Bottom-up approach to grievance redress in digital payments

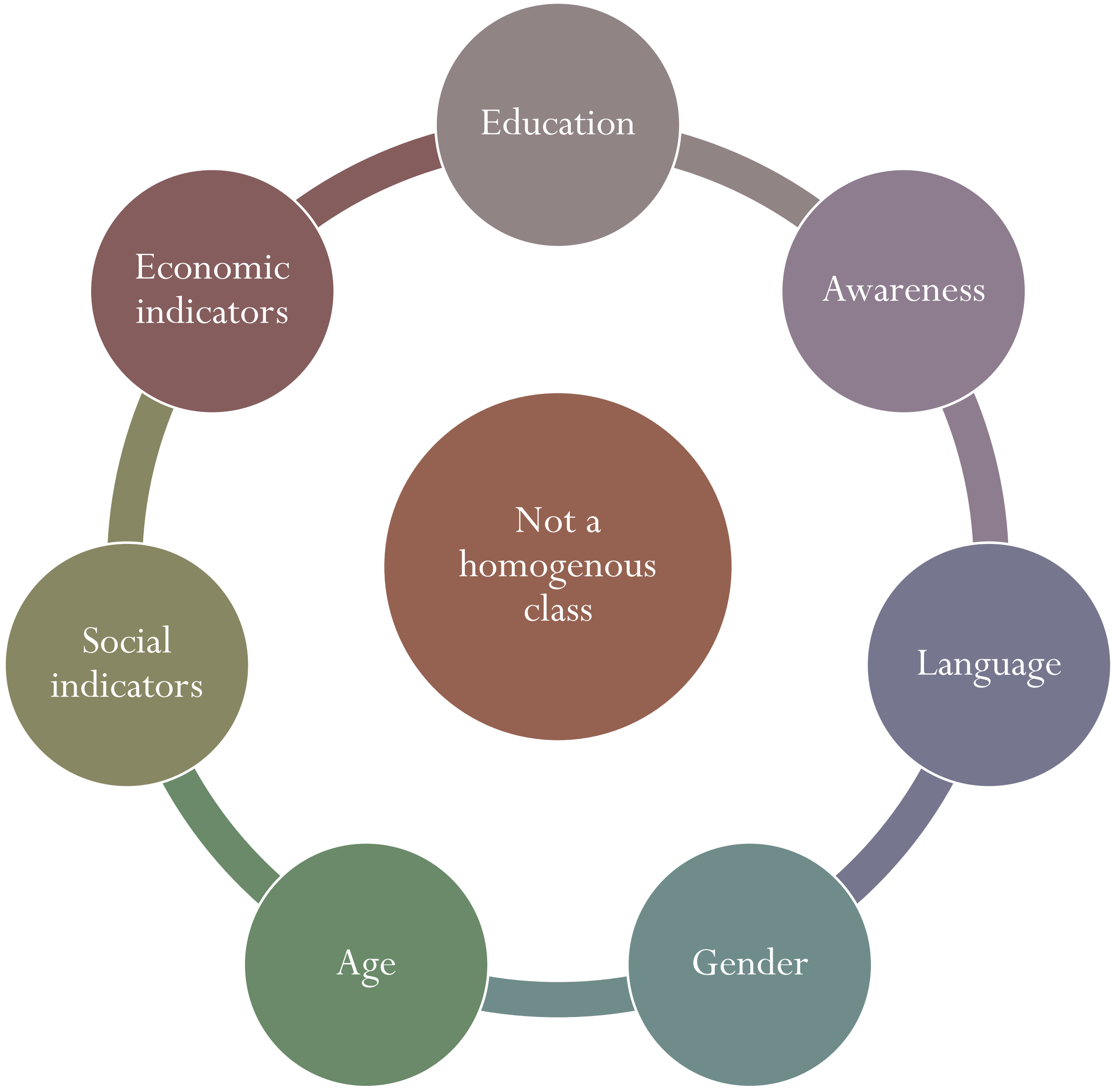
Conference on building India's payment ecosystem

