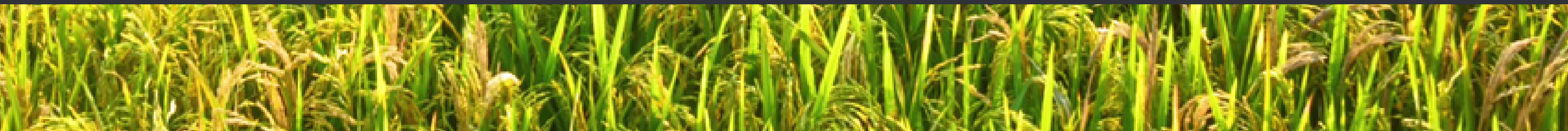
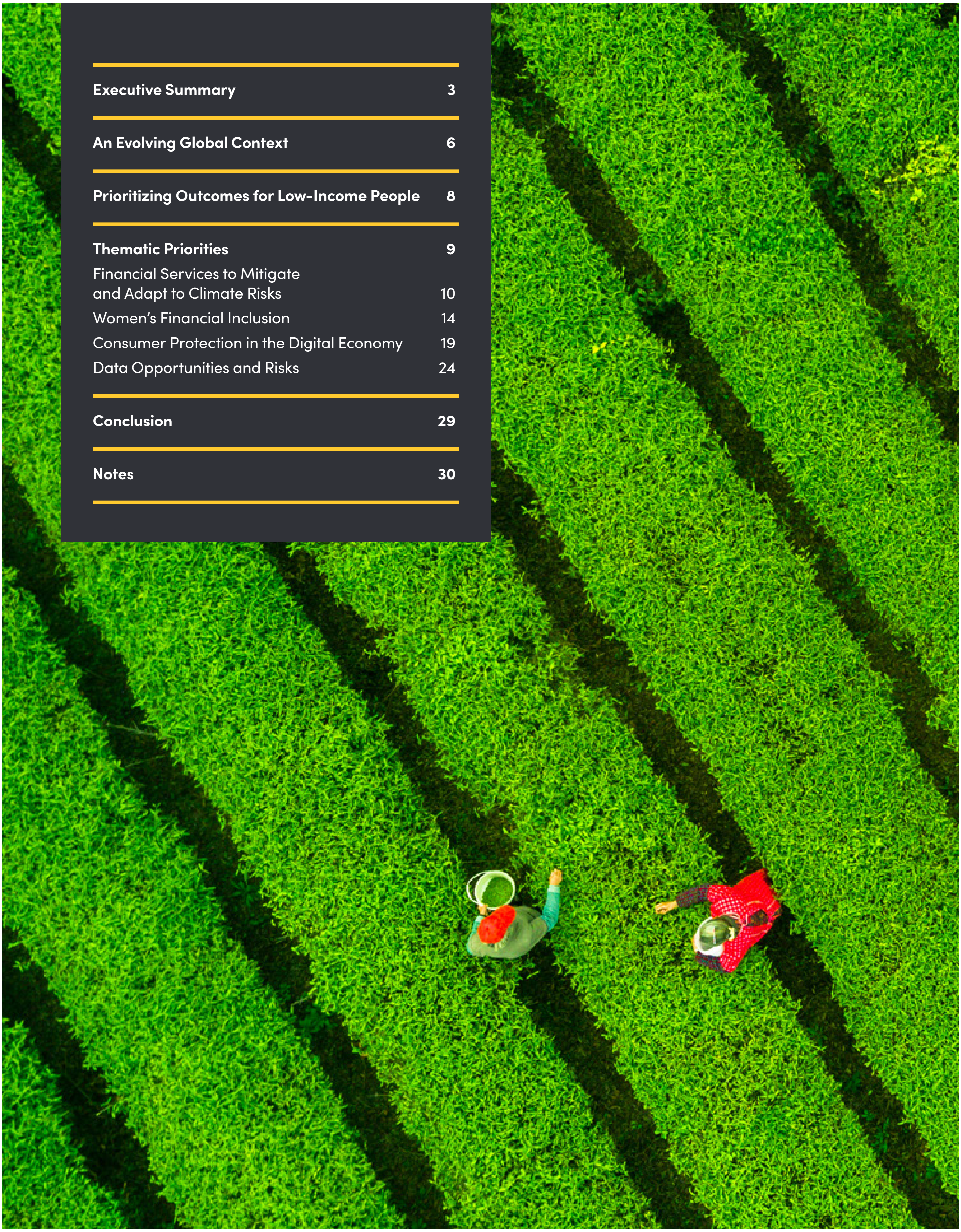
CFI STRATEGY 2020–2024

CRISIS AND OPPORTUNITY

Reimagining Inclusive Finance After the Pandemic

CENTER *for* FINANCIAL INCLUSION | ACCION





Executive Summary

Since its founding in 2008, the Center for Financial Inclusion, or CFI, has worked to ensure that efforts to expand inclusive finance for low-income and other vulnerable people remain focused on people. That proposition might seem in theory to be self-evident; in practice, however, efforts often fall victim to focusing on the means and lose sight of the ends. CFI was created to help keep that from happening. We were founded at a particular moment when it was becoming more apparent that market forces alone would not ensure positive outcomes for low-income people, and that sustained intentionality would be necessary. CFI works to ensure that we never lose sight of our vision—a world in which all people are able to use financial services and participate in the economy to improve their lives and prosper—and that low-income people and their needs are consistently and deliberately kept at the center of all that we do.

Twelve years later, CFI—and the whole world—faces a radically different historic moment. The COVID-19 pandemic has infected over 88 million people and killed over 1.9 million between the time it was first reported in December 2019 and at the time of this writing in January 2021.[1] Beyond the rapid and catastrophic spread of illness and deaths, the pandemic has devastated global economies. Millions of micro, small, and medium enterprises around the world have seen revenues plummet and have suspended operations or gone out of business altogether. Hundreds of millions of families have lost jobs and incomes, and many of them live in countries where social safety net protections are patchy at best. The pandemic also reversed, seemingly overnight, social and economic development gains that had taken decades to achieve: The World Bank estimates that between 88 million and 115 million people are at risk of falling into poverty.[2] Women and children have been among those most affected; children because schools around the world have been shuttered, and women because they are more likely than men to lose their jobs and to shoulder the responsibility of supervising and home-schooling children.

This global crisis has no precedent in modern times. And yet, like all crises, the COVID-19 pandemic also presents opportunity: to "build back better," as the saying goes, to ensure that similar crises are averted and that we are much better prepared to respond effectively when they hit.

For CFI, that means developing a deep understanding of how financial services reduce vulnerability for low-income populations and how to overcome the obstacles preventing so many from participating in the financial sector, and then working with key stakeholders and advocating for evidence-based change to ensure that such services fulfill their intended purpose. As tragic as the pandemic's consequences have been and continue to be, it has laid undeniably bare the failures of the status quo and has created a heightened sense of urgency for financial services, no less than for health care, emergency relief, and other sectors, to build back better.

CFI brings more than a decade of experience to this intensified global effort, with expertise in understanding the financial needs and behaviors of low-income vulnerable populations. Complementing CFI's strengths in demand-side research, our recent integration with MIX brings supply-side expertise to the table, as the MIX team has been studying and reporting about financial service providers for the past 20 years. These complementary strengths, combined with our history of thought leadership and our role as conveners, positions CFI to pursue an ambitious strategy made all the more urgent in the context of the pandemic.

