

FINANCIAL INCLUSION insights

APPLIED RESEARCH FOR digital financial inclusion



KENYA

WAVE 4 REPORT FII TRACKER SURVEY

Conducted August 2016

May 2017



BILL & MELINDA
GATES *foundation*

PUTTING THE USER FRONT AND CENTER

The Financial Inclusion Insights (FII) program responds to the need identified by multiple stakeholders for timely demand-side data and practical insights into digital financial services (DFS), including mobile money, and the potential for their expanded use among the poor.

The FII team implements nationally representative population surveys and qualitative research studies in **Bangladesh, Kenya, India, Indonesia, Nigeria, Pakistan, Kenya and Uganda** to:

- **Track access to and demand** for financial services, especially DFS;
- **Measure adoption and use** of DFS among key underserved groups (females, poor, rural, etc.);
- **Identify drivers and barriers** to further adoption of DFS;
- **Evaluate the agent experience** and the performance of mobile money agents; and
- **Produce actionable, forward-looking insights based on rigorous data** to support product and service development and delivery.

The FII program is managed by InterMedia. Visit the FII Resource Center to learn more: www.finclusion.org.



CONTENTS



Executive Summary	4
Customer Journey	13
Preconditions	19
Access & Trial	30
Registration	36
Active Use	43
Advanced Active Use	49
Special Topic: Financial Lives	56
Key Indicators Summary	61
Methodology & Research Description	63
Glossary	65

EXECUTIVE SUMMARY

UNDERSTANDING FINANCIAL INCLUSION

What is financial inclusion?

Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way (*The World Bank*). Financially included individuals are those who have an account in their name with a full-service financial institution.

How is it measured?

We measure financial inclusion as the percentage of adults (15+ years old) who report having at least one account in their name with an institution that offers a full suite of financial services, and comes under some form of government regulation.

How is it created?

Financial inclusion is created through the uptake and use of individual accounts with institutions that offer a full suite of financial services – savings, credit, money transfers, insurance and investment. Full-service financial institutions include banks, mobile money service providers, and nonbank financial institutions, such as deposit-taking microfinance institutions (MFIs) and financial cooperatives.

What institutions and services do not count?

Individuals who own accounts with institutions that are not full service, such as credit-only microfinance institutions (MFIs), are not considered financially included. Individuals who do not have their own full-service account or use someone else's account are not considered financially included. Individuals who only use services such as money guards, savings collectors, and digital recharge cards that are not attached to a bank or MFI account are also considered financially excluded.

SURVEY DEMOGRAPHICS

	Adult population (15+)
Gender	
Male	49%
Female	51%
Geography	
Urban	36%
Rural	64%
Income	
Above the \$2.50/day poverty line	56%
Below the \$2.50/day poverty line	44%

	Adult population (15+)
Age	
15-24	36%
25-34	26%
35-44	16%
45-54	11%
55+	12%
Aptitude	
Basic literacy	86%
Basic numeracy	98%

COUNTRY CONTEXT

Kenya continues to make deliberate efforts to increase the level of financial inclusion and strengthen confidence in the financial sector.

