DVARA Research

FINANCIAL CUSTOMER PROTECTION

AN INTERIM RESEARCH REPORT

This interim report captures our ongoing work under the Centre for Customer Protection that was set up in November 2021.

Scan this code for digital version of this report.

The QR codes provided at the end of each project can be used to read more about the respective projects and their associated writings.

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ACKNOWLEDGEMENTS

We are grateful to the Bill and Melinda Gates Foundation for entrusting us with a grant under the Customer Protection Program housed at Dvara Research. We thank our advisors for the Program - Anna Wallace, Bindu Ananth, Rafe Mazer and Rajesh Bansal.

We thank the several industry experts and our technical, knowledge and implementation partners with whom we are working to solve pressing customer protection problems and from whom we are learning about the challenges faced by customers of financial services in India.

EXECUTIVE DIRECTOR'S MESSAGE

Dear Readers,

Dvara Research considers itself to be the voice of low-income households. This has been our mission for 15 years now, and during this time, we have built a strong and credible reputation in research and advocacy positions relating to financial inclusion and financial customer protection. We have worked hard to deliver thinking of the highest quality in these two domains using a systematic and multi-pronged approach. It is this approach and its impact that I would like to call your attention to, as you read this report, whose intent is to showcase our work on financial customer protection.

Research institutions like ours strive to support policy makers in their work. We share their concern for low-income households, and it motivates us to provide them with the information and analysis they need to make policy decisions. We commend India's government and her regulators for envisioning a robust digital public infrastructure for her citizens.

We recognise that policy making has played a crucial role in enhancing and expanding the access to financial services for low-income households. We also appreciate the enthusiasm with which financial service providers have innovated to accomplish the vision of policy makers. Past developments in this space such as no-frills bank accounts, a widespread agent network for last-mile cash-out access and an advanced digital payments infrastructure are fast enabling digital peer-to-peer transactions at scale. We do believe that the growth of digital financial services have a positive impact on the Indian economy, and we consider ourselves fortunate to be a part of this digital journey.

"Dvara Research considers itself to be the voice of low-income households. This has been our mission for 15 years now, and during this time, we have built a strong and credible reputation in research and advocacy positions relating to financial inclusion and financial customer protection."

In our work, we listen intently to government officials and regulators on issues they worry about, and we focus our efforts towards helping them deliver on their mandates for consumer welfare. We employ a variety of approaches, including one-on-one meetings, stakeholder conversations, participation in various fora, and the continual finetuning and updating of our work priorities and commitments to reflect the most pressing needs of low-income financial services' customers and the most impactful directions for solution-discovery.

We publish our thinking in a variety of formats, such as blogs, reports, opinion pieces and journal articles, that we make available to all stakeholders in the industry and policy-advocacy networks. In doing so, we seek to communicate to stakeholders the tremendous importance of customer protection as an integral and constitutive feature of meaningful financial inclusion.

That our contributions are valuable in this regard is evidenced by the recognition we have received from well-established domestic and international organisations in the development and financial inclusion domains, ranging from multilateral agencies, non-government thinktanks, private funders and donors, consumer advocacy organisations, as well as researchers and public intellectuals. We have earned the trust and respect of these stakeholders as the go-to experts in financial customer protection. We are invited to many fora to bring views from the customer protection lens, but more importantly we are also helping to create and expand the number of fora where financial customer protection gets its rightful place as an important theme in the larger narrative, so that the quality of discussions that ensue at those venues is thereby deepened.

We also bring in a focus on customer protection by giving it a seat at the table when we are consulted on various themes by external stakeholders, be it by researchers looking to understand the nature of problems that low-income customers face, or consumer behaviour specialists operating in the private fintech, payments and banking sectors, or members of industry bodies, financial service providers, regulators, and others.

Through a carefully chosen portfolio of impactful action-research and solution-testing, we will continue to bring our repertoire of skills and strategies to bear in raising the bar for customer protection in the financial inclusion domain. We are keen to engage far more with financial service providers to help them achieve customer safety and satisfaction, as our insights can help providers in fuelling innovative product design and delivery.

In all its research efforts, Dvara Research strives always to maintain an independent voice that speaks for the low-income household and household enterprise, and its ability to perform this function is significantly enhanced by its commitment to disseminate as a pure public good all the intellectual capital that it creates.

Sincerely,

Dr Indradeep Ghosh
Executive Director
Dvara Research

WE ARE UNTIRING ADVOCATES FOR IMPROVING FINANCIAL CUSTOMER PROTECTION OUTCOMES

Dvara Research is uniquely positioned to study the state of financial customer protection in India, and to devise solutions that will enhance customer experience and trust. We have over a decade of experience in studying and documenting the financial lives of low-income households. We have developed deep expertise in understanding the structure of the Indian financial system and the regulatory frameworks that govern it. In our thinking, we strive to also maintain a sensitivity towards the imperative for business model sustainability faced by financial service providers. As such, we occupy a unique vantage point in the financial inclusion ecosystem and possess the ability to identify levers of financial customer protection that can be commercially viable and regulatorily compliant.

Given this background, in December 2021, Dvara Research launched the Customer Protection Program to design, test, and scale customer protection solutions for meaningful financial inclusion in partnership with stakeholders. We are confident that we can become an ideal partner for stakeholders in co-creating solutions that will build customer trust and customer loyalty, thus benefiting both customers and financial service providers. We also look forward to creating significant momentum towards regulatory policies that promote customer protection.

Our past work is a testament to our optimism and confidence. In 2013, Dvara Research proposed a theoretical framework[1] for financial customer protection in India, which called for a significant shift from a disclosure-driven approach where the onus is on the customer to make the right choice, to one that is based on suitability, where the onus is on the financial service provider to ensure that the appropriate advice or product has been provided to customers. The 'Right to Suitability' was also articulated as one of the six vision statements in the Mor Committee[2] constituted by the Reserve Bank of India (RBI) in 2013, for which we served as the technical secretariat.

The Right to Suitability was later enshrined in RBI's 'Charter of Customer Rights' released in 2015. We have also made several contributions to the conceptualisation of the Digital Personal

Data Protection Bill and its contributions were recognised in the Srikrishna Committee Report (2018).[3] Lastly, Dvara Research has also collaborated with policy think tanks such as NITI Aayog to create customer protection toolkits, and conceptualise mechanisms to simplify redress in the financial sector.