The strategic plan will guide CFI's work through 2024 and focuses on four thematic areas. All of them, to significant degrees, have either been exacerbated by the pandemic or have been revealed by the crisis as urgent and under-attended priorities.

Financial Services to Mitigate and Adapt to Climate Risks

Just as the pandemic's effects have been most severe for those who were already the most vulnerable, so too are the effects of climate change. Low- and moderate-income countries (LMICs) are likely to experience more extreme weather, which in turn will increase the risk of income loss, food insecurity, adverse health effects, and displacement amongst low-income populations.

CFI recognizes that climate change is ultimately an issue requiring the reinvention of entrenched systems of production and consumption, and for many, this will require adaptation to more sustainable livelihoods. As the world works to understand the impacts and adapt to new realities, financial services are an indispensable tool to help vulnerable low-income people prepare for climate-related shocks and recover from them when they happen. Our work in this theme will focus on understanding the role of financial services in mitigating the effects of climate change, both in the short run to respond to shocks and the long run as people adapt their lives and livelihoods to the changing climate. CFI will work to understand what financial tools people need and the constraints they face, uncover product innovations that can help, and then pilot test such innovations and share what we have learned.

Women's Financial Inclusion

Women make up a little over half the world's population, but their contribution to measured economic activity, growth, and well-being is far below its potential, which results in significant macroeconomic consequences. Globally, only half of women participate in the labor force, compared to three-quarters of men. In developing regions, up to 95 percent of women's employment is informal, in jobs that are unprotected by labor laws or do not benefit from social protection. The consequence of this lack of equality is missed opportunities for individuals, households, and economies. Financial services are a core enabler for self-employment, enterprise growth, and asset or wealth creation for households. Lack of access to financial services contributes to women's marginalization to the informal sector and reduces their ability to fully engage in measurable and productive economic activities. Despite decades of focus on women as an important client group, there has been limited progress in reducing the gap in women's access to finance.

At CFI, we believe women's financial inclusion is powerfully shaped by broader societal norms, the unspoken assumptions and values governing the role of women in society. Efforts to improve women's financial inclusion must also seek to transform, rather than merely acknowledge, these underlying norms. Our work in this area will accordingly include an intensive focus on research into successful norms-transformative initiatives, and how those might be scaled up. We will also work to improve the digital and financial capability of subsegments of women customers to help enable access to the range of, and to influence the policy environment for, women's financial inclusion.

Consumer Protection in the Digital Economy

As the inclusive finance landscape evolves, so too must our understanding of the changing nature of risks and the approaches we must take to protect customers. Social platforms, e-commerce giants, fintechs, and pay-as-you-go providers are all embedding financial services in their offerings. Many of these business models fall beyond the scope of existing banking regulation, making it even more critical that we work to understand the risks and ensure measures are in place to protect vulnerable customers.

Consumer protection is an evergreen challenge and one where CFI has long been active. Building on our experience managing the Smart Campaign, CFI will conduct research on the customer experience to build the knowledge base on evolving areas of risks and advocate for policies that protect consumers. In light of the massive increase in COVID-19 cash transfer payments, an initial area of research will focus on the practice of government-to-person (G2P) digital cash transfers in response to COVID-19 and how and whether consumer protection practices were integrated into their design. Since government payments are often the on-ramp to digital financial services for low-income populations, their experience with the types of accounts used for the transfer can have outsized effects on their trust in the formal financial system. We want to understand the risks that digitized G2P transfers present and how governments are mitigating those risks.

We also want to document innovations around redress of grievances, financial capability-building add-on services, resolution of connectivity issues, and other relevant lessons learned. In addition, CFI will partner with regulators and supervisors to test new technologies, such as chatbots or algorithmic audit tools, that can allow supervisors to be in direct dialogue with consumers, without consumer voices being mediated via the financial service providers. Such a dialogue can ultimately improve customers' experience with financial services and democratize the financial sector by involving customers in the development of financial sector policies. To date, much of the recent work in regulation technology (RegTech) and supervisory technology (SupTech) has prioritized the data reporting and compliance, but CFI believes its potential for advancing consumer protection has been underappreciated.

Data Risks and Opportunities

The pace of change created by the technology revolution is much faster than law, policy, or social mores can match. People are often unnerved by the evidence of just how much is known about aspects of their lives they might have considered or preferred to be private: where they go, what they buy, with whom they spend time, what they read and watch and listen to. But medical and financial information are in a different category of sensitivity. The COVID-19 pandemic has provided a powerful illustration of both the risks and the opportunities of digitized data. The public health benefits of documenting and following diagnosed COVID-19 cases, and of tracing patients' contacts, are obvious. But the risks to patients of stigmatizing, discrimination (whether of access to insurance, housing, employment, or otherwise), and other abuses are also very real. Similarly, in financial services, data is the key that can unlock access to a full range of personalized, effective products that can help low-income people achieve their goals. The risk is that many LMICs have no effective consumer data protection regimes in place and that even where those exist, people with low levels of digital and financial sophistication may, in their eagerness to receive financial services, sign away their rights without even fully understanding them.

CFI's work in this area will focus on means to bring transparency to the data practices of digital financial service providers. We will study how financial service providers use algorithms and what must be done to protect already-underserved populations against algorithmic bias in automated decision-making. We will also monitor emerging data privacy and protection frameworks around the world to document what does and does not work to advance financial inclusion while safeguarding data privacy, portability, and other consumer rights.

CFI developed its strategic plan by weighing the needs of the financial inclusion industry against what we see as our own comparative advantages. We recognize that the four thematic priorities we intend to pursue are not an exhaustive list of everything that needs to happen to ensure financial inclusion, and we also recognize that other individuals and organizations are doing excellent work in the areas we intend to pursue. We look forward to collaborating with all stakeholders who share the vision of advancing inclusive financial services, and to regularly reporting what we learn along the way.

An Evolving Global Context

Over the past decade, significant progress has been made in improving access to financial services for many of the world's underserved, and the number of excluded people declined from 2.5 billion in 2010 to 1.7 billion in 2018.[3] Yet there is growing awareness that access alone is not a sufficient goal. Some voices have been advocating a focus on usage (making sure that people not only have access to financial services but actually use those services), while others have advanced concepts such as financial health (making sure that using financial services actually translates into improvements in financial well-being).[4] What unites these perspectives is an understanding that financial services in and of themselves have no intrinsic value, but rather can be an important enabler for development when used in ways beneficial to people living in poverty. This shift in the role of financial services from an end in themselves to a means to an end was accelerated by the Sustainable Development Goals (SDG) framework endorsed by members of the United Nations in 2015.[5] Since then, development organizations have been realigning their work to achieve the SDGs.

The last decade also ushered in an era of new models for reaching low-income customers through the use of data and digital technology. However, along with the unfettered use of data trails, we are seeing the emergence of over-indebtedness in some markets where digital credit has grown exponentially.[6] Fintechs and platforms that rely heavily on consumer data are themselves increasingly susceptible to data breaches and cybersecurity risks. All of this is happening in an environment where consumers are significantly under-equipped to understand the risks to which they are being exposed or to obtain recourse for misconduct or abuse. Although many regulators have made important pledges toward safeguarding the environment for responsible finance, their own tools to monitor risks and to stay abreast of the dizzying speed of innovation are severely challenged.

The COVID-19 pandemic has uncovered the fragility of the gains the inclusive finance sector has made.