- Kenya has one of the most efficient and effective financial markets and the highest returns-on-equity for banks in the African continent. Despite these relatively favorable market conditions, Kenyans still face cost barriers that limit their access to credit. In August 2016, Kenyan president Uhuru Kenyatta signed into law legislation that sets an interest rate cap on loans at 400 basis points (4 percent) above the base lending rate set by the Central Bank of Kenya (CBK). The law also sets interest rates on savings deposits at a rate no lower than 400 basis points (4 percent) below the CBK's lending rate. These steps were taken in an effort to ensure more Kenyans have the ability to access credit and to entice them to save. This step was taken despite reports that several top government officials were concerned the legislation would curtail access to credit. In fact, recent reports from the CBK show there has been a contraction in the number of loans. As a result, fewer people are taking credit.
- Following the decrease in the interest rates on bank loans, SACCOs, which traditionally have offered loans at lower interest rates than those offered by banks, also cut their interest rates in an effort to remain competitive.
- More microfinance institutions (MFIs) are obtaining licenses from the CBK to operate as banks, leading to a decrease in nonbank financial institution (NBFI) users. As of May 2016, 13 microfinance banks were [licensed](#), offering a full range of services with a focus on the unbanked and underbanked.
- The Treasury recently released a [Budget Policy Statement \(BPS\)](#) recommending that Safaricom's M-PESA be classified as a fiscal risk in case of a system collapse. According to the statement, a technology outage would have a severe impact on the economy, including the loss of tax revenue and reduced confidence in the system, indicating its importance to the economy. The BPS notes that various financial products have been leveraged on the M-PESA payment channel, increasing the interconnectedness between the technology and banking sectors. Safaricom officials have said the company has multiple security systems in place to minimize the risk of disruption and safeguard customers' information.

COUNTRY CONTEXT

Financial service providers are finding innovative ways to expand mobile-enabled financial services, including through two different models: partnerships between banks and mobile network operators (MNOs), and banks that run a mobile virtual network operator (MVNO), which allows them to offer all of their financial services through a mobile platform.

- KCB-M-PESA, a mobile-based banking product offered through a partnership with Safaricom, was launched in March 2015. Among other services, KCB-M-PESA accounts give customers access to loans via their mobile phones. Reports from the CBK and the Communications Authority of Kenya (CAK), and the most recent FII tracker survey show the product is taking off and the number of accounts is growing rapidly.
- Equity Bank launched MVNO Equitel, registered under Finserve Africa, in July 2015. Equitel provides its own SIM cards to customers, which combine access to both banking and telecommunications services. This gives customers the ability to take advantage of all banking services through a mobile network. Reports from the CBK and the recent FII surveys show the service is currently showing tremendous growth (Ksh 138.5 billion (USD1.385 billion)). Equitel has now eclipsed players like Airtel (Ksh10 billion), Orange Money (Ksh 191 million) and Mobikash (Ksh 373 million).
- Equity Bank is driven by the desire to ensure Kenyans have access to digital banking platforms. They partnered with software giant Oracle to deploy a Bank 3.0 approach, featuring a number of digital products such as Eazzy Pay, Eazzy App, Eazzy Loan, Eazzy bank account and Eazzy Chama.
- A recent [report](#) by Sterling Capital and data from the CBK show Kenyans have cut the average number of transactions made using bank (debit) cards from three to one per month, preferring to use mobile banking channels. A drop in active use of banks is seen in this recent FII survey.
- mVisa is the most recent competitor to challenge M-PESA, in Kenya. mVisa, along with its partner financial institutions, [launched](#) a mobile-phone application to enable cashless transactions in Kenya. Consumers can pay merchants by scanning a QR code on a smartphone or by entering a merchant number into a feature phone. The payment is sent from the consumer's bank account directly into the merchant's account and provides real-time notification to both parties. The transaction runs through the Visa network; the consumers and merchants do not need to be customers of the same bank or mobile operator. For the first time, Kenyans now have access to a versatile and secure mobile payment solution.

NOTABLE STATISTICS

Close to seven in 10 Kenyans are financially included, driven by mobile money. Kenyans are progressing along the customer journey as the majority are moving to registered use and on to active advanced use of registered mobile money accounts, as well as registered bank account use. The overall level of financial inclusion remained stable at 69 percent between 2015 and 2016. Approximately 97 percent of the financially included population have mobile money accounts.

- While registered mobile money use did not increase in 2016, advanced account use increased significantly vs. 2015, mainly among the population living above the poverty line and relatively more educated.
- The percentage of those with mobile money accounts remained at the 2015 level, 67 percent. However, in 2016, the use of mobile money advanced services increased by 10 percentage points among active account holders.
- Full-service bank accounts rose slightly from 27 percent in 2015, to 28 percent in 2016. Use of advanced bank services among active users increased from 81 percent to 88 percent.
- NBFi account ownership showed a 2-percentage-point decline which may be a result of more MFIs obtaining licenses to operate as banks, which shifted their accounts to the banking industry.