Over the last three years, Dvara Research has been building a portfolio of action research projects, where the goal has been to validate or test the solutions that our theoretical work points to. The following examples are illustrative:

Testing the utility of accurate information disclosures in discouraging the uptake by risk-averse customers of high-risk investment products such as AT1 bonds.

Working alongside Gram Vaani, a Civil Society Organisation, to develop a Standard Operating Procedure to minimise exclusions in payments of social security benefits.

Collaboration with IIT Madras' Robert Bosch Center for Data Science and Artificial Intelligence to develop an algorithm that uses debt repayment data to predict over-indebtedness among low-income households. The algorithm was trained on data secured from an NBFC Partner.

Dvara Research's current work under the Customer Protection Program is unfolding in a similar manner and is significantly adding to its existing portfolio of projects.

1 Sahasranaman, George, Rajendran & Prasad, 2013, A new framework for financial customer protection in India- https://www.dvara.com/research/wp-content/uploads/2013/06/A-New-Framework-for-Financial-Consumer-Protection-in-India-IFF-Position-Paper.pdf

2 RBI, 2014, Committee on comprehensive financial services for small businesses and low-income households- https://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/CFS070114RFL.pdf

3 MEITY, 2018, A free and fair digital economy, Committee of experts under the chairmanship of Justice B.N.Srikrishna- https://www.meity.gov.in/writereaddata/files/Data_Protection_Committee_Report.pdf

COMPREHENSIVE CUSTOMER PROTECTION- OUR PERSPECTIVE

We believe that customer protection in financial services is fundamentally different from that for non-financial products and services.[4] Unlike in a non-financial product, where the outcome of a purchase is immediately visible, in a financial product, that is seldom the case. When saving or investing in a long-term retirement product, the outcome of the strategy becomes visible only in the long run. Similarly, when buying health or life insurance, the assurance of whether the claim will be settled or not, if such a situation arises, becomes known only in the future.

Furthermore, the world of financial products and services is becoming increasingly complex. The rise of digital finance is enabling an unbundling of the value chain or a modularisation of financial products and services. This benefits customers because it allows for increasing product customisation. But it also complicates the problem of choosing a suitable financial product because it greatly expands the range of product types facing a customer. The benefits of unbundling and digitisation are also counterbalanced by new emergent risks[5], most notably data misuse and frauds[6], and a potential worsening of already extant harms such as unfair conduct, inadequate information, poor disclosures and lack of transparency, and inadequate grievance redress channels.

Given these emerging trends, it is quite likely that the principle of 'caveat emptor' or 'buyer beware' will continue to be insufficient for protecting customers' interests. Financial literacy campaigns, which are essentially motivated by the same principle, are also likely to be ineffective (as they have proven to be, in the past) in producing desirable financial behaviours among customers.

As stated earlier, Dvara Research has instead consistently

4 George, May 2019, Universal conduct obligations for financial services providers serving retail customers- https://www.dvara.com/research/wp-content/uploads/2019/05/Universal-Conduct-Obligations-for-Financial-Services-Providers-Serving-Retail-Customers.pdf

5 Dvara Research, August 2017, Conference Proceedings titled Designing regulations for a rapidly evolving financial system- https://www.dvara.com/research/wp-content/uploads/2017/10/ConferenceProceedings_DvaraResearch.pdf

6 Duflo and Chalwe-Mulenga, Oct 2021, Evolving nature and scale of consumer risks in digital finance- https://www.cgap.org/blog/evolving-nature-and-scale-of-consumer-risks-in-digital-finance

championed the principle of suitability, which we see as a process attribute rather than an outcome. The requirement of suitability holds the provider accountable for ensuring that the customer's context is always carefully attended to in the process of giving advice or selling.[7] We recommend that every financial services provider follow a board-approved suitability policy that adequately protects all retail customers, especially the low-income ones.

In contrast to that desirable standard, the current financial customer protection regime in India may be characterised[8] with four specific concerns:

Product specific regulations have led to product specific restrictions stifling innovation and leading to exclusion.

The blurring of lines between the distributor and the maker of a financial product or a process is leading to opacity that makes it harder to monitor and place accountability for customer outcomes.

The regime is not uniformly applicable to all financial service providers serving a class of customers who are characterised as 'retail'.

Current supervisory mechanisms in place are inadequate to prevent and detect conduct violations, thus leading to systematic under-reporting and discovery of mis-sale, unsuitable sale, and other customer protection issues.

7 Sahasranaman, George, Rajendran & Prasad, 2013, A new framework for financial customer protection in India- https://www.dvara.com/research/wp-content/uploads/2013/06/A-New-Framework-for-Financial-Consumer-Protection-in-India-IFF-Position-Paper.pdf

8 George, May 2019, Universal conduct obligations for financial services providers serving retail customers- https://www.dvara.com/research/wp-content/uploads/2019/05/Universal-Conduct-Obligations-for-Financial-Services-Providers-Serving-Retail-Customers.pdf

ATTRIBUTES OF DESIGN AND DELIVERY OF FINANCIAL PRODUCTS THAT CAN LEAD TO MEANINGFUL FINANCIAL INCLUSION

Clearly, this state of affairs will not make for meaningful financial inclusion insofar as adequate customer protection should be regarded as a constitutive or integral feature of such inclusion.