Amol Kulkarni

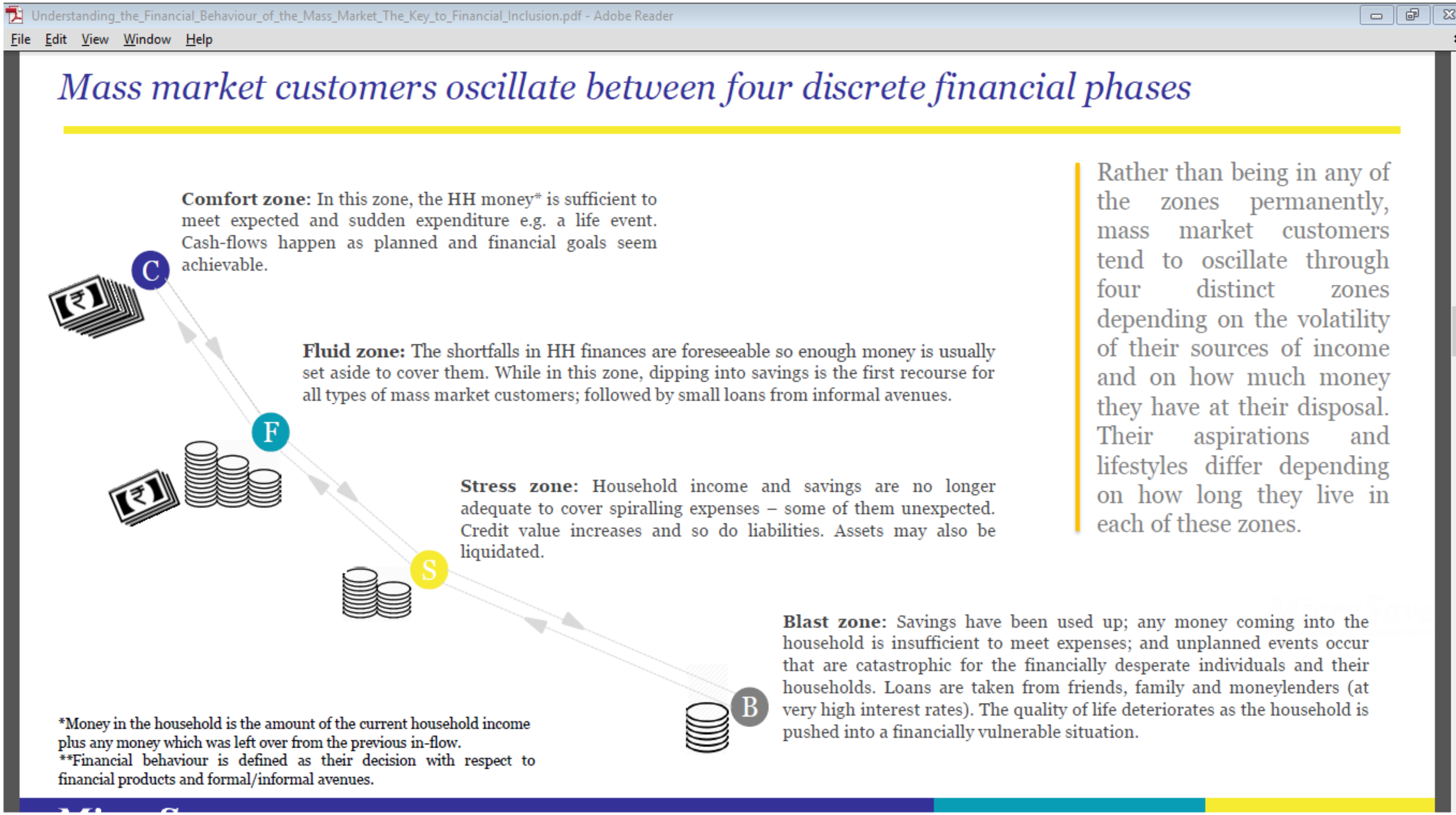
08 July 2017

UNDERSTANDING CONSUMERS

Recognise distinctness



Appreciate urgency



Understanding_the_Financial_Behaviour_of_the_Mass_Market_The_Key_to_Financial_Inclusion.pdf - Adobe Reader

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Mass market customers oscillate between four discrete financial phases

C

Comfort zone: In this zone, the HH money* is sufficient to meet expected and sudden expenditure e.g. a life event. Cash-flows happen as planned and financial goals seem achievable.

F

Fluid zone: The shortfalls in HH finances are foreseeable so enough money is usually set aside to cover them. While in this zone, dipping into savings is the first recourse for all types of mass market customers; followed by small loans from informal avenues.

S

Stress zone: Household income and savings are no longer adequate to cover spiralling expenses – some of them unexpected. Credit value increases and so do liabilities. Assets may also be liquidated.

B

Blast zone: Savings have been used up; any money coming into the household is insufficient to meet expenses; and unplanned events occur that are catastrophic for the financially desperate individuals and their households. Loans are taken from friends, family and moneylenders (at very high interest rates). The quality of life deteriorates as the household is pushed into a financially vulnerable situation.

