EDITORIAL

Successive rounds of the FinAccess surveys on the usage of financial services in Kenya have shown that there is a marked progress towards financial inclusion in Kenya. Over the years, there has been improvement in the uptake of formal financial services. Whilst clearly a welcome trend the rapid expansion across all segments of the population heralds a challenging phase of protecting consumers to ensure the final outcomes for users are equally positive.

First time users of formal financial services in particular need clear information about the products and services on offer as well as their rights and responsibilities. Sometimes, both experienced and first time consumers find themselves as victims of supplier pressure and purchase financial services and products that do not necessarily meet their needs (but whose uptake is favourable to the supplier).

The Central Bank of Kenya (CBK) has an implicit consumer protection mandate and has been seeking to improve the conduct of financial services providers in the banking sector. Recent moves have been made to introduce more explicit guidance to regulated institutions on market conduct. A comprehensive revision of the prudential guidelines for banks was undertaken in 2012 and came into effect from the beginning of 2013. For the first time these guidelines cover important aspects of consumer protection such as disclosure requirements and consumer recourse. Implementation of the guidelines will require changes in the way banks deal with clients. The industry has responded positively taking steps to introduce better recourse mechanisms, dispute resolution and publication of total cost of credit and repayment schedules for all loan offers. FSD has been supporting Kenya Bankers Association in this effort.

To support this shift, CBK will also seek to monitor progress. One approach is to use mystery shopping. This will provide an important customer-centric perspective which will help the industry make meaningful progress. On the demand side, financial capability may yet offer the most effective form of consumer protection even under the best regulatory regimes. To this end, FSD is also working with CBK on the development of a national policy framework for financial education and capability in Kenya.

Victor Malu
Head, Future Financial System theme, FSD Kenya

NEWS AND VIEWS

Geographical Information System (GIS) mapping of financial services in Kenya

The FinAccess 2013 GIS mapping of financial services touch points in Kenya project was undertaken by Bill & Melinda Gates Foundation in collaboration with the FinAccess partnership. It was conducted from May to October 2013 and a total of 65,353 financial touch points, with GIS coordinates, were captured nationally. The survey is part of a wider project by the Gates Foundation to enable policy makers and key financial sector decision makers identify gaps in access to financial services in Africa. The findings will be publicly available on fspmaps.com after an official launch (this quarter).

The portal enables users to identify the location of financial services at the national level, view access point details including the institution’s name, type and a photograph, establish the number of financial service points within a specified distance, as well as summarising the population in the given area and generating summary reports. It also has a drag and drop feature that enables researchers to layer their own data onto the existing data and generate maps and reports. The portal should prove an important tool for policy makers and those interested in the development of financial markets in Kenya.

Savings Groups project updates

FSD’s Savings Groups (SG) scale up phase 1 project ended in December 2013. Overall, the project realised considerable success in 3 of the 4 project components – namely refining SG delivery channels, improving savings groups’ methodologies and poverty impact assessment. The component on developing a national scale-up framework was not realised as development of technology components and research studies which are vital to inform the scale up strategy had not been concluded.

By September 2013, the project had reached 223,740 members in 8,780 SGs against a target of 151,000 members. Impressive progress was made on reducing the training cost per member (CPM). Kenya now has among the lowest delivery costs for SG interventions globally with overall CPM standing at KShs 642. Evidence so far shows that SGs are reaching further down the poverty strata than any other form of financial sector initiative. The project found ways to apply technology to extend the SG model through the development and initial pilot of a smart-phone based SG accounting system and form linkages with formal financial service providers.

FSD Kenya has commenced an interim phase to allow further development of a technology-enabled SG model, completion of research studies and further work to expand outreach to the most marginalised population groups. This phase will also provide room to engage key SG stakeholders to share lessons and draw up a common strategy for a national scale up. A project brief will be shared soon.

Moving towards a National Safety Net Programme (NSNP)

The global need for social protection has been widely acknowledged as a human right and many more governments are now making significant investments in the area. In May 2012, the Government of Kenya introduced legislation to establish an institutional framework for implementation of a national social protection programme.