The COVID-19 pandemic has uncovered the fragility of the gains the inclusive finance sector has made. The combined effects of the illness and deaths the pandemic has caused, the economic lockdowns, and mobility constraints are likely to push more than 88 million people into poverty, according to the World Bank.[7] CFI research in Nigeria and Indonesia has revealed dramatic effects of COVID-19 on micro, small, and medium enterprises (MSMEs), the engines of employment in most emerging countries. In both markets, income declines of more than 80 percent were observed as of August 2020 and employment is down nearly 50 percent.[8]

At the same time, the pandemic has reinforced the need for financial tools that can help those affected remain resilient and, where necessary, to recover and prosper. CFI's research with MSMEs has shown that people continue to rely on personal resources, drawing down their savings to meet household needs (64 percent in Nigeria; 53 percent in Indonesia). And despite

the income shocks, households continue to see the value of putting money into their savings (73 percent in Nigeria; 23 percent in Indonesia), for the uncertainty ahead. Borrowing from friends and family, banks and MFIs, and savings groups are also noteworthy coping strategies. Unlike other more localized crises where remittances are a critical lifeline, remittances under the worldwide COVID-19 crisis have been a less reliable source given that both remitters and receivers have been affected. Nonetheless, remittances remain important for some countries, and CFI's sample in Indonesia showed 18 percent receiving domestic remittances in August 2020, while in Nigeria more than 30 percent of the primarily urban sample sent remittances to their networks.

The effects of the pandemic have been far-reaching, affecting not only individuals and MSMEs, but the fundamental institutions that form the economic system and will be critical to the post-COVID-19 recovery. Many of the financial service providers that serve low-income individuals and MSMEs are themselves experiencing liquidity crises. Both investors and policymakers are attempting to lessen the effects of the pandemic by stepping up coordination and taking important policy measures, such as increasing social protections for individuals and injecting liquidity into the financial system. But the fragility of the entire economic and financial ecosystem is evident and rebuilding a more resilient one is now a clear priority for all stakeholders.

Undeniably, the world after COVID-19 will look quite different. Many of the livelihoods that sustained low-income people, however precariously, have already disappeared and there is no guarantee they will come back. The virus disproportionately affects low-income people who tend to live in more crowded conditions, have the kind of jobs that require their physical presence, and have less access to sanitation. The costs of caring for the ill and burying the dead, in other words, will fall heaviest on those least able to shoulder them. In short, the pandemic will increase poverty and inequality. But by laying bare the failures of the status quo, it also brings with it an opening to reimagine a world that is truly more inclusive and sustainable for everyone, and a sense of urgency to bring that world about.

Prioritizing Outcomes for Low-Income People

CFI's vision is a world where all people are able to use financial services and participate in the economy to improve their lives and to prosper.

To achieve this vision, CFI has prioritized a customer focus in all of its work since its founding in 2008. This has historically meant using demand-side research to ground our work and a demand-side lens in analyzing broader market trends. This demand-side lens informs all our policy advocacy and engagement with providers.

But using demand-side research and having a demand-side lens is no longer good enough. CFI and other stakeholders in the inclusive finance sector must prioritize and expedite progress to achieving positive outcomes in the lives of low-income people. This means we have an obligation to use evidence of what works, to test and learn, and to scale innovations that have been proven to have positive impact. We must allocate more of our limited resources to the innovations, solutions, and systems changes that most directly contribute to the improved well-being of low-income people.

The number of forces reshaping our world is dizzying. Not only has the pandemic had a seismic effect on the economy and people's livelihoods, a number of other critical forces—the power of states, the nature of work itself, climate change, systemic inequalities, social unrest, globalization, and migration—are upending long-held structures and norms and reshaping the global economy. These forces require us to reimagine the financial system and the role it plays in creating inclusive and prosperous economies, as well as the pathways to realizing this vision. The current global context reveals the limits of purely commercial solutions and demonstrates the urgent need to reimagine our vision for an inclusive financial sector.

At CFI, we aim to be active participants in reshaping this new order. We cannot afford to wait to see how technology or climate change, for example, will shape the opportunities available to low-income people. We must use all our resources to directly influence these opportunities and advocate for change in our pursuit of a world in which all people can thrive and prosper.

To do so, in sum, we will leverage partnerships to conduct rigorous research and test promising solutions, and then advocate for evidence-based change.

1. **Learn:** Conduct quantitative and qualitative research on both the demand- and supply-side to identify the most pressing issues affecting the financial inclusion of vulnerable people around the world.

2. **Test:** Pilot concepts that arise from quantitative and qualitative analysis to identify best practices and effective solutions.

3. **Share:** Advocate for change by sharing insights and recommendations with key stakeholders through publications, convenings, events, and campaigns to influence their decision-making.

As we embark on this new strategy, CFI will be developing a new theory of change to map our work to intended outcomes. Through direct engagement with policymakers, donors, investors, and financial service providers (FSPs), we aim to ensure our work contributes to meaningful change and improved outcomes for low-income and vulnerable populations.

THEMATIC PRIORITIES

Shaped by our understanding of the most pressing forces shaping the lives of low-income people, CFI will be prioritizing work in the following four thematic areas:

FINANCIAL SERVICES TO MITIGATE AND ADAPT TO CLIMATE RISKS

WOMEN'S FINANCIAL INCLUSION

CONSUMER PROTECTION IN THE DIGITAL ECONOMY

DATA RISKS AND OPPORTUNITIES

CFI's work on these thematic priorities will build on a decade of core competence conducting demand-side research; analyzing supply-side data and identifying sector trends (through our recent integration with MIX); engaging with the investor and donor community; and advocating for policy reform. Over the course of this strategy, CFI will work to understand the evidence gaps in each of these areas, pilot test and learn about new models and approaches, and advocate for scalable solutions. Industry partnerships will continue to be foundational to CFI's approach as we work with providers and other researchers to understand challenges and test new approaches, and as we collaborate with donors, investors, and policymakers to create lasting change.

Financial Services to Mitigate and Adapt to Climate Risks

Climate change is projected to have severe economic impacts globally, and low-income, vulnerable populations are likely to be disproportionately affected. Many low-income countries are likely to experience longer, hotter heat waves and more extreme storms, leading to food insecurity, income losses, lost livelihoods, adverse health impacts, and displacement. Additionally, climate change is projected to be a threat multiplier, exacerbating inequity for low-income households already discriminated against based on gender, race, socioeconomic class, age, and disability in these countries.[9]

Financial services can support low-income households to improve their resilience to climate shocks.

Reducing vulnerability to climate risks and improving adaptation to green livelihoods

Systems change will be necessary to mitigate these climate risks. In this context, *systems change* refers to altering systems of production and consumption to stabilize the amount of greenhouse gases emitted to the atmosphere. For example, the ongoing shift from non-renewable to renewable energy is an outcome of systems change, and it required policy initiatives by government, public and private investment in renewable technology, and changes in fuel utilization by households. Climate-related systems change will impact low-income communities through the creation and elimination of livelihood opportunities as carbon-emitting industries are being replaced or innovated with climate-resilient technologies. Some estimates project 1.5 billion jobs will be created by this process, and at the same time, many jobs will be altered, eliminated, or replaced.[10]

Financial services will play an important role in helping low-income households adapt their livelihoods to cope with these changes. For example, in a 2018 report on transitions in the coal industry, the World Bank noted that a range of financial services were necessary to support workers at factories that were closing in countries such as Canada, Poland, and China. These included temporary private and public sector cash transfers, unemployment insurance, and early access to retirement programs.[11] There are also examples of financial products incentivizing behaviors with negative environmental outcomes that will need to be altered in the future. For instance, the Plano Safra rural credit program in Brazil provides credit at below market rates to small, medium, and large farmers, many of whom are engaged in negative environmental practices like deforestation. Redesigning products like these could help to promote positive environmental outcomes while also supporting farmers.