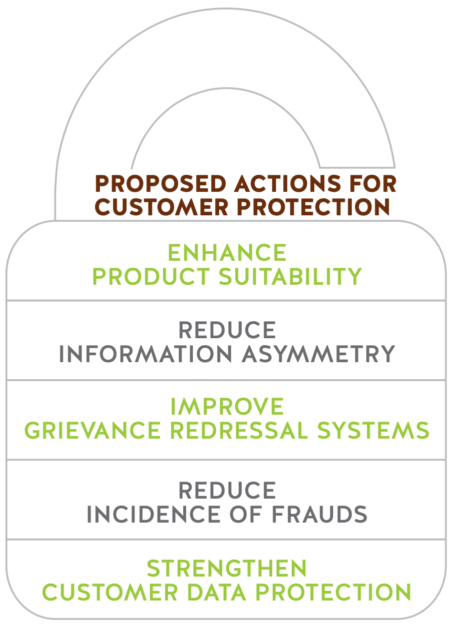
In our view, a reorientation of the system towards meaningful inclusion consists in recognising five attributes to be incorporated into the design and delivery of financial products and services:

- **Relevance**, i.e., products and services are value-enhancing for the customer.
- **Accessibility**, i.e., products and services are designed to minimise frictions in their usage.
- **Affordability**, i.e., products and services are priced in a way that customers can afford them.
- **Trustworthiness**, i.e., products and services are accompanied by an assurance that the more powerful party ex-post will not exploit the less powerful party and will honour the promises made ex-ante.
- **Intuitiveness**, i.e., products and services are well attuned to the context of the customer and the functional value that they provide is easily apprehended by the customer.

We believe that on one front, regulators and policymakers should recognise these attributes of financial products and services as being desirable and be able to tell when they are absent. Therefore, we strive to support regulators and policymakers by (i) providing them with research insights that add to their existing understanding of the financial and household sectors; (ii) developing toolkits that help them monitor markets more effectively; and (iii) making recommendations that help orient existing frameworks and guidelines towards the manifestation of the above attributes.

On the other front, financial customer protection cannot be made a reality without the participation of financial service providers. Therefore, we seek to work with them and co-create new products and processes that will incorporate the above attributes. We believe in a collaborative style of engagement with providers, which most importantly requires us to actively listen to them and remain very open to understanding their priorities and constraints. We appreciate that customer protection is the by-product of a negotiation between customer concerns and provider constraints, and that the pathway to greater customer trust and loyalty can therefore only be dialectical.

We encourage providers to undertake five actions, while remaining mindful of business model sustainability concerns.



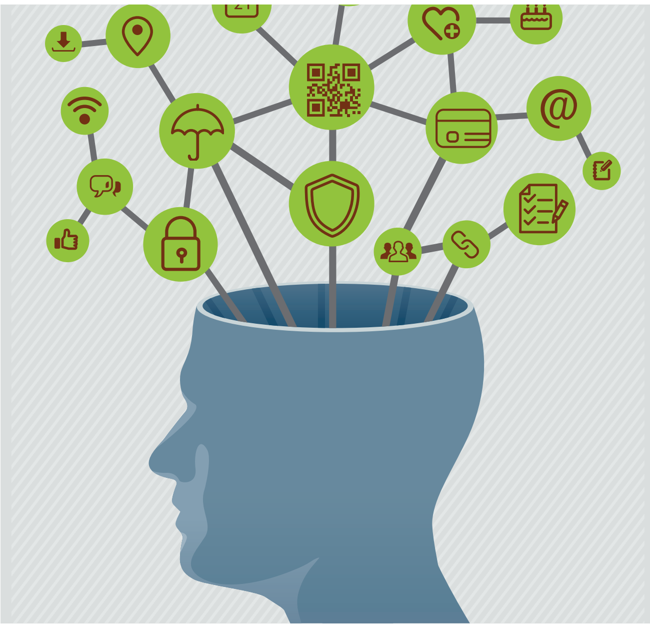
We recommend these five actions because we believe that they will help providers design financial products and services that are relevant, affordable, accessible, intuitive, and trustworthy. For instance, when the suitability of a product is enhanced in terms of its design and distribution, customers find the product to be more attuned to their needs and context, and they can access the product/service conveniently and at a price that makes sense for them. Therefore, enhancing product suitability automatically makes the product/service more relevant, accessible, affordable, trustworthy, and intuitive for the customer.

SEEKING THE CUSTOMER'S CONSENT

Can Behavioural Science Help Design Customer-Friendly Consent Forms?

A consent artefact is a digital document that records a user's consent to share their personal data with a provider, or via the provider, to a third party. Obtaining informed, prior, and explicit consent is often seen as an important tool for customers to establish control over their personal data. However, evidence suggests that customers do not actively peruse or understand consent artefacts, falling short of the regulatory standard of free, informed, explicit, and revocable consent.

This project employs behavioural science tools to ask why customers do not engage with consent artefacts and how that can be reversed. The specific use case we took up for the study is digital lending and (therefore) the consent screens presented by RBI-licensed account aggregators. We discover that the macro-context of a borrowing journey is characterised among low-income borrowers by financial desperation, the urgency of time and an acute awareness that they may be denied formal credit for no proper reason. This macro-context shapes individuals' micro-decision of consent, immediately placing them on the defensive. Furthermore, the shrink-wrap design of consent artefacts offers little scope for negotiation or challenge, affording customers little real choice or control. As a consequence, customers feel resigned to passively comply.



A customer-friendly consent artefact would assuage the negative emotions triggered by prospects of borrowing, empower customers during the process and be easy for the customer to comprehend. For this to happen, the consent form should:

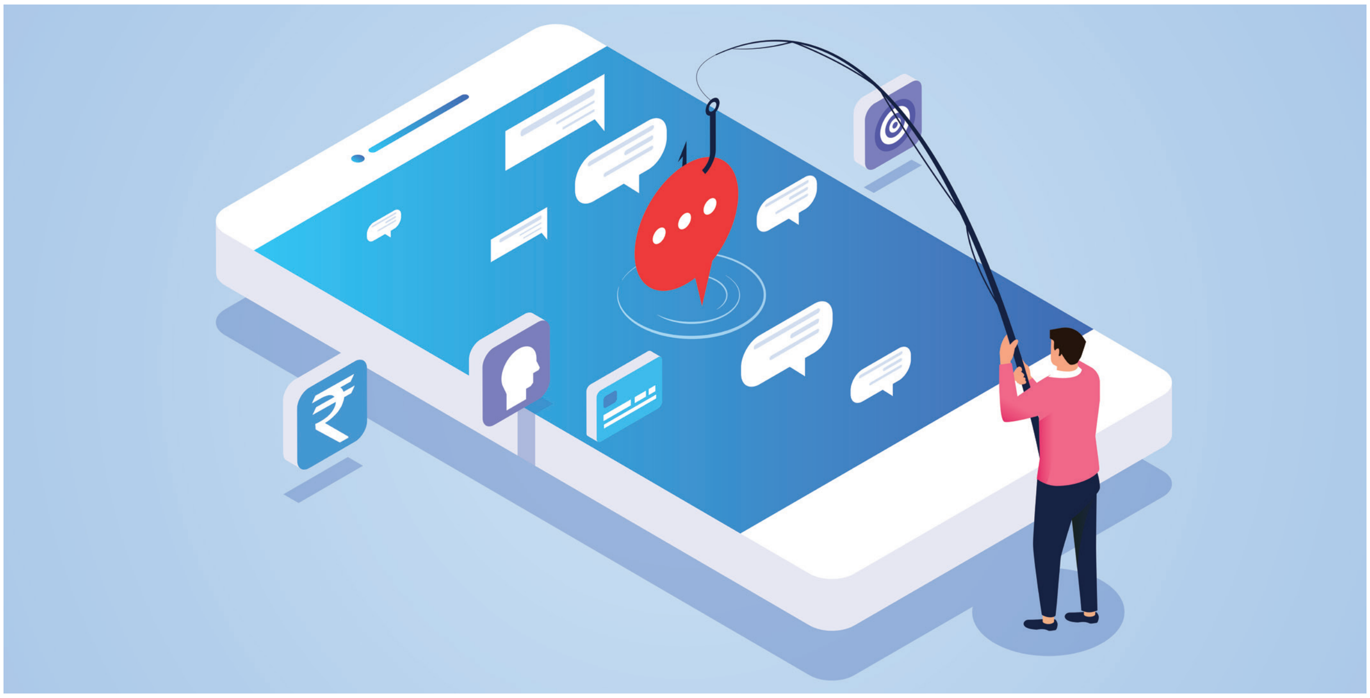
- **Create relevance for customers by simplifying the language and demonstrating that engagement.**
- **Build vividness by highlighting data flows and attendant risks.**
- **Engineer feedback by allowing customers to interact with the artefact throughout the journey, providing social proof and transparency along the way.**
- **Promote customer agency by preparing them for control and effectively providing them with a sense of choice in their decisions.**
- **Redefine outcomes to decouple the consequence of a consent request from that of a loan application by preparing them for data transactions.**

At the time of this publication, the team is translating these principles into specific design recommendations which will be piloted with customers of a lender and account aggregator to test their effectiveness.

SPOTLIGHT PROJECTS

REDUCING DIGITAL FRAUDS

Are Fraud-Awareness Campaigns Effective in Raising Customers' Awareness?



Social engineering ploys, where unsuspecting customers are manipulated into authorising fraudulent transactions, are a serious customer protection concern. Regulators and financial institutions are investing efforts in designing awareness campaigns in the form of TV commercials (TVCs). In this project, we design an outcome-based survey (OBS) to evaluate the effectiveness of UPI-fraud-awareness campaigns in reducing individuals' propensity to engage with fraudulent communication. Leaning on behavioural science and market research literature, the OBS measures effectiveness along the four dimensions of recall, appeal, comprehension and impact.

To recreate the hot state that individuals encounter when faced with fraudulent messages, the OBS simulates common frauds in a lab-in-the-field setting. Respondents' willingness to engage with such messages is recorded as their baseline disposition. Next, the respondents are presented with a short film (unrelated to the topic), interspersed with a clutter of ads, comprising TVCs of interest. They are asked to summarise the visual content without any probes directed at the TVC. The readiness and clarity with which respondents recall the TVC from amongst the clutter is treated as a proxy for its appeal and comprehension. The researchers next meet with the respondents after seven days, presenting them with the same fraudulent situations again. A decline in their propensity to engage with the simulations is treated as proxies for both recall and impact. Finally, focus group discussions are organised to understand why respondents prefer certain TVCs over others.

As proof of concept, this OBS was piloted with 80 low-income and new-to-UPI users from four Tier I and Tier II cities, to test the effectiveness of three TVCs. We discovered that TVCs with relatable characters and simple messages in a storytelling format fare better on recall, appeal, and comprehension. Further, we learned that TVC-driven awareness campaigns only operate at the cognitive level and cannot change attitudes or behaviour which are driven rather by habit, emotional make-up, and vulnerability to biases. This is the reason that fraudsters continue to use 'hot state' scenarios (e.g., fake emergencies, enticing rewards) to make customers feel panicked or elated so that they do not think clearly.

In this project, we design an outcome-based survey (OBS) to evaluate the effectiveness of UPI-fraud-awareness campaigns in reducing individuals' propensity to engage with fraudulent communication.

