

EDITORIAL

Following the launch of FinAccess 2013 in October last year, FSD is in the process of producing an in-depth analytical publication with contributions from leading academics working on financial inclusion. The vision behind the publication is to stimulate new thinking on frameworks and methods for measuring financial inclusion, and to produce policy-relevant analysis. In June, a workshop held at Hemmingways in Karen, had contributors convened from different corners of the globe to present their draft papers and engage in an intensive peer-review process.

Thorsten Beck from the University of Tilburg, and Radha Upadhyaya from University of Nairobi presented papers on market structure. The authors found that growth in locally owned banks has substantially driven financial inclusion but the sector is still rife with challenges, including high interest rate spreads, high levels of concentration and lack of credit to agriculture. Billy Jack from University of Georgetown and Chris Yenkey from Chicago School of Business used very different methodologies to come to similar conclusions, demonstrating the influence of digitisation (specifically, M-Pesa) in formalising financial usage. Michael King from Trinity College Dublin and Susan Johnson from University of Bath presented new frameworks for measuring financial inclusion. Professor King countered the access strand approach which measures inclusion through formality of access, through developing a composite index that reflects 'quality of usage' combining a broader range of variables. Meanwhile Dr Johnson developed an agency based framework to measure financial capability through analysing the 'efficiency' with which individuals convert a set of endowments into a set of financially desirable outcomes. In her analysis, individuals in Nyanza emerge as more financially capable than those in Nairobi!

The workshop was rounded off by Julie Zollmann from Bankable Frontier Associates who gave us a foretaste of the soon-to-be launched Financial Diaries study. For a room full of economists drawing on national survey data, the richness and depth added by the more qualitative dimensions of the diaries was an eye opener! The papers will be published as an e-book in November this year.

Amrik Heyer

Head, Knowledge theme, FSD Kenya

NEWS AND VIEWS

Behavioural design and digital delivery

The 12th edition of FSD's research colloquiums held in May featured Alexandra Fiorillo from GRID Impact, presenting on impact behavioural design and financial inclusion with interesting implications for digital finance. She provided insights from behavioural economics (BE) and client-centered design to highlight important factors when designing for low-income consumers in a digital world. She cited case studies in microsavings, financial capability, consumer protection and other industries to make the case. "Observations from the United States indicate that people tend to spend more through credit cards than cash. Consumers may not feel as much loss or pain spending through digital money," she explained.



Alexandra Fiorillo delivers her presentation at FSD's research colloquium on Friday 23rd May, 2014.

Describing an experiment in Malawi that showed the importance of timing for financial institutions when introducing savings options to low income earners, the presenter explained that farmers were more open to offers immediately after the harvest season due to the expectation of income. Elsewhere, BE experiments have shown that bank account forms designed to be 'more behavioural' (based on customer habits) encouraged greater customer participation in saving plans while 'personalised' forms enhanced interactions between staff and customers. "Where positive results have been achieved, Grid Impact observed that behaviour change often happened with staff rather than clients," Alexandra explained. The presentation is available on our website www.fsdkenya.org.

Moving towards a systematic approach to financial graduation

While there has been strong progress in the last decade to expand financial access, socio-geographically marginalised populations continue to be excluded or underserved. The 2009 FinAccess survey indicates that 76% of North Eastern Kenya residents were financially excluded compared to

32.7% nationally. Since 2007, FSD has supported the Hunger Safety Nets Programme (HSNP) to deliver social payments to Kenya's marginalised northern region counties of Marsabit, Turkana, Wajir and Mandera. More recently, FSD has supported CARE Kenya to establish savings groups in Marsabit targeting HSNP beneficiaries, though not exclusively. Both initiatives have contributed to financial inclusion and improved livelihoods for vulnerable households in the region. Combining social transfers with financial services can provide explicit pathways for the poorest to climb out of poverty. The challenge has been how to scale up graduation models without compromising the quality of the programme. FSD has in the recent past commissioned scoping and feasibility studies as steps towards the permanent graduation of households from dependency in northern Kenya. The reports indicate varied opportunities for FSD to experiment with a more systematic approach, and to build on current interventions to leverage on the gains so far.

Implementation of a standardised interest rate measure in Kenya

In 2003, the Central Bank of Kenya (CBK) commenced publication of bank charges and lending rates to enhance competition by providing information. An issue that arose was the difficulty in calculating comparable lending and deposit interest rates. Consequently, CBK with support from FSD commissioned a study in 2008 to develop options for establishing a standard measure to determine consumer interest rates in Kenya. The Annual Percentage Rate (APR), Total Cost of Credit (TCC) and the Repayment Schedule (RS) were recommended for implementation. CBK released Prudential Guidelines in January 2013 for all financial institutions licensed under the Banking Act. The transparency obligations stated that: "*For both interest-bearing deposits and loans, institutions shall prior to the consumer signing the contract... (e) explain the method used to calculate interest rates... (g) provide a repayment schedule over the term of the loan indicating periodic principal repayments and interest charged; and (h) disclose the total cost of credit.*"

To support commercial banks implement these guidelines, FSD commissioned Genesis Analytics in June 2013 to develop models, toolkits and handbooks for the implementation of APR and TCC. Following successful piloting, banks began full disclosure of both APR and TCC in July 2014. This is expected to promote pricing transparency, stimulate competition in the banking sector, and promote consumer protection by helping borrowers make informed choices during the loan application process.