Improving resilience and adaptation through financial services

Systems change is a process which will occur in the medium- to long-term. In the short-term, financial services can support low-income households to improve their resilience to climate shocks. Before a shock, low-income households can prepare in a variety of ways, such as improving housing, diversifying their livelihoods, adopting climate-resilient business practices, and accumulating financial resources to respond to shocks when they happen. After a shock, low-income households need to respond to food insecurity, livelihood disruption, loss of assets, and increased health and safety risks. In addition to their pre-shock preparation, low-income households may seek to draw in other household and community resources to boost their resilience. Households may also choose to migrate to areas less exposed or better prepared to respond to climate events.

There is broad evidence of the critical role financial services play in helping households respond to shocks, particularly around the role of person-to-person (P2P) and government-to-person (G2P) cash transfers in helping households

There are numerous demand-side and supply-side challenges that need to be studied to maximize the utility of financial services.

survive in crisis environments. Studies have shown that P2P and/or G2P transfers have helped households respond to various weather events in Kenya, earthquakes in Rwanda, and rainfall shocks in the Philippines.[12] A large body of impact evidence makes clear that savings is also a powerful financial tool in these environments. For instance, Innovations for Poverty Action summarized the evidence supporting the role of savings in preparing for shocks. For formal financial services, they found evidence that low- and no-fee savings accounts helped households self-insure against shocks, and there was strong evidence for the role of behavioral approaches (such as commitment savings devices) in promoting savings for shock mitigation.[13]

There is some positive evidence on insurance and credit as well. Weather-indexed crop and livestock insurance can promote investment by smallholder farmers in communities likely to experience extreme weather events, and a review of the evidence by Innovations for Poverty Action articulates examples from sub-Saharan Africa of credit products encouraging smallholder farmers' investment in farm inputs and technology. In addition, a limited number of studies have shown households with access to formal credit had better short- and long-term outcomes following a climate crisis compared to similar households without access to credit.[14,15]

The evidence makes clear the promise of financial services in supporting low-income households' response to climate change, but there are numerous demand-side and supply-side challenges that need to be studied to maximize the utility of financial services. Additionally, the role of government in creating an enabling environment and providing safety net protections needs to be explored.

On the demand side, low-income households have less access to, and are less likely to use, formal financial products compared to middle- and high-income households.[16] This is also true of climate-related financial tools. For instance, the evidence shows that despite the effectiveness of weather-indexed insurance products, voluntary take-up is too low to sustain a market for them without subsidy.[17] There are numerous product design challenges that may be contributing to this. Gender bias in program and product design persists, making interventions less effective for women,[18] and multiple studies have articulated the need for improved financial capability to promote uptake and regular, effective use of financial tools.

On the supply side, there is little visibility into the range of products and financial service providers offering climate-focused financial products to low-income households. This hinders industry learning about which products or services are working and why. This opacity contributes to financial institutions in emerging and developed markets being admittedly unsure about how to best design their products to support households' resilience to climate change.[19] Providers will need to learn which innovative models work, as analysts expect climate risks to create new challenges for pricing credit and insurance products, among others. For instance, in 2019, Munich Re, the world's largest reinsurance firm, warned that climate risk could make insurance premiums unaffordable for most people across the globe.[20]

Governments play a critical role in creating an enabling environment to facilitate the distribution of effective financial products to low-income households mitigating the effects of or adapting to climate change. However, there are limited evidence-based best practices for responding to this situation. For instance, unemployment insurance and other social safety nets have proven to be important tools in supporting livelihoods during systems change. But such benefits are less common in emerging markets than in advanced economies, and they are also less effective at reaching low-wage and informal workers. How can governments establish policy and programs to better protect the livelihoods of these workers? Are there innovative safety net systems that they could use, or are other policy tools effective?

Areas of CFI Focus

IMPROVING OUR UNDERSTANDING OF DEMAND-SIDE NEEDS, IMPACTS, AND CONSTRAINTS

CFI will synthesize the evidence and develop an evidence gap map, identifying which financial products and services help low-income households effectively respond to climate change. This is a critical early step as it will inform the industry of what is known and unknown about this topic. It will also serve as the foundation from which CFI will operate, helping us identify which evidence gaps need to be filled. As a second step, CFI will conduct qualitative and quantitative research with consumers to establish a baseline understanding of consumers' experience with, and financial needs for, mitigating and adapting to climate change.

UNCOVERING PRODUCT INNOVATIONS AVAILABLE IN THE MARKET

On the supply side, CFI will leverage the expertise acquired through its integration with MIX to shed light on emerging patterns in climate-related finance and help catalyze investment in evidence-based solutions for low-income households. Categorizing and sharing data on these financial products will spur innovation in the sector, facilitating better products.

PILOT TESTING TO TEST INNOVATIONS AND SCALE LEARNING

Equipped with impact evidence about the products that are already available, CFI will then partner with providers, policymakers, and other actors to test new product and policy interventions that could accelerate the transition to sustainable and green livelihoods and reduce climate-related risks for low-income people.

Intended Outcomes

- ↗ Policymakers, investors, and FSPs understand the best key performance indicators to track for their respective spheres of influence.
- ↗ Investors identify, invest, and scale climate-informed technologies, products, and services.
- ↗ FSPs understand and believe that it is good business to offer inclusive, climate-related financial services to low-income populations.
- ↗ FSPs understand the emerging demand for financial products supporting adaptation and mitigation to climate change for low-income households, MSMEs, and farmers.

Women's Financial Inclusion

Support for women's financial inclusion has been ongoing for many years, yet real progress has not yet been achieved.

Full financial inclusion is a steppingstone to gender equality, with increasing evidence illuminating the ability for financial inclusion to upend entrenched gender inequalities, allowing women to enter spheres from which they have been otherwise excluded. Women who have access to bank accounts, savings mechanisms, and other financial services may be better able to control their earnings and undertake personal and productive expenditures.[21] They may also be able to have substantially more autonomy about how they use their time, whether for employment, leisure, income-generating activities, or education.[22] They may be better able to grow their businesses, to choose where and how to work and to raise their productivity and earnings and reduce their chances of living in poverty.[23] They may also have more options to leave abusive relationships and experience reduced exposure to intimate partner violence.[24]

Despite the evidence pointing to the many economic and social benefits of women's financial inclusion, women continue to be excluded or underserved by the financial sector at a much higher rate than men. Demand-side barriers are well documented and include higher time burdens, lower levels of education, less access to technology and information, mobility limitations, lack of identity or collateral, and restrictive cultural norms. On the supply side, providers often do not perceive women as economic actors or potential customers, and often lack the data or capacity for gender-sensitive design. At the provider and policy levels, data to understand women's financial behaviors, needs, and goals is lacking, which hampers both product and policy design.

Support for women's financial inclusion has been ongoing for many years, yet real progress has not yet been achieved for several reasons. First, demand-side barriers are persistent and often symptomatic of larger social barriers to the role of women. Second, women's financial inclusion interventions have focused narrowly on product-based efforts and have only recently expanded to address the context in which women live. While designing products that are useful for women is essential, the larger policy and norms setting must also be addressed to create an environment in which women can access, trust, and make use of well-designed products.

CFI's research has identified three systemic barriers that require attention in order to unleash the full potential of women's financial inclusion to contribute to gender equality: social norms, the digital divide, and data gaps.