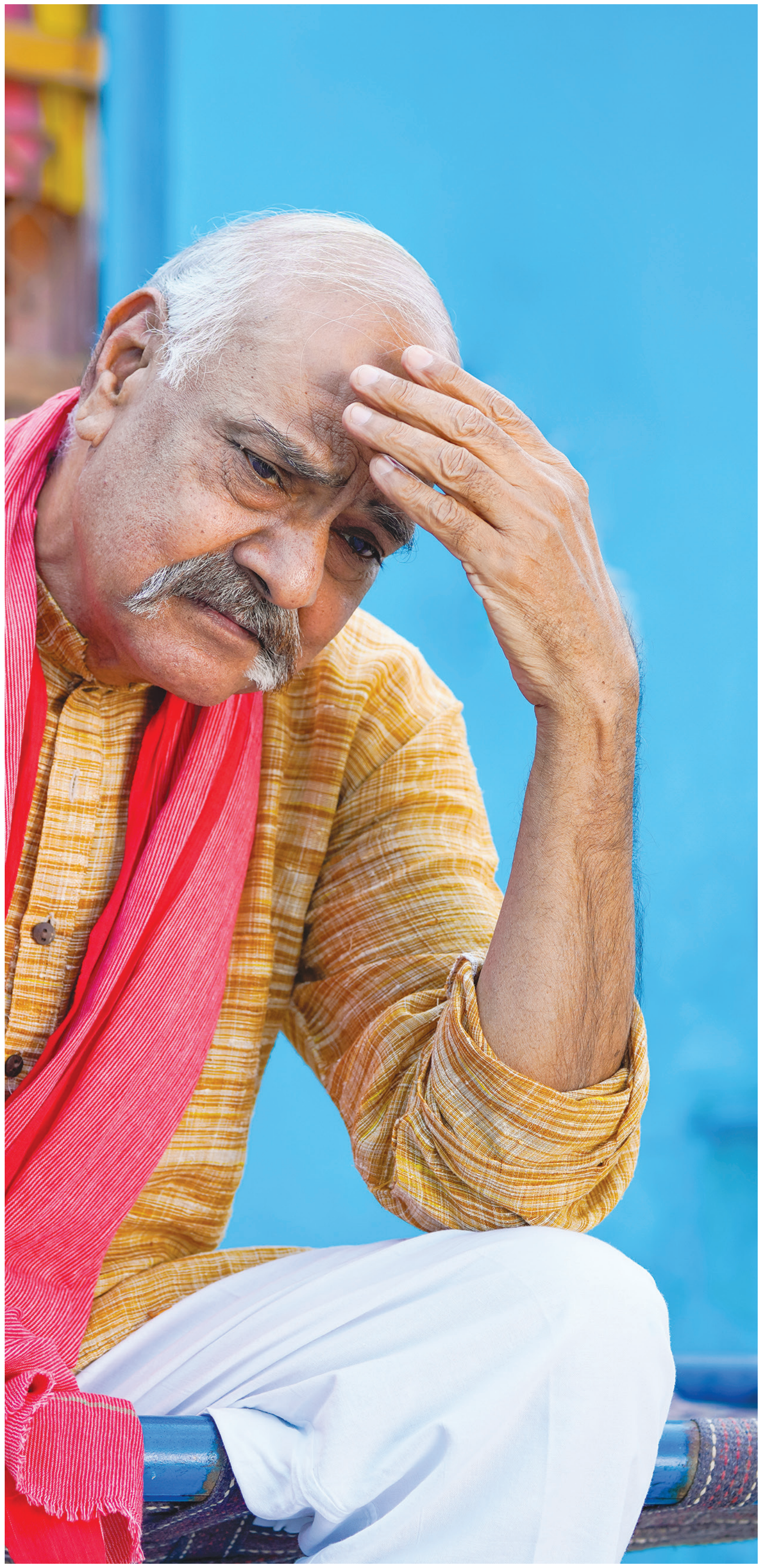
Our work so far provides the foundation for the next step, which will be to develop interventions that go beyond raising awareness to initiating actual behavioural change. We are also able to identify system-level interventions that would create a cohesive frauds-database which would double up as a supervisory as well as an enforcement tool.

ADDRESSING DEBT DISTRESS

How can Lenders Detect and Alleviate Borrowers' Distress?

In India, signs of borrower distress have appeared in many states over the past decades, often exacerbated by natural disasters and political events, making many borrowers unable or unwilling to repay. The presence of such distress has adverse consequences not just for the borrower but also for financial service providers, and the larger financial system.

The customer protection concern is firstly one of improper credit decisioning. Here, regulations are in place but are not adequately reflected in the decisioning procedures that financial service providers actually employ. Even if the credit decision properly identified a worthy borrower, distress may set in for one reason or another, but default remains the only signal of distress available to the lender. This is especially true because low-income households often hide distress by using various desperate measures to repay loans, such as postponing necessary medical care or pulling children out of school.



We have partnered with the Robert Bosch Center for Data Science and Artificial Intelligence (RBCDSAI) at IIT Madras to develop a machine learning model that will use the borrower's past repayment behaviour, demographic characteristics, and economic activities to determine whether the borrower is in distress.

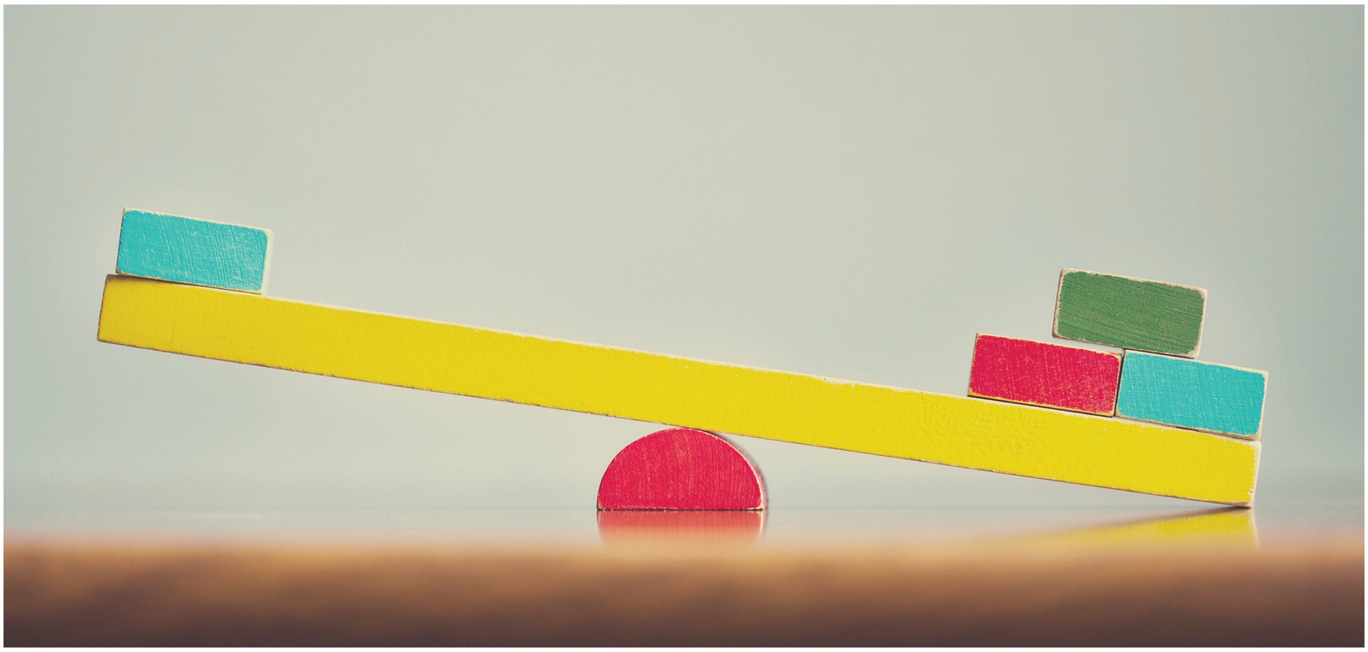
Our approach is to design a tool that will detect distress after a loan has been made. This is not a trivial problem because it means uncovering something that is unobserved from analysing what is observed, which is repayment behaviour. We have partnered with the Robert Bosch Center for Data Science and Artificial Intelligence (RBCDSAI) at IIT Madras to develop a machine learning model that will do precisely this, i.e., use the borrower's past repayment behaviour, demographic characteristics, and economic activities to determine whether the borrower is in distress. In our work thus far, we have completed the development of the machine learning model and deployed it across the borrower base of a non-bank lender with over 1.5 million customers. We are in the process of validating the model's result using field surveys.