THE STATUS OF AGENTS IN KENYA

The Helix Institute of Digital Finance released its third Agent Network Accelerator (ANA) country report on 19th June 2014, at a launch event conducted in partnership with FSD and InterMedia. The research presented was based on a nationally representative sample of 2,113 interviews with agents that were conducted across Kenya in September/October 2013, as well as 748 additional interviews with banking agents. The presentation noted that agents in Kenya were very busy, conducting a median of 46 transaction per day for each provider, which is 48% more than the 31 transaction per day found in Tanzania. The presentation went further to focus on some of the key themes that emerged from the Agent Network Accelerator Survey: Kenya Country Report 2013, including the effect of market share on the character of the agent network, and the degree to which the agent networks are extending access to finance for Kenyans.

Dominance

Agents were selected randomly for the survey, and 90% of the ones engaged were serving M-Pesa. Across East Africa, each country has a leading provider, with MTN controlling 63% of agents in neighboring Uganda, and Vodacom having 55% in Tanzania, but the position in Kenya is an outlier. This has some interesting implications for the degree to which the country's agent network is shared. Exclusive agents only serve one provider, and providers like to keep it that way so their competitors cannot offer services through their networks, but they need a lot of market power to enforce this aspiration. Safaricom's market leadership has allowed it to keep the most exclusive agent network in the region, with 96% of agents serving only one provider vs. 48% in Tanzania. This seems to greatly impact profits for the agent since they can only earn revenue from one provider rather than multiple, and helps explain much of why agents in Tanzania make a median of \$US 95 per month vs only \$US 70 in Kenya. Kenyan agents do more transactions per provider, but make less money overall by serving fewer providers per agent outlet.

Impact

The presentation examined impact from multiple angles, including the geographical expansion of the access to financial services. The access frontier is being expanded with at least 55,000 agents across the country, which is much higher than the approximately one thousand bank branches in Kenya. However, it seems agent expansion might be constrained geographically. Of the 77% of agents that report traveling to rebalance their float levels, 77% of them say it takes them 15 minutes or less to reach their rebalance point (59% of all agents). Since 91% of those reporting use a bank to rebalance, it seems likely that the majority of Kenyan agents are concentrated around the very financial infrastructure that we are trying to extend

outwards. Further work is planned to look at the correlations to population densities, and try to determine the degree to which this is problematic.

Conclusion

Safaricom's M-Pesa continues to lead the market, but with the recent announcement that other providers may now on-board their agents, we may see a dramatic market shift in the near future towards a shared agent model as in neighboring Tanzania. Hopefully this will be able to boost agent profits in Kenya, as they are lower than in Tanzania and Uganda. It will also be interesting to see if this development catalyses more professional agent management from third parties, as there will be a huge potential increase in efficiency if a single entity can provide agent monitoring and support services for multiple providers at once.

In terms of the extension of access to finance, the Kenyan agent network is far more widespread than those in Tanzania and Uganda. However, it does seem that a significant proportion of agents may be tethered to the existing financial infrastructure for rebalancing. Therefore further expansion into rural and remote areas may require superior liquidity management techniques, requiring a little operational innovation. Overall, it is a very positive



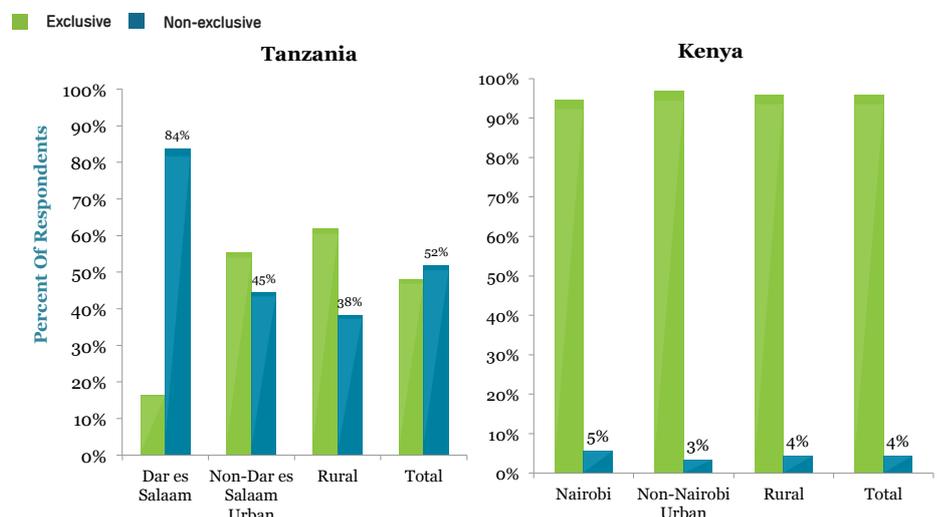
MicroSave's Mike McCaffrey delivers his presentation during the launch of the Agent Network Accelerator (ANA) Kenya country report on 19th June, 2014.

picture, from the frontier market in digital finance. The ANA Kenya country report 2013 can be accessed from <http://helix-institute.com/data-and-insights/agent-network-accelerator-survey-kenya-country-report-2013>

Mike McCaffrey

Head of Digital Financial Services, MicroSave

Exclusivity of agents by location: Kenya has remarkably high levels of exclusivity



The threat of losing their till was enough to keep almost all of Safaricom's agents exclusive. The high levels are quite stunning compared to neighbouring Tanzania.

EVENTS CALENDAR

27 - 28 August, 2014

Bancassurance Africa Conference, Nairobi - Kenya.

For more information, visit: <http://www.trueventus.com/event.php?intid=251>

1 - 12 September, 2014

School of African Microfinance (SAM) programme, Mombasa - Kenya.

For more information, visit: <http://www.samtraining.org>

FSD Kenya is an independent Trust established to support the development of inclusive financial markets in Kenya

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