Social Norms

Norms refer to unwritten rules and behaviors; in this case, those that determine how men and women govern social behavior, perceptions, and expectations. In the inclusive finance field, the focus has been on using "norm-aware"[25] tactics rather than "norms-transformative" models. This approach, while useful, has relegated solutions for women as parallel to the formal financial system. Norms affect demand-side issues that influence a woman's capacity to participate in the financial system (e.g., allowing girls to go to school and in turn, literacy, women's ability to work, girls/women's ability to own and use a phone, etc.). They also influence supply-side issues that influence how providers engage with girls and women (discrimination, ID requirements, gender of agents, etc.). Finally, norms can also be codified into laws that shape the financial sector and other laws that govern the economy.[26] Over the past several years, there has been increasing awareness that the financial services

industry could address norms barriers through transformative ways, by trying to adjust the underlying behavior or belief system that relegates women to an informal and often inferior channel. Norms programming can be seen as the "last mile" to achieving progress for women's financial inclusion.[27]

Digital Divide

According to the GSMA 2020 Mobile Gender Gap Report, women in low- and middle-income countries are 8 percent less likely than men to own a phone and 20 percent less likely to use mobile internet, which means that in low- and middle-income countries there are 300 million fewer women accessing mobile internet than men. The primary barrier to mobile ownership and internet access in Africa and Latin America is affordability, followed by low levels of digital literacy for both men and women. In Asia, GSMA's latest data shows that literacy and skills are cited as the top barriers over affordability.[28] While these barriers apply to both men and women, they threaten to exacerbate the inequalities women already experience.

Although mobile phone ownership is a necessary first step for women to access digital financial services, it is important to note that it does not guarantee that women will use it to access financial services. Gallup data shows that phone ownership by women is significantly higher than account ownership. Eighty percent of women in developing countries have their own mobile phone, but only 50 percent of women in developing countries have an account with a mobile money provider or with a financial institution such as a bank.[29] This disconnect between mobile ownership and account ownership underscores the importance of building financial and digital capability for women, in addition to higher order infrastructure and policy changes that enable more phone ownership by women. It also indicates that CFI's agenda for women's financial inclusion must meet women at different points along the spectrum of digital access and literacy.

The Persistence of Data Gaps

Historically, data on low-income women has been of limited availability or poor quality, often making such women invisible to financial service providers, policymakers, and the formal economy. Banks and other formal financial service providers often do not capture sex-disaggregated data and thus do not see whether they are serving or not serving the women's market. Demand-side sex-disaggregated data is also lacking or of limited utility at the global and national levels. The Global Findex dataset can be analyzed by gender and provides high-level measurements of access and usage, but this data cannot tell us much about country-level dynamics. Various countries have commissioned national level FinScope surveys and a few have pioneered further collection of sex-disaggregated data, but the surveys are structured differently depending on the country and are thus non-comparable across geographies.[30] Beyond these standard financial inclusion datasets, increased prevalence of time use surveys and other instruments to capture data beyond the household level are needed to understand women's unpaid labor and economic lives. New initiatives such as the Denaru Declaration from the Alliance for Financial Inclusion (AFI) and the Women's Financial Inclusion Data Partnership at Data2x show promise to fill these gaps, but require investment to ensure that providers and policymakers will be able to access and make use of data needed to measure financial inclusion outcomes for women.

Areas of CFI Focus

Women's financial inclusion is a topic which has attracted significant attention in recent years and our collective understanding on the barriers is well defined. CFI's contribution will build on its decade-long expertise in consumer protection and customer capability and leverage the work of FinEquity, SEEP, CGAP, and many others in this space. Throughout CFI's efforts, we will work to build a more nuanced understanding of the sub-segments of women. Women are not a single market segment; a deeper understanding of the lives of women—for example, their livelihoods and the social norms that shape their lives—will help inform their financial service needs and how the sector can better serve them. To that end, CFI will pursue activities in the following areas:

IMPROVING DIGITAL AND FINANCIAL CAPABILITY FOR DIFFERENT SUB-SEGMENTS OF WOMEN

For informal enterprises, digitalization, particularly the use of e-commerce, presents a unique opportunity to both support women's businesses as well as address barriers that may prevent women for using these platforms. CFI will explore how digital platforms can play a significant role in leveling the playing field for women-run, informal micro and small enterprises (MSEs) by partnering and pilot testing models that platforms can use to embed digital and financial capability as part of their onboarding models. For women smallholder farmers, lower levels of financial and digital literacy increase their perception of the risks associated with digital financial services (DFS). Increasing access to information and financial capability is a crucial step to making DFS work for female smallholders. CFI plans to conduct research on and pilot test different DFS onboarding approaches for rural women to determine which approaches increase financial capability and advance consumer protection. This will entail working with agent networks and aggregators to document different customer onboarding approaches and measure their impact on financial capability of rural women.

For unemployed women, cash transfers remain one of the most common tools that governments and international organizations around the world have at their disposal to provide immediate and direct alleviation of poverty and vulnerability. Given that cash transfers are generally designed to target women beneficiaries, cash transfers have strong potential to create a pathway for women's financial inclusion, particularly as they are increasingly being delivered digitally. CFI has established a global partnership with the World Food Programme (WFP) to undertake gendered risk assessments and jointly design and test different models to improve consumer digital and financial capability, as well as incorporate consumer protection standards into their cash transfer programs.

The remaining constraints to women's financial inclusion cannot be solved by simple product tweaks or a switch to a digital channel.

IMPROVING OUR UNDERSTANDING OF THE POLICY DRIVERS FOR PROGRESS

There is substantial knowledge on designing financial services to better serve the needs of women, with organizations such as Women's World Banking and the Financial Alliance for Women serving the microfinance and banking sectors with know-how, training, and tools. Over the past several years, there has also been a great deal of attention on the role of data to drive women's access with initiatives such as Data2X. More recently, organizations like AFI and United Nations Secretary General's Special Advocate for Inclusive Finance (UNSGSA) have aimed to focus the attention of policy makers on the issue, and there is a growing body of case studies and hypotheses around the policy drivers for improving women's access to financial services. AFI's Denaru commitments have resulted in many more countries identifying women's financial inclusion as a priority in their financial inclusion strategies and putting in place systems to measure progress.

Despite the attention on women's financial inclusion, there is limited policy evidence on what works. In fact, in the last round of Findex, we saw a widening of the gap in women's account access in several countries (e.g., Bangladesh, Pakistan).[31] What should governments prioritize to advance women's financial inclusion? CFI's research will build on its decade of work with the EIU's Microscope and will analyze which policies are driving better outcomes for women. Additionally, CFI will partner with policymakers to design and test potential policy interventions that are tailored to women's needs and social context, including consumer protection regulations and consumer education.

TESTING MODELS TO ADDRESS SYSTEMIC BARRIERS OF WOMEN'S FINANCIAL INCLUSION (I.E. STARTING WITH NORMS)

There is increasing evidence that many of the remaining constraints to women's financial inclusion cannot be solved by simple product tweaks or a switch to a digital channel. Evidence from mobile money has shown there are new obstacles linked to digital literacy or norms around phone ownership that are just as difficult to change as the constraints they were intended to solve. Thus, there is a need to embed an understanding of norms and norms-transformative design in the development of new policy approaches. CFI will undertake landscaping on social norms evidence and recommendations for future research, and will gather the evidence on initiatives that have embedded norms-transformative work in their design in the inclusive finance field. Future pilots and research will embed these lessons and will test ways to embed norms transformations within the launch of DFS deployment, in partnership with ecosystem actors such as governments, civil society organizations, and providers.