Rather than being in any of the zones permanently, mass market customers tend to oscillate through four distinct zones depending on the volatility of their sources of income and on how much money they have at their disposal. Their aspirations and lifestyles differ depending on how long they live in each of these zones.

*Money in the household is the amount of the current household income plus any money which was left over from the previous in-flow.
**Financial behaviour is defined as their decision with respect to financial products and formal/informal avenues.

Source: Microsave, *Understanding Financial Behaviour of Mass Market*, March 2017

Identify facilitators

PDF_Infographic_Currency_of_Trust_FINAL.pdf - Adobe Reader

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Five Consumer Personas to Unlock Digital Adoption

Omidyar Network has commissioned a human-centered design study to better understand consumers and uncover their behaviors that are likely to drive adoption of digital financial services in India. "Currency of Trust: Consumer Behaviors and Attitudes toward Digital Financial Services in India" also brings valuable insights and strategies to help financial services providers better reach and serve a broad set of consumers through digital solutions.

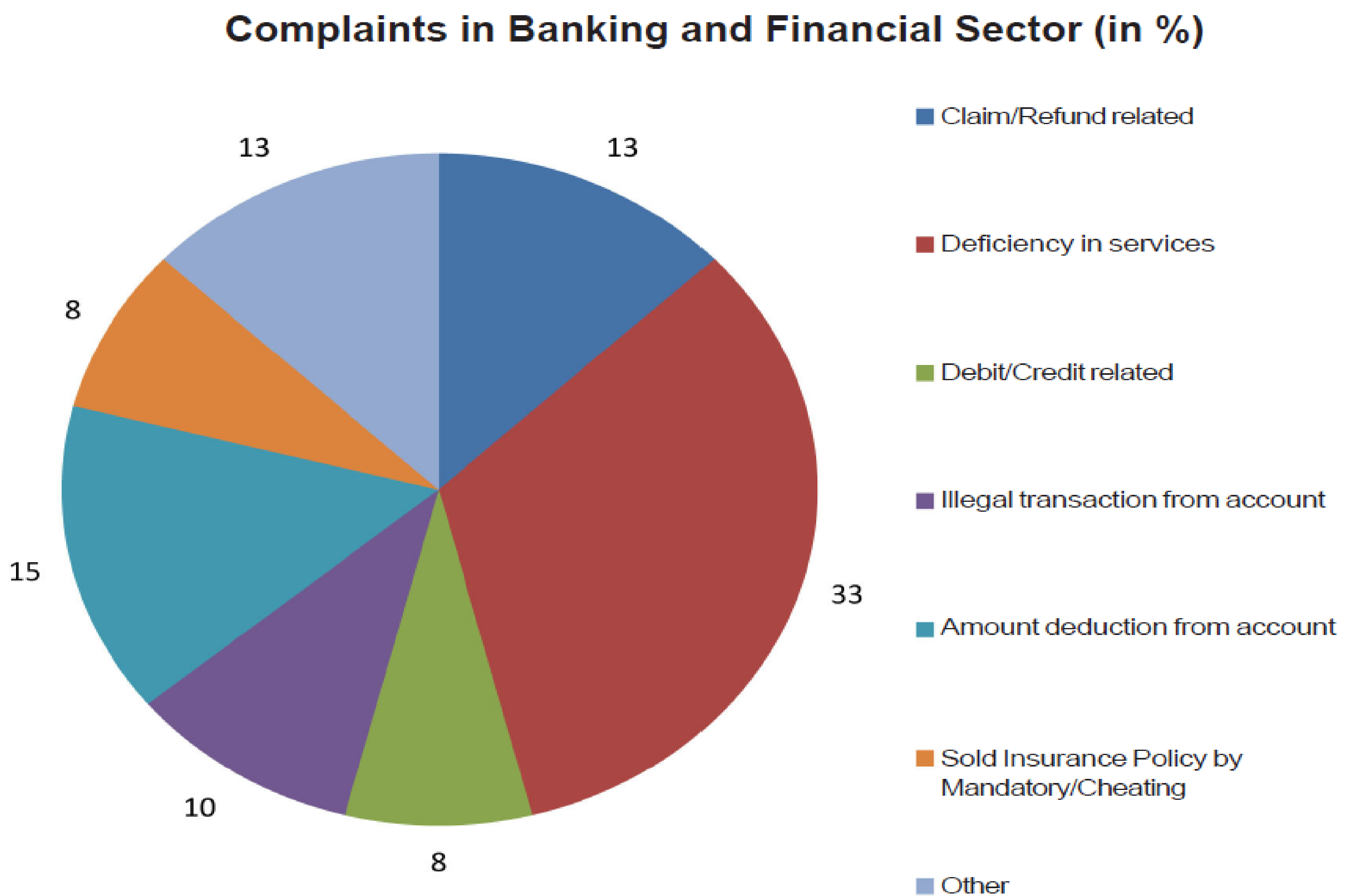
Aspirants	Collaborators	Conformists	Masters	Pragmatists
How to identify them				
• Young adults looking to become financially independent • Desire to own a smartphone • Eager to adopt the latest trends • Believe in technology, but are discovering uses for it	• Rely on their community for guidance and advice • Participate in group and community-based savings and loans programs • Trust door-to-door agents' advice on financial products • Believe that banks are not	• Restrained by family and social norms • Save money secretly • Have access to technology, but are hesitant to take advantage of it	• Go-to experts in their community, help introduce new things • Outgoing, social, thrive on their community status • Deal-seekers	• Pro-active and entrepreneurial • Value ease and convenience • Looking for cost efficiencies and incentives

