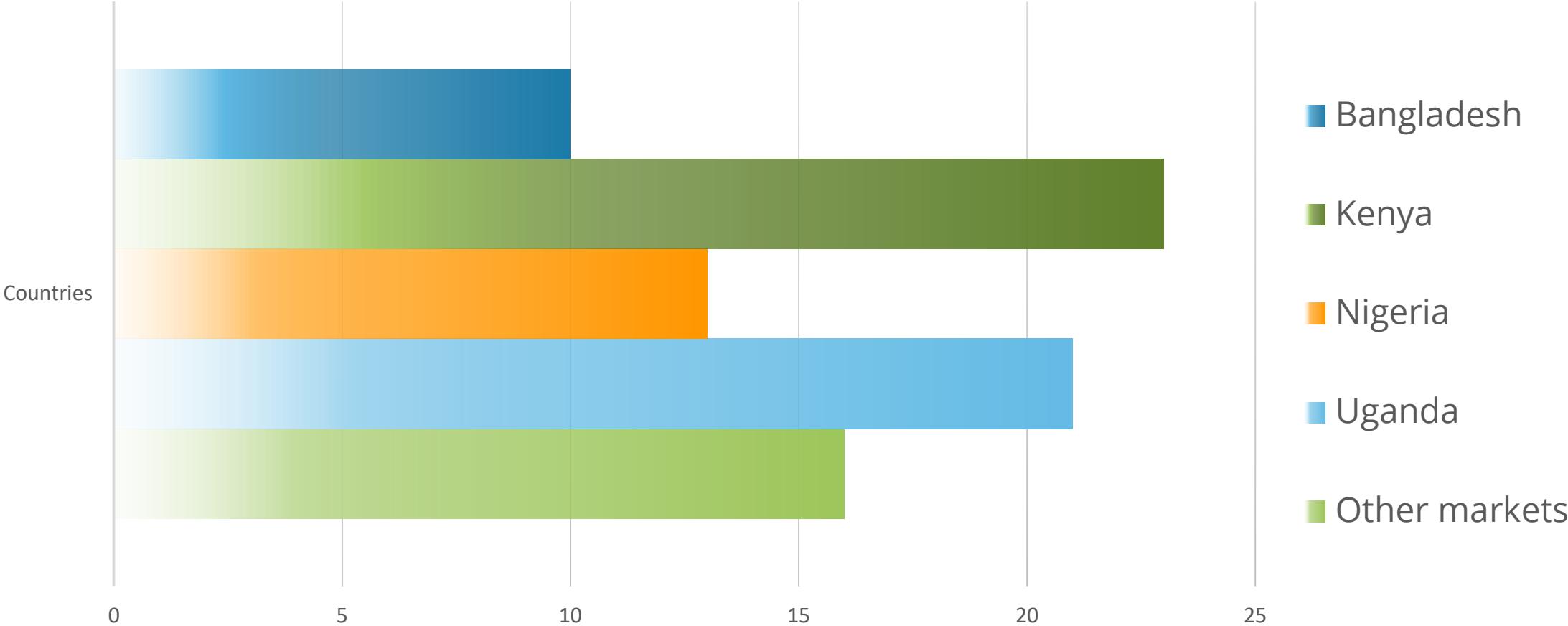
Source: Bharadwaj, Jack and Suri (2018) <https://www.poverty-action.org/study/impact-digital-credit-kenyan-households-resilience-financial-shocks>

# 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

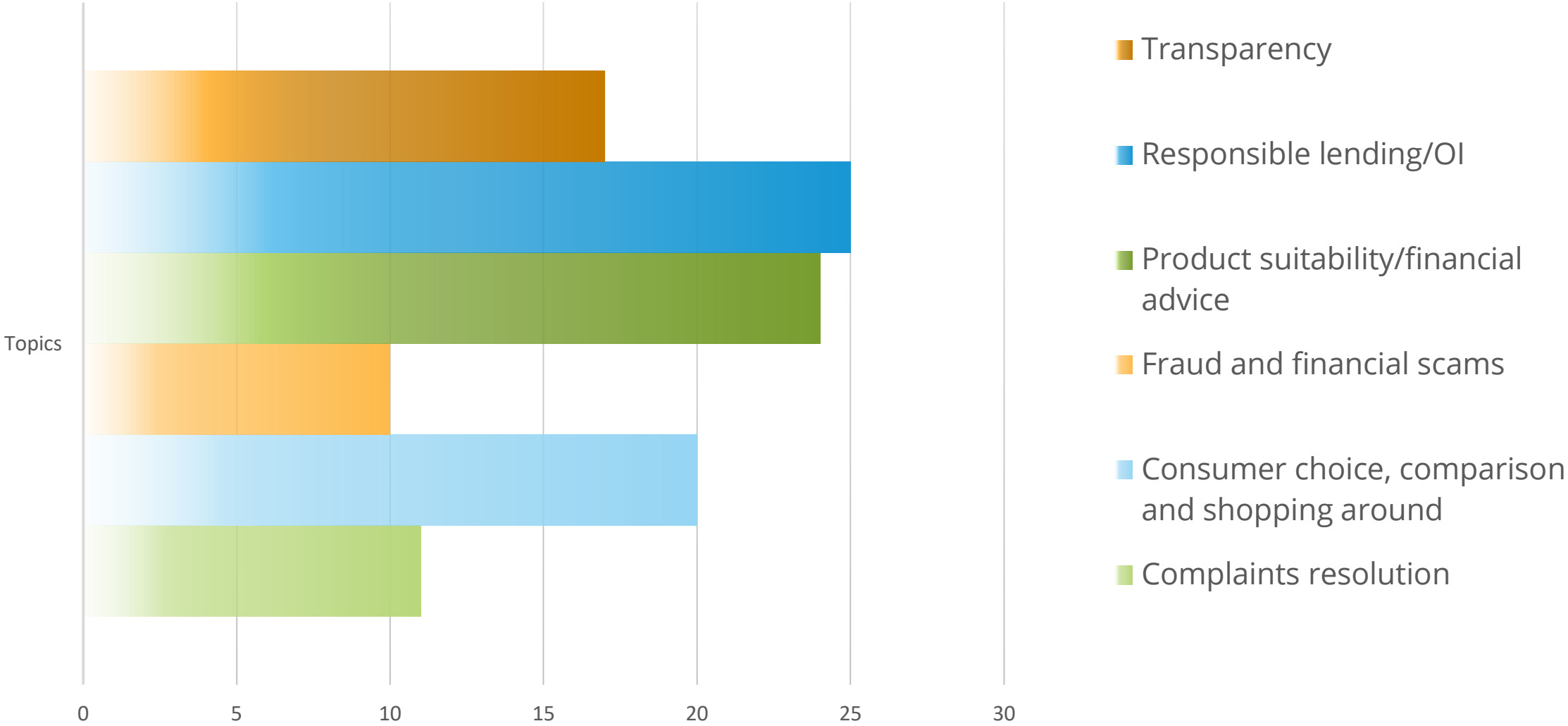
## Which markets are you interested in working in?