Intended Outcomes

- Policymakers know that men and women have different financial service needs and they understand the role they play in catalyzing gender norms-transformative services.
- Donors and investors know how to assess gender norms-transformative approaches.
- FSPs understand that they need to design and offer different products and services to men and women.

Consumer Protection in the Digital Economy

Technology continues to transform the way financial services are delivered, creating opportunities to bring services to many previously neglected or underserved people worldwide. In addition to increased access, new business models and products also hold the promise of lower costs, increased convenience, and a reduction of the risks linked to transacting in cash.

While digital transformation is taking place across the financial sector and microfinance institutions increasingly offer products over digital channels, this era of innovation has also ushered in a new set of providers, including platforms, e-commerce giants, fintechs, and pay-as-you-go providers. We also see finance increasingly embedded into other products, such that health care providers, retailers, and others have become de facto financial service providers.

However, new technologies and business models also bring new risks that require attention. The shift in customer engagement from human interaction to, for example, artificial intelligence and machine learning, has profound implications for cybersecurity, fraud, and the experience and protection of vulnerable people. Heightening the challenge is the speed of innovation and the fact that many of these business models are beyond the scope of existing banking regulation.

CFI's work on consumer protection has historically focused on promoting provider self-regulation through codes of conduct. Smart Certification was used to validate provider practices and investors were encouraged to require Smart Certification as part of their due diligence practices. Over the course of the program from 2009 to 2020, more than 135 financial institutions, collectively serving more than 62 million low-income clients in 42 countries, were certified for adhering to the Smart Campaign's Client Protection Standards.[32]

The effectiveness of the Smart Campaign hinged on a clear influence model, where provider reputation and impact investor influence served as critical levers of influence on provider practices. With the increasingly complex inclusive finance landscape, the levers of influence

New technologies and business models also bring new risks that require attention.

are no longer the same as with microfinance providers, where access to capital was the main constraint linked to their growth. CFI's influence model must evolve to integrate the levers of influence relevant for the rapidly evolving set of providers. The diversity of the providers and the fact that investors yield potentially less influence on e-commerce and platform players implies that regulation and supervision must be a more prominent component in the drive to improved consumer protection going forward. Other approaches to wield influence must also be explored, including the continued use of voluntary codes of conduct, consumer-driven approaches, or other industry actors.

Evolving evidence on risks

A recent CFI study of more than 1,000 mobile money customers in Rwanda found that almost 40 percent of respondents felt fraud was a serious issue, and 10 percent had been victims of fraud themselves.[33] Analysis of other research on consumer risks in digital lending finds that risks range from lack of clarity about effective informed consent to increased risks from complex value chains where the responsibility for managing the customer relationship may fall through the cracks.[34]

Digital credit has received significant attention, given the exponential growth of digital credit offerings and associated risks for vulnerable clients. Global trends in Europe, U.S., U.K., and China are showing rapid growth, increasing from $11 billion in 2013 to $284 billion in 2016.[35]

The number of new digital accounts opened is unprecedented.

While data on the overall growth of the digital credit market in emerging and developing economies is hard to obtain, the expansion of the digital credit market in Kenya has been well documented and shows worrying signs of rapid growth. Recent studies show that one in four Kenyans has taken out a digital loan,[36] with close to 50 digital credit providers crowding the market. From 2014 to 2018, the percentage of digital loans as a proportion of total loans from formal borrowers has more than doubled, increasing from slightly over 40 percent to over 90 percent.[37]

Surveys of digital borrowers in Kenya and Tanzania and the review of transactional and demographic data of over 20 million digital loans in Tanzania reveal that irresponsible lending and poor transparency have resulted in high default rates and late payments on digital loans.[38] Data also shows that default rates are high among low-income consumers, digital credit is frequently used to cover basic daily consumption and overall consumption smoothing, and loan terms and conditions are often confusing and lack transparency, which could contribute to high default rates and delinquency.[39]

The rapid digitization of cash payments linked to COVID-19 presents another set of emerging potential risks. According to World Bank estimates, 429 cash transfer measures—digital and non-digital—were taken across 166 countries by December 2020, and government-led social assistance payments in response to COVID-19 have globally benefited 1.1 billion people.[40] Countries with well-developed social protection systems, payments infrastructure, and access to digital financial services have fared much better in getting these payments out quickly, but even they have struggled to rapidly open digital accounts for some of their more vulnerable populations. The number of new digital accounts opened is unprecedented, but it is unclear how governments have informed beneficiaries of their rights and obligations linked to these new accounts.

Important questions arise linked to recipients' understanding of what is required to maintain these accounts, whether they understand how to cash out, their understanding of the fees linked to transactions, and whether they understand how to or if they need to close these accounts in the future. Furthermore, given the limitations on using these accounts for day-to-day transactions, particularly in areas where merchant acceptance remains low or if customer capabilities limit usage, there are the added COVID-19-related risks posed by any agent-related interactions if and when those are required for the cash-in and cash-out linked to these accounts.

Regulation and Supervision

The World Bank's Global Financial Inclusion and Consumer Protection Survey (2017) covers financial authorities in 124 jurisdictions that represent 90 percent of the world's unbanked adult population. Although over 95 percent of responding jurisdictions have some form of legal framework for financial consumer protection, the survey indicates that many jurisdictions have overlapping, conflicting, or incomplete legal frameworks for financial consumer protection.

For regulation to be effective, the role of market conduct supervision is critical, yet continues to lag in its development. Less than 60 percent of supervisors globally engage in market monitoring, and less than 30 percent of jurisdictions report undertaking mystery shopping or conducting consumer research to inform their supervisory functions.[41] Commonly reported supervisory activities for entities tasked with financial consumer protection include onsite and offsite examinations, data collection from FSPs (e.g., on fees or complaints), and market monitoring.

Beyond supervisory capacity and tools, many new business models delivering digital financial services fall outside the purview of financial sector regulators. Further complicating the issues on supervision is that consumer financial protection may be handled by a dedicated department or staff unit within the central bank, a prudential regulator or a general consumer protection regulator, or even spread amongst several agencies, each charged with overseeing different types of products, channels, or providers.[42] Regardless of the model, there is a recognized need for financial sector and telecommunication regulators to collaborate to improve oversight of financial services that rest at the intersection of these sectors.

The role of market conduct supervision is critical, yet continues to lag in its development.

Areas of CFI Focus

Consumer protection remains an evergreen challenge that must evolve to reflect new risks, new providers, and growing capabilities of regulators and supervisors. As the inclusive finance landscape evolves, so too must our approaches to advancing consumer protection.

RESEARCH ON EVOLVING RISKS AND INNOVATIVE CONSUMER PROTECTION PRACTICES

The rapidly changing inclusive finance landscape requires an active research agenda to monitor, generate insights and provide analysis, and advocate for effective measures that protect consumers against the evolving risks. CFI's efforts always take a client lens by first working to understand risks from the customer's perspective, and then working with stakeholders to test and document potential solutions to mitigate and protect customers from risk.