12.61 x 9.18 in

Source: Omidyar, *Currency of Trust*, May 2017

UNDERSTANDING GRIEVANCES

Types of grievances



Source: CUTS, *Grahak Suvidha Kendra Alert*, May 2017. Data for July 2015-May 2017

Concerns with assisted payments

- No genuine record of transactions
- Risk of sharing sensitive information
- Imposition of unreasonable costs
- Multiple trips required resulting in delays in redress
- Refusal to share hotline number/ redress mechanism
- Agents/ merchants unaware of redress mechanism
- Inability of bank branch to resolve transaction failure at agent

Source: BCFI, 2017

Transaction failures

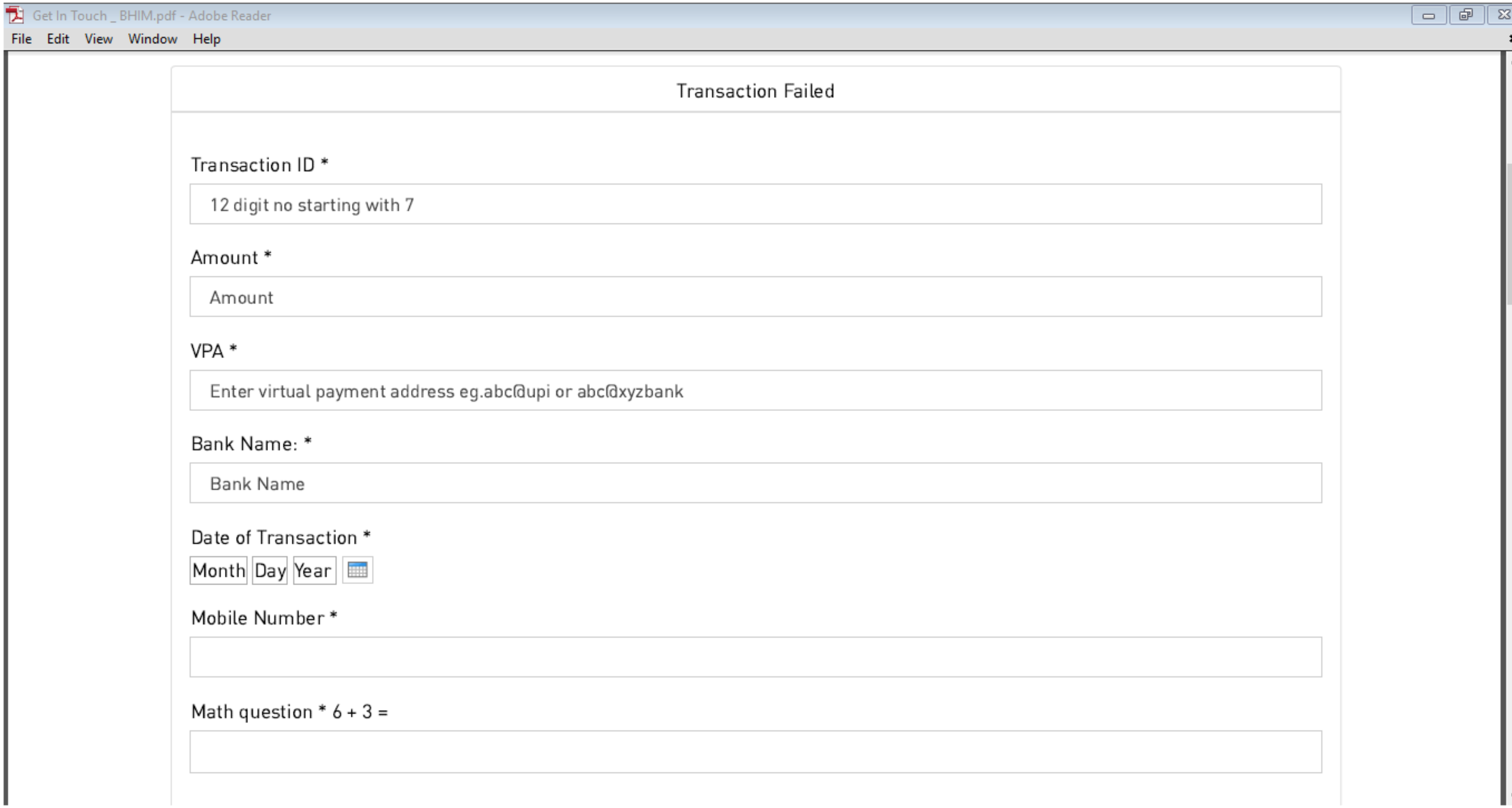
- ~ 60% Off-US transactions are failing (*Watal Committee, 2016*), double of On-US transactions. Large banks declining transactions involving small banks (*Economic Survey, 2017*)