Once distress is confirmed, we propose to test various solutions (or protocols) to alleviate it. In such solutioning, we will strive to remain within the scope of the credit contract while also deploying behavioural interventions at the end of the project, we expect to have a robust distress prediction model as well as a set of field-tested protocols for financial services providers to use, to detect and address distress among customers.

SPOTLIGHT
PROJECTS

REDUCING INFORMATION ASYMMETRY

Can Information Disclosures Help Customers Make Better Life Insurance Purchase Decisions?



Information asymmetry is a situation where one party to a transaction has more or better information than the other. In financial markets, it is often the case that the provider has more information than the poor customer about a product, but does not disclose this information accurately in order to make an unsuitable sale. Life insurance is a good use-case to study in this regard.

If poor customers buy life insurance at all, they usually buy endowment plans, but these are not typically suitable for them. Relative to term life policies, endowment products require high premiums, offer inadequate death cover, and penalise policyholders heavily for premature surrender or closure. Despite these shortcomings, insurance agents, often embedded within customer communities, are incentivised to sell endowment policies as if they offer safe and assured investment options, i.e., without accurately disclosing the returns or surrender terms.

We proposed to solve this problem by focusing on the disclosure aspect (there are many other intervention points, but this is the one that truly tackles the information asymmetry problem). Accordingly, we employed behavioural science to first understand the drivers of life insurance purchases among low-income households, and then experimental methods to test the effectiveness of diverse disclosure formats in influencing the purchase decision. We discovered that disclosures that merely provide accurate information about endowment plans are not enough to change habits. Rather, a superior alternative option should also be offered, and accurate information about its advantages over endowment plans needs to be clearly presented. Then switching behaviour follows.

We employed behavioural science to first understand the drivers of life insurance purchases among low-income households, and then experimental methods to test the effectiveness of diverse disclosure formats in influencing the purchase decision.

In our study, this alternative was a combination of the Pradhan Mantri Jeevan Jyoti Bima Yojana (a term life insurance plan) and a post office recurring deposit. This specific bundle was chosen because it mimics an endowment plan while offering features better attuned to the needs of low-income customers, such as committed savings with fair returns, a low penalty for premature exit and affordable life cover. Currently, we are in the second phase of the project, wherein the behavioural insights from the study are being disseminated to targeted stakeholders in the life insurance industry, with a view to identifying a provider partner that will be enthusiastic about operationalising our preferred solution bundle.

DESIGNING EFFECTIVE GRIEVANCE REDRESS

Do In-App GRMs Work for Constrained Users of UPI?

Effective grievance redress is integral to customer protection. Unfortunately, grievance redress in the financial sector is exclusionary, time-consuming, and opaque for low-income customers.[9] Regulators and financial service providers are aware of this and are using digital approaches to address these challenges.[10] For instance, in the Unified Payments Interface (UPI) space, providers are deploying Grievance Redress Mechanisms (GRM) where users can seek redress through the UPI app (In-App grievance redress). But these GRMs also fall short of meeting the needs of low-literate, low-income and digital immigrant users who we define as constrained users.

Our research project on UPI In-App GRMs uses Human-Centered Design (HCD) techniques to develop design inputs that make In-App GRMs more constrained-user friendly. The project proceeds in three phases.

First, we gauge the bottlenecks that constrained users face in the In-App UPI redress journey. We do this by personally using those GRMs, talking to stakeholders, conducting dipstick user surveys and undertaking desk research. We discover that In-App GRM functionalities are not intuitive for customers because they are difficult to find, or do not use vernacular languages, or separately locate payment-related from non-payment related grievance recording, or do not easily provide information about the status of grievance resolution, or otherwise increase the frictions for customers seeking redress.

Our research project on UPI In-App GRMs uses Human-Centered Design (HCD) techniques to develop design inputs that make In-App GRMs more constrained-user friendly.

Second, we use HCD techniques to rethink the design of In-App GRMs considering the above problems. HCD is a problem-solving technique that puts real people at the centre of the development process, enabling one to create products and services that resonate with and are tailored to a specific audience's needs. The goal is to keep users' wants, pain points, and preferences in front of mind during every phase of design.

Third, we partner with providers to create and test prototypes of the solutions with live users to test their efficacy and scalability.

The above three phases proceed iteratively, and we have already completed one iteration of the first and second phases and presented our ideas to select providers. Working with specific providers may cause us to revisit the earlier phases and slightly tweak our solutioning ideas basis the providers' specific requirements and offerings. In the end, however, because UPI is such a foundational aspect of digital finance, we hope to improve the baseline for accessibility and usability that digital financial service providers can aim for in their GRMs.

9 Chivukula, C., Dvara Research, Consumer grievance redress in financial disputes in India, 18 February 2021, https://www.dvara.com/research/blog/2021/02/18/consumer-grievance-redress-in-financial-disputes-in-india/.

10 Reserve Bank of India, Online Dispute Resolution (ODR) System for digital payments, 6 August 2020, https://m.rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=11946; NPCI, UDIR – Enhancing complaint handling and resolution process for UPI transactions, 24 November 2020, https://www.npci.org.in/PDF/npci/upi/circular/2020/Circular-98-UDIR-Enhancing-Complaint-handling-and-resolution.pdf.

