Consumer Protection

# Over-charging

This barrier refers to over-charging practices that typically involve a situation where customers pay more for financial products and/or services than if they had the information and opportunities necessary to effectively shop for alternatives. Over-charging can be a result of hidden fees and transaction charges and also higher interest rates due to biased lending practices.

**Why is this barrier important?**
Evidence shows that cost is an important consideration for women. Therefore, the actual or perceived over-charging can demotivate uptake and/or use of DFS among women. Evidence does seem to indicate that with increased digital literacy, customers' susceptibility to over-charging can be mitigated as customers rely less on agents and can self-direct transactions more.

## Connected Barriers

*Cost*
Cost of using DFS (incl. transaction cost)
Non-transparent fee structures

*Information Availability & Capability*
Financial literacy
Digital literacy

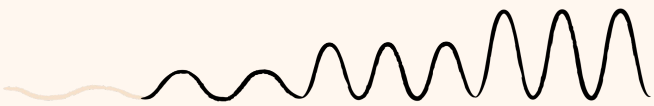
*Consumer Protection*
Fraud and scams
Predatory lending

*Product & Service Quality*
Reliability and quality of in-person services
Lack of products that meet women's needs

## Most Relevant Segments

| 1 | 2 | 3 | 4 |
|---|---|---|---|
| Excluded, marginalized | Excluded, high potential | Included, underserved | Included, Not underserved |

## Customer Journey Relevance



*Phase 1:* Account Ownership
*Phase 2:* Basic Account Usage
*Phase 3:* Active Account Usage
*Phase 4:* Economic Empowerment

**Key evidence relevant to this barrier**

- Women are more sensitive to fees than men and are also less likely to find workarounds to avoid them. Thus, hidden and non-transparent fees discourage women from using DFS (Findev, 2020).

- IPA's *Nigeria Consumer Protection in Digital Finance Survey* (2021) found that 33% of digital finance customers cited "agent charged extra to complete a transaction" as a common challenge. This was the most cited challenge among customers (MSC, 2022).

- Female customers in Ghana are 41-55% more likely to be overcharged than male customers during over the counter (OTC) mobile money transactions (Annan, 2020).

- Analysis of transaction data in Kenya showed that "women pay on average US $0.10 in fees per P2P transaction, compared to $0.07 for their male counterparts, in part because men were more likely to make payments below the fee threshold of Ksh100 (US $0.98)." It leads to a higher average of total fees paid per month, about US $0.30 for women and US $0.16 for men. Potential reasons are that "women are too pressed for time to spend the extra minutes breaking larger transactions into many smaller free ones, or they may be less aware of how to navigate fee thresholds (pointing to lower digital financial literacy than men)." (Caribou, 2021).

- A study in Bangladesh suggests that those users with less digital literacy who ask for help from mobile money agents are "44 percentage points more likely to be charged an informal fee than more digitally literate users." (Klapper et al., 2020).

- Recent consumer protection surveys of digital finance users show significant rate of over-charging in Kenya (3%), Uganda (32%), and Nigeria (42%) (Blackmon, Mazer, and Warren, 2021).

*The following Exemplar represents one evidence-based interventions that has shown success in addressing this particular barrier. There may be other Exemplars for this barrier in the larger Barriers & Exemplars Analysis compendium deck.*

# Exemplar

## *Digitizing Payroll for Factory Workers in Bangladesh*

"Electronic payroll accounts are a financial technology with potentially high returns to adoption that is currently being introduced to millions of workers worldwide. At the same time, payroll accounts are susceptible to many common consumer financial protection problems, such as shrouded fees, commission-based incentives, and barriers to use among inexperienced consumers." To study the effects of active engagement with payroll accounts has on consumer learning, and how "learning by doing" occurs with exposure to electronic payroll accounts, the researchers conducted a field experiment with employees in the garment manufacturing industry in Bangladesh, an export industry that is increasingly being regulated regarding employee wages and transparency. The experiment introduced electronic payroll accounts to a population of largely unbanked factory workers and analyzed treatment results (Klapper et al., 2020).

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**Key activities**

- A sample of 3,136 workers randomly assigned to either continue receiving wages in cash (control group), or begin receiving wage payments into a bank or mobile money payroll account (treatment group).
- "In a set of comparison treatments, workers were given an account but continued receiving monthly wage payments in cash."
- "Treatment effects were measured through panel surveys and administrative data review."

**Outcomes/results**

"The results show that exposure to payroll accounts leads to increased account use and consumer learning. Those receiving accounts with automatic wage payments learn to use the account without assistance, begin to use a wider set of account features, and learn to avoid illicit fees, which are common in emerging markets for consumer finance."

Workers in the payroll account treatment condition interact with the account more frequently, develop greater trust in the technology, learn to use the account without assistance, and learn how to avoid common consumer financial risks and use the account in the most cost-effective way. "The treatments have real effects, leading to increased savings and improvements in the ability to cope with unanticipated economic shocks."

Those that received accounts with automatic wage payments were 4% to 11% more likely to have any savings and 25% more likely to have savings in a formal account.

**Key enabling environment factors for the intervention**

- Sufficient documentation for those in the treatment group was necessary to open payroll accounts. Fortunately, FSPs allowed employers to submit documentation on behalf of their employees, covering for those that might not have the proper documentation or knowledge of which documentation is required.
- The garment industry in Bangladesh is an export industry that includes a large labor force and is increasingly requiring the digitization of wages.

### Key design elements and principles that led to successful outcomes

- Demonstrate to employer the importance of investing in long-term employees – low seniority level workers whose tenure at the firm was too low to warrant opening a formal payroll account were excluded from participation.
- The employer and FSP played active roles in the process; the employer covered the costs of account opening for those in the treatment group.

### Potential for scale/replicability

There is potential for replicability in garment manufacturing industry globally, taking the approach of digitizing wages in export industries/sectors for which regulation is increasing.

This approach can also be replicated in other high export sectors, and sectors in which there is a large female workforce – for which regulators and importers can require increased transparency and digitization of wages.

This approach can also be replicated, however, it would benefit the initiative to study what results would look like if employees covered the costs/fees for account opening and transactions, not the employer.

### Challenges encountered during the program

There were some initial resistance from employees in treatment group due to lack of trust in technology, but this decreased with increased interaction with the technology. Also, many workers did not have sufficient documentation, and had to rely on identification and guarantees provided by their employer to open an account.

### Recommendations from the research

Channeling wage payments into an account creates a strong incentive to engage with the account and learn about the features of the technology in a way that is not achieved by account opening alone. Channeling wage payments into formal accounts is an obvious next step with potentially large positive implications for access to finance and consumer learning in low- and middle-income countries where wage payments are still made predominantly in cash.

Some employers may want to avoid the transparency that comes with payroll accounts and may require nudges from regulators to adopt payroll accounts.