Among priorities outlined within the National Social Protection Policy (NSPP) was the need to institutionalize such programmes, strengthen their operational systems and expand their coverage. The National Safety Net Programme (NSNP) was established to create a framework around which the five principal cash transfer programmes (older persons, urban food subsidy, persons with severe disability, orphans and vulnerable children and the hunger safety net programme) would be increasingly coordinated and harmonized.

In 2013, the World Bank signed an aide memoire with the Kenya government that would see the bank offer support towards progressive expansion of the NSNP. The latter has since been working with the Ministry of Children and Social Development, the National Drought Management Authority and the Ministry of Finance towards this end. The government’s ambition to expand social protection will see it injecting in excess of KShs 4 billion in the financial year 2013/14. This is expected to rise to KShs 17.4 billion by 2016/17 thus increasing the number of beneficiaries from 1.6 million to 2.89 million.
SCALING UP CREDIT INFORMATION SHARING

As credit markets become more competitive, it is essential for the monetary authorities to build a robust financial sector to enable responsible lending while supporting efficiency and transparency in the marketplace. FSD Kenya has over the last several years engaged with the Central Bank of Kenya (CBK) and the Kenya Bankers Association (KBA) to promote sharing of credit information among banks, and expand the framework to the entire credit market. A comprehensive credit referencing system that allows sharing of both positive and negative credit information will accelerate growth of SMEs through improved efficiency in the lending environment and reduced reliance on tangible collateral.

Between May and June 2013, FSD undertook a mid-term review of the Kenya Credit Information Sharing Initiative (KCISI) project phase II (launched in October 2011 and ending in October 2014). The review assessed the progress of the project against its objectives and made detailed recommendations on the best way forward. Phase II of the project aims to achieve the following by October 2014:

- **Output 1:** A functional legal regulatory framework for comprehensive CIS policy.
- **Output 2:** All banks participating in full-file information sharing.
- **Output 3:** All deposit-taking microfinance institutions (DTMs) participating in a functional credit reference system.
- **Output 4:** All other credit providers participating in a functional credit reference system.
- **Output 5:** Greater understanding of Credit Information Sharing (CIS) by all stakeholders.
- **Output 6:** Enhanced capacity of all institutions in CIS mechanisms to function effectively.

During the period of review, banks and DTMs undertook extensive exercises to test their data submission capabilities through pilot data sharing. The outcome of these pilot runs was the confirmation that banks, DTMs and CRBs are largely ready to commence the more demanding segment of sharing full-file data among the 43 banks and 10 DTMs. This will constitute the main agenda for the second half of the project's phase II.

On output 4, the report recognises the extensive engagements underway to involve a wide range of players under the umbrella of a CIS national forum that has succeeded in registering the Association of Kenya Credit Providers (AKCP). The second half of the project’s phase II, AKCP will be instrumental in championing the expansion of the mechanism to various non-bank credit providers.

The assessment report notes that there is an increasing uptake of credit reports requested on individuals. As at the end of May 2013, 84,000 reports were requested monthly compared to 68,000 reports requested monthly at the start of phase II in October 2011. The trend is replicated in the number of credit reports requested on companies which tripled to 1,577 from 563 in the same period. With the anticipated inclusion of DTMs and other non-bank credit providers later on, this trend is bound to be sustained.

As the financial inclusion agenda continues to take shape, a number of banks are partnering with mobile network operators to offer innovative services for micro-lending. Notable among them are M-Shawani (CBA), KCB M-benki and Pesamob (Family Bank) who have partnered with Safaricom to offer small value loan facilities. The mid-term review observes that this trend poses an exciting challenge to the project as there is need to think ahead and devise mechanisms of encompassing such innovations effectively under the CIS umbrella.

Jared Getenga
Project Manager, KCISI

### EVENTS CALENDAR

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<td>4th Annual Africa Banking &amp; Finance Conference</td>
<td>Nairobi - Kenya</td>
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<td>25 April, 2014</td>
<td>The 3rd Banking &amp; ICT Summit 2014</td>
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<td>7 - 8 May, 2014</td>
<td>11th African Finance Journal Conference – Call for papers</td>
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