Consumer Protection

Predatory lending

This barrier refers to predatory lending practices that use unfair or deceptive tactics to lead a borrower to take on a loan whose terms benefit the lender. It can include imposing abusive loan terms on borrowers.

Why is this barrier important?
There is no available evidence that this barrier hinders access and use of financial services for women (or men). Predatory lending is prevalent especially in regions such as East Africa and South Asia where digital credit is growing. This barrier is common for both men and and women but with the latter (and other traditionally excluded customer segments) experiencing it greater. While the barrier can lead to negative consequences among consumers (e.g. over-indebtedness) that can undo the positive outcomes of financial inclusion, there is no evidence that indicates it discourages usage of DFS.

Connected Barriers

Prerequisites
Lack of credit history (for credit products only)

Cost
Non-transparent fee structures

Information Availability & Capability
Financial literacy

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

Consumer Protection
Over-charging

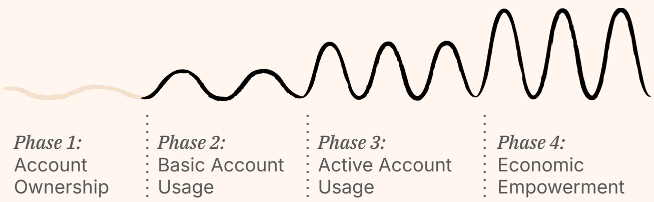
Fraud and scams

Social norms
All barriers in this category

Most Relevant Segments

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

Customer Journey Relevance



Key evidence relevant to this barrier

- "The development of digital lending is already raising concerns about predatory lending practices in some countries, which could become even more prevalent in the ongoing COVID-19 crisis. For instance, fintech borrowers who are unable to make loan repayments due to sudden loss of income, might be subject to aggressive debt collection practices and high late payment/default fees." (IMF, 2020).

- "Many customers take out loans without knowing details of the terms, and many end up paying late, incurring large fees. The lender takes advantage of this ignorance, charging late fees well above those disclosed in the terms and conditions; consequently, some borrowers are paying rates as high as 32.5%, over just 6 weeks (equivalent to an APR of 1,000%)." (Brailovskaya et al, 2021).

- "Low regulation of digital credit providers, poses a risk to consumer protection via predatory digital lenders, whilst also constraining the lending capabilities of more reputable digital lenders (e.g. by limiting their access to CRB data)." (Dalberg, 2021).

- "Due to the ease of applying and quick approval process for obtaining digital loans, combined with limited information about the digital loans, there is a risk of over-indebtedness. Additional challenges and risks include the rise of shadow banking, the lack of transparency in disclosures and lack of recourse mechanisms for SME borrowers, lack of credit information sharing and potential bias in the data used for credit risk assessment models that could lead to exclusion of specific type of SME borrowers." (GFPI, 2020).

- The rising popularity of FinTech companies is raising concerns about the proliferation of predatory lending practices, such as higher interest rates, confusing loan terms, and non-transparent operations (Palladino, 2019).

- A study in Mexico shows that loan officers voluntarily provide little information to low-income clients; more importantly, clients are never offered the cheapest product that fits their needs (World Bank, 2017).

- "Many lenders send unsolicited invitations to consumers to apply for digital loans, which can trigger borrowing with limited need or intention and, in turn increases the risk of non-repayment and over-indebtedness. Once prospective borrower seeks a loan, they are often not told the total cost of the loan on their mobile phone handset and are not able to review other key terms and conditions easily." (AFI, 2017).

- "A significant proportion of digital credit consumers in Kenya and Tanzania said they did not fully understand the costs and fees associated with their loans." 27% in Tanzania and 19% in Kenya report experiencing at least one form of poor transparency (e.g., unexpected fees, unexpected withdrawal by lender, or not understanding costs or terms of loan). "Further, 20% of digital borrowers in Kenya and 9% in Tanzania reported that they had reduced food purchases to repay a loan." (CGAP, 2018).

- "Digital lenders in India also seem to be following a practice of 'debt-shaming.' While installing some loan apps, borrowers are forced to provide consent to loan apps to access contact lists, call history, SMS logs, Facebook location, phone gallery, and a host of other information. Digital consumer credit apps then use this data in case of delayed or missed payments to pressure borrowers into repayments." (CGAP, 2021).

GRID Impact and SIA's analysis revealed that this barrier along with 11 others require further research and examination as to how they affect the customer experience, other barriers and overall WEE-FI. More in-depth analysis can be found in the larger Barriers & Exemplars Analysis compendium deck.