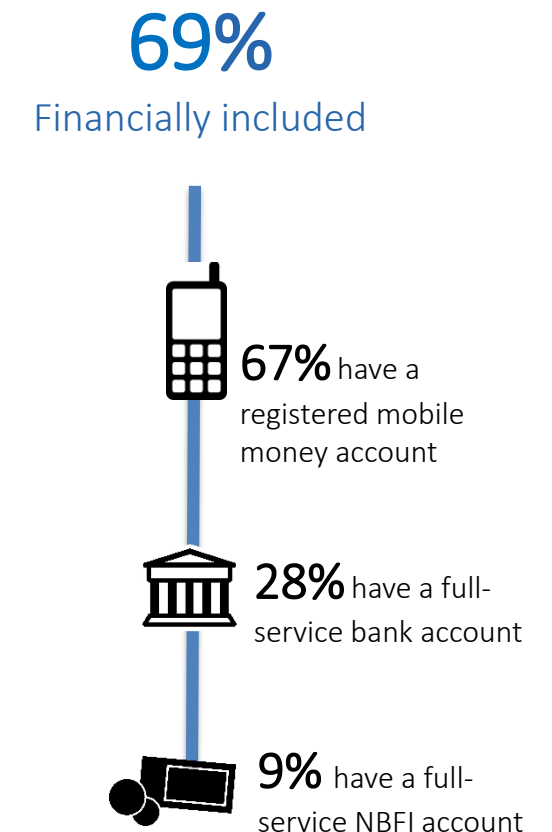
Use of active digital stored-value accounts decreased marginally across indicators. But the use of digital stored-value accounts to access other services beyond basic wallet, person-to-person transfers and bill payment showed a marginal increase indicating the use of financial services is becoming more entrenched.

Kenya is showing increased receptiveness to new models of mobile enabled financial services.

- Use of value-added services among active users increased rapidly from 2015 to 2016, growing by over 10 percentage points for the five major services measured. Equitel and KCB-M-PESA value-added products have seen a fast uptake by consumers, growing their customer bases to 12 percent and 10 percent, respectively, since their launch in 2015.
- The prevalence of mobile money and additional services is likely to increase even further, given the increased consumer preference for mobile services, increased levels of proximity to agents, and legislation that allows mobile money providers to share agents.

*Overlap representing those who have multiple kinds of financial accounts is not shown.

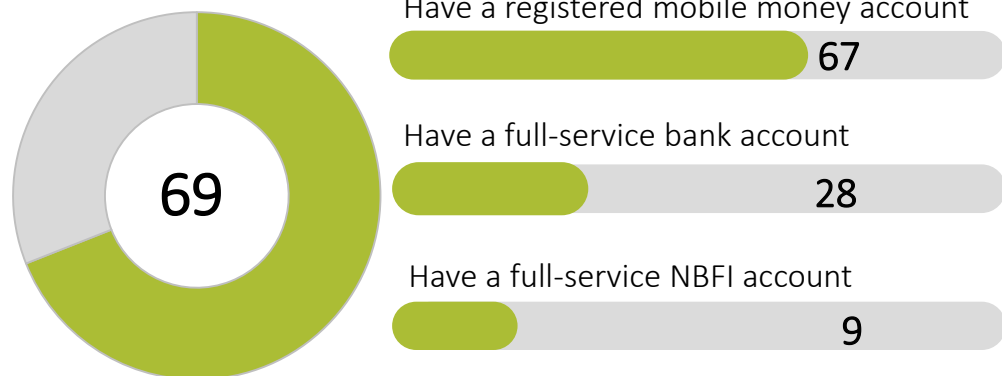
2016: Financial Inclusion*
 (Shown: Percentage of Kenyan adults, N=3,000)