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

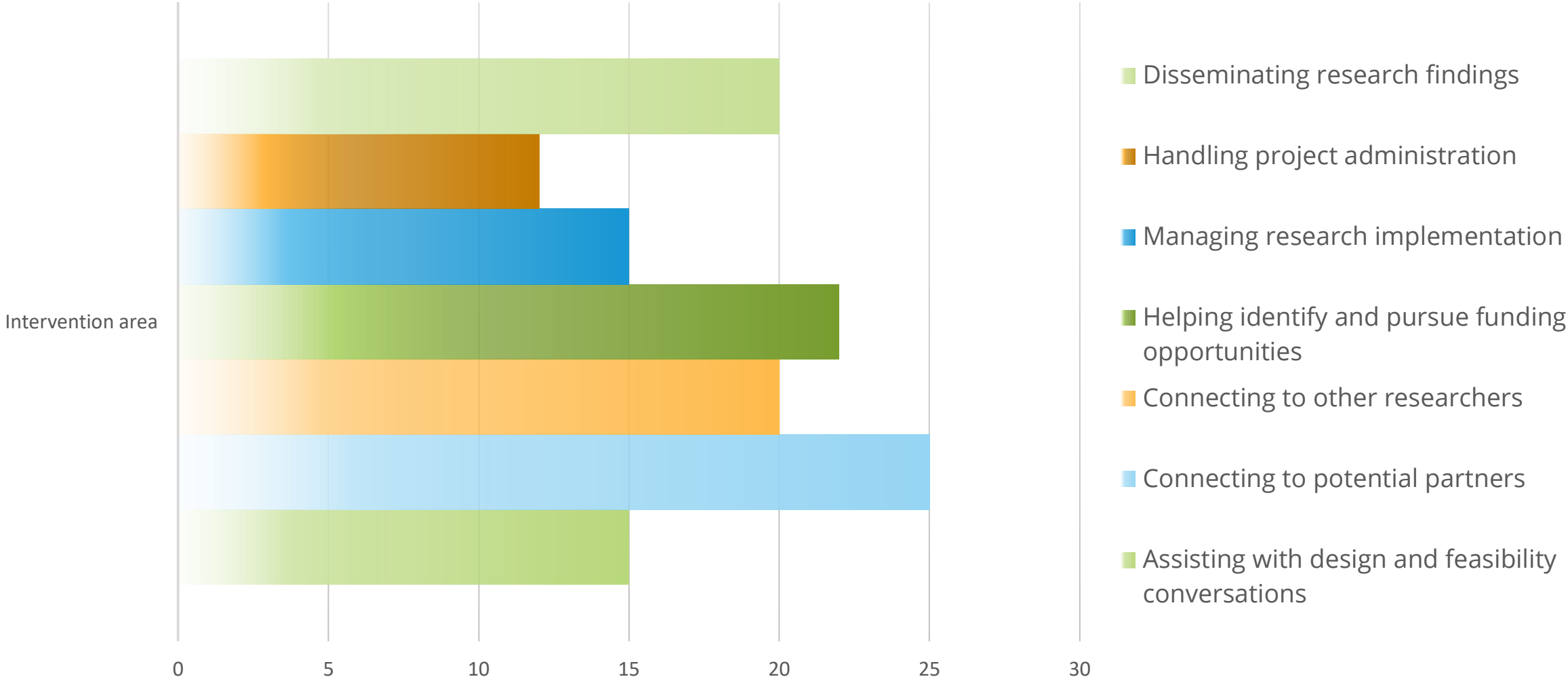
# Research interests survey responses

## Which consumer protection topics interest you?



# Research interests survey responses

## How can IPA support you?



**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**

Consumer Protection Research Fellow

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**Thank you!**