One immediate research opportunity is the increased use of digital cash transfers in response to COVID-19, which brought millions of consumers into the digital finance ecosystem in record time. While in the long term this could lead to improved adoption of digital financial services, the speed of this transition raises many questions regarding whether the governments and providers put in place sufficiently robust protections for consumers who may have never transacted digitally. What are the risks due to technical failures (i.e. connectivity) and how have regulators ensured that beneficiaries are provided with redressal rights? With millions of beneficiaries receiving transfers and anecdotal evidence of fraud, what has been the type and incidence of fraud in various markets? Have grievance resolution mechanisms been put in place and do beneficiaries understand their rights? What innovative solutions have been used by regulators to support consumers (e.g., hotlines or chatbots to facilitate help or answer questions)? Have governments integrated digital and financial capability into government cash transfer programs and have these been effective?[43]

Digital cash transfer is just one of many products that require attention. CFI will continue to explore emerging risks and identify other areas for research, including, for example, risks emerging from products such as insurance and leasing (pay-as-you-go models).

TOOLS FOR MARKET CONDUCT

As technology is changing the provision of financial services, it is also an important tool for regulators and supervisors to monitor concentrations of risk in a market. The increasing use of technology to gather and analyze market intelligence, combined with the industry digitalization trend, opens the door for a transformation of the relationship between financial customers on the one hand and regulators and supervisors on the other. This relationship, which to date has mostly been "mediated" by the financial service providers, can now be a direct dialogue, one that can ultimately improve the customer experience and democratize the financial sector by bringing the users' voice into the development of the financial sector policies. Much of the recent work on regulation technology, or RegTech, and supervisory technology, or SupTech, has prioritized the data reporting and compliance nature of market conduct. There are some attempts to utilize the power of these tools linked to consumer protection. CFI will partner with regulators and supervisors to test new and innovative technologies, such as chatbots or algorithmic audit tools, to allow supervisors to observe directly from the consumers on their experiences with providers.

Intended Outcomes

- ↗ Policymakers believe that servicing low-income people is politically in their interest.
- ↗ Policymakers believe that consumer protection is necessary for sound market development.
- ↗ Policymakers understand innovations that serve low-income people (e.g., machine learning, blockchain, articicial intelligence).
- ↗ Donors believe issues relating to trust and consumer protection for low-income consumers is a priority and they have a role in funding research.

Data Opportunities and Risks

The digital economy is creating an unparalleled amount of data in its trails. Data is generated each second from internet searches, online purchases, texts, tweets, and Facebook posts, not to mention financial transactions. For inclusive finance, the increased volume of data on individuals brings new opportunities to understand customers' behavior and shape new, more suitable and safe products. Fintechs and a growing number of other financial service providers are using predictive algorithms, which are often closely guarded trade secrets, to estimate credit risk. Especially in an environment with less face-to-face interaction, this data is in large part how the provider "sees" the customer.

Ensuring that the digital economy evolves in a way that is both inclusive and provides appropriate consumer protections is critical. At CFI, we view opportunities and protection as two sides of the same coin—since any use of data will involve risks to guard against.[44] For example, a December 2019 New York Times investigation revealed that popular weather and gaming apps captured and shared unnervingly detailed geotracking information with data tracking companies. Although the data was technically anonymous, the Times' reporters had no problem figuring out the identities of many of the "dots" by looking at daily routes and cross-referencing with social media. These concerns look eerily prescient in light of the huge data protection and privacy questions emerging in the wake of the COVID-19 pandemic.[45] The pandemic perfectly highlights the tradeoffs between opportunity and risk: the public health benefits of collecting patient data and contact tracing efforts are clear, yet they must be weighed against the potential privacy risks for citizens. Effective mitigation measures must be taken into account for the benefits to outweigh the risks.

Data protection is an issue with global importance—faced by banked and unbanked populations alike—but is especially important for vulnerable populations. As financial service providers increasingly turn to data for a growing number of use cases, we have seen new industry guidelines and standards emerge, such as the OECD Guidelines on the Protection of Privacy and Transborder Flows of Personal Data, the GSMA Mobile Money Certification Program, the Asia-Pacific Economic Cooperation (APEC) Privacy Framework, as well as new data protection laws and regulations, including the draft India Data Protection Bill and the General Data Protection Regulation (GDPR).[46, 47, 48, 49] These new guidelines and policies seek to lay out practices, requirements, and rights that flow from key principles of consent, purpose limitation, data minimization, accuracy, storage limitation, integrity and confidentiality, and accountability.

Proliferation of Data

Today, among the world's poorest quintile of households, almost 70 percent own mobile phones, a higher rate than has access to potable water or toilets.[50] The data on individuals collected through their phones is vast and diverse: SMS volumes, call detail records (CDR), top-up and mobile money transactional history, social networks, social media, and utility payments, to name a few. Additionally, cost-effective, high-quality satellite imagery has contributed troves of new information that can be parsed to understand poverty measures such as roof material, road quality, land plot size, crop yield, etc.[51]

Providers are actively leveraging digital data in their operations through the creation of new data, better utilizing and interpreting existing data, digitizing data collection that was previously analog, or working with partners to gain access to data.[52] The financial inclusion applications of this data explosion are endless, and include but are not limited to: prospecting, relationship-deepening, small business lending, credit scoring for thin-file consumers, well-timed nudges for saving, personalized product offers (e.g., insurance based on individual behavior), fraud management, treasury and cash management, and portfolio and market monitoring. Imagine one day soon that lenders, using machine vision through a tool like Google's Tensorflow, could take photos of a small shop to determine its creditworthiness.[53] Or picture a government's financial inclusion strategy leveraging satellite imagery to accurately identify and target communities for interventions.[54]

The arrival of tech giants such as Facebook, Google, Apple, and others into the fintech space opens up new avenues for financial inclusion, as they crunch vast datasets and leverage user networks and strong analytics to offer payments, insurance, credit, and money management at scale.[55] For instance, in China, Alipay (which has a longer fintech pedigree than the aforementioned platforms) launched a

> **There is also an urgent need for safeguards for the voluminous, rapidly proliferating data that is now regularly collected on individuals.**

money market fund (MMF) called Yu'ebao which became the biggest MMF in the world with over CNY 1 trillion in assets (about USD$150 billion) and more than 350 million customers.[56] The scale at which these platforms work has the potential to transform the financial inclusion landscape.

At the regulatory level, data-sharing frameworks such as open banking require financial service providers to share their customers' data with authorized third parties—most prominently in the European Union through the recently updated Payment Service Directive (PSD2) as well as regulation in the U.K., Mexico, and India. These frameworks allow consumers to ask their banks to share financial data with third-party apps and other parties in order to initiate payments.[57] Open banking could enable the growth of products and platforms that help people smooth volatile incomes and improve financial health.[58] Matching the growth in available data has been a parallel surge in processing capabilities, with the rise of cloud computing, artificial intelligence, and other advanced analytics.

Data Practices and Protection

Opportunities to use data for financial inclusion merit enthusiasm, but there is also an urgent need for safeguards for the voluminous, rapidly proliferating data that is now regularly collected on individuals. The old guardrails of data protection are disappearing, due in part to the amplified velocity and volume of data collection and transmission, intelligent processing and storing capabilities, as well as the entrance of new players. Risks are especially acute for low-income individuals who often have low digital capabilities.