SPOTLIGHT PROJECTS

PROTECTING CUSTOMERS' DATA

How Can India's Digital Personal Data Protection Bill be Strengthened?

India is contemplating a Digital Personal Data Protection Bill[11] to safeguard customers' personal data and uphold their right to privacy. This has significant implications for financial customer protection. Extensive digitisation of finance promises expanded inclusion and better tailored financial services but also occasions, by that very measure, a greater collection of personal data and therefore a greater likelihood of adverse customer outcomes when personal data is breached, misused, or wrongly processed. Many such instances have occurred in recent times, amounting to identity theft, monetary loss, predatory recovery practices, and unfair denial of services.

A law would improve personal data protection practices in two ways. First, it would bring under its fold those financial intermediaries that may reside outside of the perimeter of financial sector regulators. Second, it would set a minimum baseline for personal data protection even where financial sector regulators may not have provided active guidance. For these reasons, engagement with the Bill is critical, and we note the following action items for strengthening its customer protection impact:

Widening the Bill's ambit to protect all kinds of personal data, whether digitally generated or not. In its current form, the Bill only covers digitally generated personal data and therefore puts data shared in financial processes, like KYC, which is often in quasi-digital form, at risk.

Imposing stricter obligations on providers, such as collecting only that data which is necessary for a specific purpose and taking measures to strengthen providers' accountability.

Making providers process data fairly and reasonably and only when it is necessary for a specific and lawful purpose instead of excessively processing personal data for unauthorised purposes.

Strengthening customers' rights over their data mainly in seeking explanations for decisions that providers make using automated systems (for instance, in credit decisions), and in porting data across different providers for services.

Significantly narrowing the exemptions given to the government and private providers so that the exemptions granted are necessary and proportionate.

Creating a more independent regulator equipped with a stronger, responsive regulatory toolkit to effectively monitor data processing activities and robustly enforce the regime.

11 The Ministry of Electronics and Information Technology (MeitY) released the draft Digital Personal Data Protection Bill 2022 (The Bill) for public consultation, building on several previous iterations.

MONITORING AND DIAGNOSTIC TOOLS

CAPTURING CUSTOMER'S ISSUES WITH UPI

What problems are UPI customers encountering?

In the first month of the current financial year, India registered 8.9 billion UPI transactions worth INR 14.07 trillion[12]. Given this volume, even a 0.1% transaction failure rate will mean 9 million failed transactions per month. Many such failures would be harmless, i.e., no money would be debited from the remitter's account, or there would be an immediate refund. But there are also actual cases where the money gets debited, but not received by the customer. And consumers often face other hurdles as well.

The magnitude of this impact on Indian customers cannot be properly gauged by just considering complaints registered with the RBI Ombudsman. For instance, only 58,767 complaints were recorded between July 2020 and March 2021 – whereas customer grievances registered on social media handles would suggest a much larger number. Indeed, social media posts may well capture an authentic aspect of the customer's voice.

Therefore, Dvara Research is developing a tool that can uncover customer-facing issues in the UPI ecosystem by monitoring publicly available social media posts. The tool scrapes data from Twitter and Google Play Store for providers with a cumulative market share of over 90% of transaction volumes, and then uses Natural Language Processing methods to categorise issues that customers are facing, calculate their prevalence rates, and report other valuable indicators.

This tool is currently being designed to operate without user supervision, enabling regulators, providers, and other stakeholders to get a glimpse of the UPI ecosystem at the click of a button. This would enable prompt detection of user hurdles and targeted resolution to strengthen the citizens' trust in India's digital payments infrastructure.

12 This includes UPI modes available within mobile bank applications, third-party payment applications (UPI providers) and BHIM UPI.

IMPROVING INSURANCE UNDER THE JAN SURAKSHA PROGRAM

Why are public insurance schemes not popular?

The Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) and the Pradhan Mantri Suraksha Bima Yojana (PMSBY) aims to protect low-income households against financial losses resulting from a household member's death and personal accidents, respectively. The design and delivery mechanisms of PMJJBY and PMSBY have successfully made formal insurance accessible to millions of low-income households. However, nearly eight years after their launch, less than 1% of low-income households have PMJJBY and PMSBY accounts (AIDIS 2019).

In the first phase of this project, we studied the existing literature and public discourse on these schemes and engaged with several grassroots organisations to identify problems in the delivery of PMJJBY and PMSBY. We learned that structural issues on the supply-side discourage banks and insurance companies from promoting these schemes. These issues pertain to the incentive structure for financial intermediaries, the distribution channels typically employed, customer selection and product pricing, and instances of frauds that make the sale and servicing of these schemes a challenging proposition for these providers.

Based on the above understanding, we are now working to develop a diagnostic toolkit that will enable a periodic monitoring of the quality of delivery of the two schemes. The toolkit has both quantitative and qualitative aspects, and we will be surveying customers as well as interviewing senior management officials and field staff of banks and insurance companies. The intent will be to uncover the manner in which supply-side challenges ultimately impact the customer's experience of accessing and using the schemes, from onboarding all the way to claim settlements and grievance redress.

We envision the toolkit as a scalable and replicable market monitoring mechanism, whose insights can be used as solutions for the improved uptake and delivery of the schemes.

IMPROVING CASH-IN CASH-OUT (CICO) SERVICES

Are BC agents succeeding?

In many remote and far-flung locations, accessing money in one's own account is no simple task. Various frictions may prevent a constrained customer from availing CICO services, which are essential for accessing one's entitlements or wages, or for remitting money to family members. While the Business Correspondent (BC) model has emerged as the predominant network of diffused touchpoints through which banks reach the last-mile customer, problems with its implementation have meant that meaningful access to deposit and withdrawal services at the last mile are still lacking.

Through conversations with providers, and field interviews with BC agents, we have identified the key factors that can contribute to an agent's profitability and therefore to that agent's ability to provide CICO services reliably. We have organised all these factors into an 'Agent Success Framework'. We believe that if agents can succeed as dictated by the elements of our framework, then customers' ability to access CICO services will also greatly improve.