- Banks declining transfers to non-banks (SBI – Paytm; ICICI Bank – PhonePe)

- NPCI letter to AePS members on daily reconciliation of transactions and to UPI member banks on reconciliation and debit reversals *(March 2017)*

- Absence of data in public domain *(NITI Aayog Booklet on Measurement of Digital Payments)*

Complicated complaint filing process



Get In Touch _ BHIM.pdf - Adobe Reader

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Transaction Failed

Transaction ID *

12 digit no starting with 7

Amount *

Amount

VPA *

Enter virtual payment address eg.abc@upi or abc@xyzbank

Bank Name: *

Bank Name

Date of Transaction *

Month Day Year

Mobile Number *

Math question * 6 + 3 =

Source: https://www.bhimupi.org.in/get-touch

Sub-optimal user interface

- Lack of user friendly design and difficulty in navigation (*Raman & White, March 2017)*
- Low focus on oral consumers *(Microsave, My Oral Village, May 2017)*
- Limited features – inadequate customisation, disclosure of grievance redress policy (*CashlessConsumr, January 2017*)
- NPCI letter to Member Banks, UPI on lack of uniformity on product design limiting widespread adoption (*March 2017*)
- Limited focus on security, privacy and fraud concerns (*Dalberg, May 2017*)

REASONS FOR INADEQUATE FOCUS ON GRIEVANCE REDRESS

Low on policy priority

- Consumer Protection Act – inadequate provisions, limited capacity, inadequate implementation
- Banking Ombudsman Scheme – recently extended to bank based electronic payments. No ombudsman for PPIs
- Dedicated helpline for digital payment grievance redress not yet introduced. Low accountability of service providers.
- Limitation of customer liability in unauthorised electronic banking transactions – not applicable to non banks. Customer liability in case of negligence and limited liability in case of third party breach
- No market enabled measures like insurance

Sub-optimal competition

- Limited interoperability of customer facing agents, leading to high operating costs for agents
- Lack of level playing field between banks and non-banks for accessing NPCI and RBI systems, leading to high operating costs for non-banks
- No threat of competition to NPCI, leading to inefficiency and limited accountability
- No threat of competition to operate RTGS , leading to inefficiency and limited accountability

Source: *CUTS, December 2016* and *CUTS, April 2017*

Way ahead

- Undertake comprehensive review of applicable regulatory architecture
- Use tools like Competition Impact Assessment and Regulatory Impact Assessment
- Involve consumers and like minded stakeholders in awareness generation, building capacity and tracking progress
- Design market based incentives for grievance redress and consumer protection
- Enhance monitoring, supervision and enforcement
- Pro-competition approach needed while envisaging future of payments industry

About CUTS

- Pro-consumer, independent non profit, working across emerging economies

- Evidence based economic policy research, advocacy and networking

- Improving quality of regulation, competition, governance and trade to enhance consumer welfare

- Initiatives in digital finance: Payments banks, PPIs, payments infrastructure, grievance redress, interoperability, security and protection

Thank you

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