There is concern that low-income consumers face a "perfect storm" of privacy issues as they are more likely to be targeted for surveillance but also because they have less knowledge on how to self-protect their data and privacy. While some might assume that low-income consumers don't always prioritize privacy,[59] the reality is a more complex combination of choice architecture, awareness, capability, and need.[60] In 2016, the Omidyar Network conducted a survey of 300+ digital credit users in Kenya and Colombia. More than 80 percent of respondents considered emails, calls, and texts as personal and sensitive data and roughly 70 percent considered personal financial and medical data private. However, more than 70 percent of respondents, in order to facilitate accessing a digital loan, would share data on mobile phone usage and bank accounts, while 60 percent would share data on social media activity.[61] Of course, the digital credit products on the market already utilize much of this type of data, with Tala, for example, claiming to leverage more than 10,000 data points in its underwriting, and consumers seemingly simply unaware.[62]

As noted earlier, although there is optimism on the power of individual data, there is also understandable concern about data protection and privacy. As governments ask mobile network operators, big techs, and others to share their data in their efforts to track and combat COVID-19, for example, the implications on individual privacy are unclear. Even when metadata is converted into aggregated non-identifiable data, there are often risks of re-identification.[63] It is crucially important to put safeguards on this process, including: a) limits on the purpose for the shared data, b) limits on data retention, c) restrictions on non-anonymized, re-identifiable data, and d) the creation of a data trust that only verified and competent parties can access.[64]

Emergence of Data Rights Frameworks

Amid the emerging regulatory response is a growing call for frameworks that give people rights to determine how their data can be used.[65] For example, someone with diabetes doesn't own that data (that is, doesn't own the information that they have diabetes), but they can have the right to protect themselves from the misuse of that data, for example, by insurance providers who may discriminate against them on that basis.[66]

New data rights under the GDPR, such as *data portability*, have the aspiration of shifting the power balance from big tech companies to consumers themselves. The hope is that consumers will be empowered with choice to determine with whom to share their data and how it can be used. This would enable them to switch between similar services, make data available to related or complementary services, or make data available to an entirely different provider or organization.[67] In practical terms, this means that, upon request, companies must make users' data available for transfer in an interoperable format.[68]

While the concept has been covered by regulation, most notably in the GDPR and the California Consumer Privacy Act (CCPA), implementation is nascent. The big tech industry is responding to (and perhaps trying to preempt) regulation through initiatives of their own, such as the Data Transfer Project (DTP).[69] DTP, which involves Apple, Facebook, Twitter, Microsoft, and Google, intends to build a common framework with an open-source code that can enable user portability between platforms. A recent example of a DTP project, a photo transfer tool, was released in December 2019 by Facebook. It's worth noting also that Facebook, among others, has raised concerns around the interplay between data portability and data privacy and security, especially as it relates to data involving other people.[70]

Although data rights, such as data portability, may appear to be less applicable to developing countries, it is clear that data will also continue to grow exponentially there, financial data very much included. Here, too, we see more quickly than we might have predicted the effects of the pandemic as digital financial service penetration rates accelerate in response to the challenges presented by worldwide lockdowns. Virtually overnight, for example, money transfer outlets, the shops upon which migrants depend to send remittances back home, were shuttered. An industry that for years has decried the expense and inefficiency of the dominant over-the-counter, cash-in/cash-out remittance model saw digital remittances increase dramatically.[71] Pandemic-driven digitalization will continue to increase the pace at which many countries will go from being data poor to data rich, making data rights all the more relevant in empowering consumers to use their data to access a growing range of financial services. In addition, data portability empowers individuals to have the final say in how their data is used—an especially relevant right in the context of contact tracing and telemedicine.[72]

In India, the groundwork for open banking is being laid by way of a new account aggregator framework, which is currently focused uniquely on the financial sector. This will allow consumers to consent to specific types of financial data that they would like to share with specific financial service providers in a secure and time-bound fashion. The Reserve Bank of India has issued in-principle licenses to seven companies to become account aggregators, the specialized intermediaries facilitating the consent-based data sharing. Two of them have now received full operating licenses and are set to launch their platforms this year. This emerging account aggregator ecosystem could serve as a live learning opportunity for CFI to pursue a multi-phased study of the relevance of data portability in a developing country context. Other efforts are exploring the application of data portability for specific populations, such as the Making Cents digital identity work with Syrian refugees in Jordan and Lebanon.[73] The evolving landscape for data rights and the role of the government and private sector as well as individuals will play an important role in shaping the future of consumer protection in the digital age.

Areas of CFI Focus

This topic of data risks and opportunities is vast, and many organizations have contributed to advancing our collective understanding on the issues. CFI's contribution will build on its decade-long expertise in consumer protection and will leverage the work of Omidyar, CGAP, and many others in this space. CFI is proposing to focus in the near-term on three priority sub-topics in the data space. These are:

TRANSPARENCY ON DATA PRACTICES

Today, there is limited visibility into the type of data that financial service providers are collecting and using. It is also difficult to assess from public sources how providers are securing and treating that data. CFI will use a variety of means to shed transparency on data practices of digital providers, including surveys, awards (such as Inclusive Fintech 50), case studies, or direct partnerships with providers. Such research will inform CFI's efforts to advocate for effective policies to govern data privacy and rights.

RESPONSIBLE ALGORITHMS

Although algorithms and automation do not guarantee discrimination, they build on inherent assumptions which may themselves be biased. However, there is early testing to build algorithms that can be explicitly written and monitored to avoid discrimination. For example, a data scientist can design algorithms so that the variable of religion (or variables closely correlated with religion) are excluded when calculating a predictive score. Unfortunately, in developing markets, norms and regulations do not yet exist to prohibit the inclusion of certain data in algorithms, and there are few incentives to prod providers to open up their black boxes.

At a time when the use of data is becoming ever more widespread in inclusive finance, it is critical that we better understand and help guide the ways in which financial service providers approach the use of algorithms and automated decision-making for low-income customers. CFI is conducting landscaping research to build the knowledge base on algorithmic bias in financial inclusion, and provide recommendations for providers, investors, and policymakers on the role of safeguards in preventing against algorithmic bias in business decisions.

EMERGING FRAMEWORKS FOR DATA RIGHTS

Governments around the world have begun to enact regulations to govern consumer rights when it comes to their personal data, including the right to access, correct, delete, and port their data. CFI will monitor emerging frameworks around the world to build an understanding of the various models, tools, and enforcement mechanisms being put in place, and conduct research on the impact of these frameworks for low-income consumers. Of particular interest is the prospect of the GDPR-style law under consideration in India. This has the potential to serve as a model for other emerging markets, yet questions remain about the economic costs and benefits of such a framework in the Indian context. CFI will document lessons to build the evidence base of what works, and work with regulators to advocate for solutions that protect consumers while advancing financial inclusion.

Intended Outcomes

- ↗ Regulators and supervisors believe in a balanced, risk-based approach to assessing data risks.
- ↗ Investors believe that responsible data practices are in their interest as much as in the interest of customers.
- ↗ Donors invest in evidence-based solutions that support responsible data practices and support the capacity building of market actors (clients, providers, investors, regulators).

Conclusion

If 2020 taught us one thing, it is how rapidly the world can change. We began the year filled with the promise of a new strategy and agenda, and quickly found ourselves immersed in a global crisis the likes of which had never been seen before. Firmly rooted in our commitment to improving the lives of low-income people, CFI is committed to adapting our agenda to address the most pressing needs of those we intend to serve. In launching this strategy, we recognize that this will be a living document, likely to change over the duration of the strategy as the world continues to respond to and recover from the COVID-19 pandemic.

While COVID-19 threatens to derail progress in reducing global poverty, it is more important than ever to remain focused on improving outcomes for low-income people by helping to mitigate the economic and health impacts of the pandemic and working to "build back better" by seizing opportunities to improve equitable access to economic opportunities.

As we embark on this new strategy, we recognize that these ambitious plans will require partnership and collective action, and we look forward to working together with other research organizations, policymakers, donors, investors, and FSPs to achieve meaningful impact. We look forward to collaborating with all stakeholders who share the vision of advancing inclusive financial services, and to regularly reporting what we learn along the way.

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