But how are network managers, banks and policymakers to know if agents are succeeding? To answer this question, we are now building a diagnostic tool which will identify those aspects of any particular BC network that obstruct reliable CICO provision. Our agent success framework indicates that reliable CICO provision makes for profitability (because customers are happy) just as much as profitability makes for reliable CICO provision (because agents are happy), but the loop has to start with agent profitability, and this is a point of intervention for network managers, banks and policymakers.

Ultimately, the problem discovery and solutioning enabled by our diagnostic tool will improve not only access to reliable CICO services but also the quality of service provided overall.

HELPING WOMEN CUSTOMERS GAIN COMFORT WITH DIGITAL ENVIRONMENTS

Could poor women be managing their money digitally?

The financial lives of poor women largely revolve around the challenges posed by their small, irregular, and unpredictable household incomes. Their focus is on daily cashflow management and on ensuring that money is available when needed. Financial decision-making by these women is frequent, intuitive, and automatic. Also, it is embedded within a complex network of community-level interactions. However, these realities have not been considered in the design and delivery of financial services for poor women.

Through our work, we will not only shed light on the money management practices of poor women and their amenability to digital migration, but also explore how to sustain and deepen the trust and confidence that the women come to repose in the digital payments app.

To bridge the existing gap in knowledge, we have embarked on a project to uncover prevailing money management practices among poor women and to assess the potential for digitising these practices. We take this approach because we believe that migrating women's existing money management practices to a digital platform is the essential first step towards their adoption of digital financial services. Our intervention, with appropriate safeguards built-in, uses an assisted model of female peers, or Sakhis, to create a relatively hassle-free environment that would empower poor women to embrace a digital payments app.

The study intervention will approximately span over six months. We have already identified implementation partners and field sites. Through our work, we will not only shed light on the money management practices of poor women and their amenability to digital migration, but also explore how to sustain and deepen the trust and confidence that the women come to repose in the digital payments app. Ultimately, this project has the potential to promote inclusive practices and foster meaningful financial inclusion for poor women in both digital and traditional contexts.

SURFACING THE POOR CUSTOMER'S VOICE

In what ways is contact with formal finance causing customers to become aggrieved?

The 'Voice of Aggrieved Customer' project aims to surface the lived experiences of aggrieved customers of digitised financial services, to reveal customer protection issues that may be going unnoticed and unreported. The key objectives of this project are to (i) raise awareness of the poor quality of, and gaps in, financial service delivery to low-income households and vulnerable segments, (ii) reveal the complexity of the issues and experiences from the customer's standpoint, and (iii) identify the aspects of regulated conduct on which institutions are falling short.

We have commissioned partner organisations with extensive field presence to collect customer cases for us. These organisations have been at work for several months and are now developing their final outputs for us to collate into a cohesive repository of cases. The cases once published will be in audio, visual and written formats.

OTHER PROJECTS

BNPL CUSTOMERS ARE SUSCEPTIBLE TO ADVERSE RISKS

Buy Now, Pay Later (BNPL) products have become one of the popular modes for customers to make retail purchases in India. These products have been positioned as challengers to credit cards that can make credit more accessible to customers at little to no cost. Yet, the actual costs customers may incur have not been documented in the Indian context. Dvara Research's report on BNPL attempts to fill this gap. Concluded in late 2022, the report finds that customers using BNPL incur monetary costs comparable to costs of using credit cards, and are susceptible to adverse risks emerging from gaps in customer protection.

LEVERAGING SOCIAL CAPITAL FOR PUBLIC HEALTH INSURANCE

Leveraging social capital to enhance the customer experience of public health insurance programs – This project maps a customer's journey through public health insurance programs, identifies potential hurdles that the customer may face in benefiting from those programs, and provides examples of how social capital can be put to work to overcome those challenges. Once completed, this project can provide a useful lens for evaluating public health insurance programs from a customer perspective, and aid in developing community-driven solutions to customer challenges.

ABOUT DVARA RESEARCH

Dvara Research envisions a world in which every low-income household and every enterprise has complete access to suitable financial services and social security through a range of channels that enable them to use services securely and confidently. We identify ourselves as the voice of low-income customers. They are the reason we exist, and we are relentless advocates for their financial wellbeing.

Since 2008, Dvara Research has deeply analysed, and carefully written about, financial inclusion and social protection in India from policy, regulatory, and practitioner perspectives that are anchored to its mission. Its work has gained the admiration and respect of policymakers and regulators, and since its inception, Dvara Research has been a research-partner of choice for such key policy-making bodies as the Reserve Bank of India, Securities and Exchange Board of India, Pension Fund Regulatory and Development Authority etc.

Our work at Dvara Research is categorised into four verticals that conduct transformative research into the various aspects of financial inclusion and social protection. These four verticals are – Financial Systems Design, Future of Finance, Social Protection, and Household Finance Research. The Customer Protection Program, launched in November 2021, is a horizontal program that overlaps across all the areas of work that we do.

Financial Systems Design: This initiative develops and disseminates financial systems' designs focused on achieving both inclusion and stability. The research efforts here aim to facilitate a well-functioning financial system for India that is built on the three fundamental pillars of high-quality origination, orderly risk transmission and robust risk aggregation. Such a financial system is needed to deliver full financial inclusion and financial deepening in a manner that enhances systemic stability.

Household Finance: This initiative aims to rigorously understand and document the financial lives of low-income or excluded households. A fundamental principle that guides this initiative's research efforts is the idea that a household is the key economic unit for policymakers, regulators, and practitioners to pay attention to. This is so that they may facilitate the creation of a suite of appropriate financial products and services, eventually enabling well-rounded balance sheets and financial wellbeing for the entire household unit.

Future of Finance Initiative: This initiative studies and writes about all aspects of digital finance and digital inclusion, with a particular focus on customer protection for low-income households and low-income women customers in the digital financial services domain.

Social Protection Initiative: This initiative studies and writes about the design and implementation of social protection in India. The core idea that informs this initiative's research efforts is that India's social protection system needs to be inclusive and citizen-centric, from the conception of its social protection programs all the way to the delivery of its benefits.

The Customer Protection Program was launched with a mission to focus on solutions that speak to the changing landscape of issues pertaining to financial customer protection in India.

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Notes

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