FINANCIAL AND DIGITAL INCLUSION

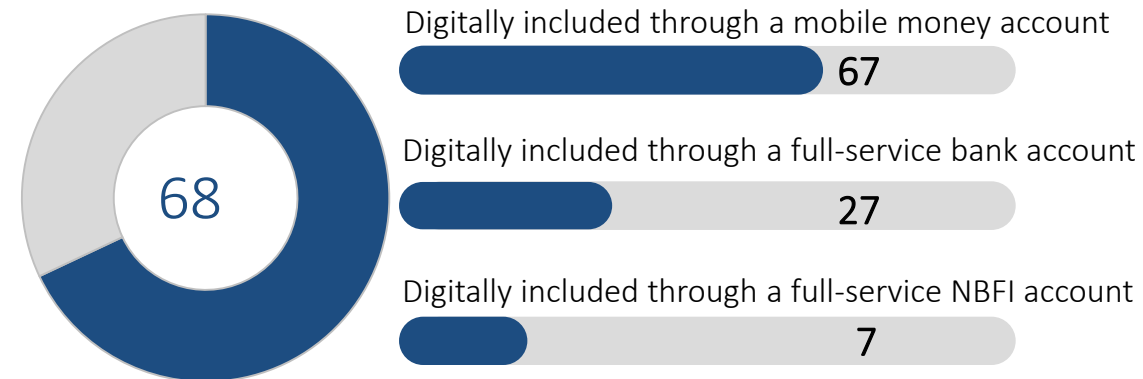
- Sixty-nine percent of Kenyans are financially included, driven by mobile money.
- Nearly all who are included have digital access to their financial accounts, mainly because most banks and NBFIs have taken advantage of advanced technologies, and introduced online and mobile banking to ease financial services access.
- To enhance digital inclusion and increase the transfer of money between and across banks, the Kenya Bankers Association (KBA) launched its real-time interbank switch, [PesaLink](#), in February 2017, and kicked off a phased rollout of the digital payments platform. The product has been in the making since 2013, when KBA member banks decided to create their own industrywide switch to rival M-Pesa services.

Financially Included*



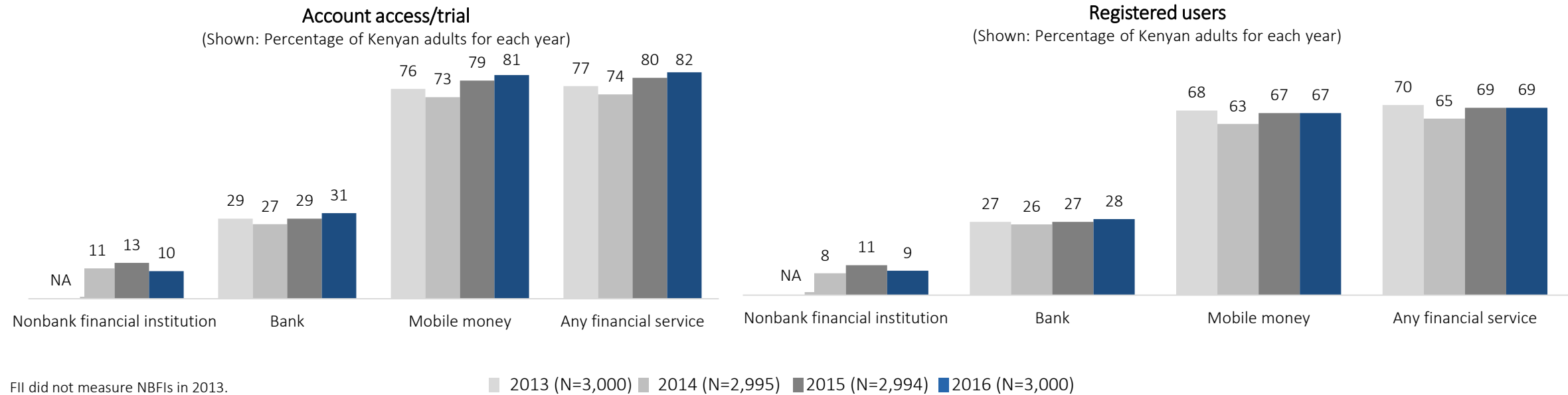
*Percentage of Kenyan adults, (N=3,000)

Digitally Included*



FINANCIAL SERVICES AT GLANCE

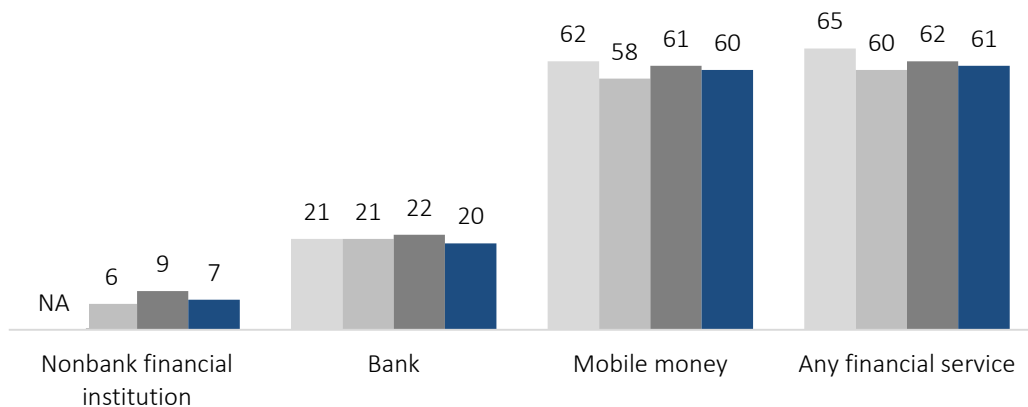
- Financial inclusion remained stable in 2016 vs. 2015; nearly seven in 10 Kenyans have registered financial accounts. Access to financial services also remained stable vs. 2015 with eight in 10 Kenyans reporting they had accessed, or had access to, one or more financial services.
- NBFIs gave way to banks as several larger microfinance institutions received licenses to operate as banks, losing their status as NBFIs. This is reflected in the slight increase in bank accounts and a decrease in NBFi accounts in 2016.



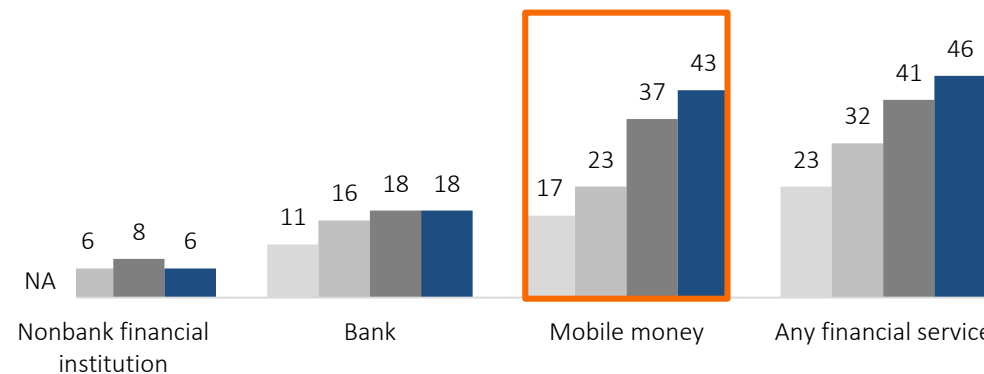
ACTIVE USE AND ADVANCED USE AT A GLANCE

- Active use (on a 90-day basis) of a registered account is highest for mobile money, and has remained relatively stable since 2013. Across all financial services, the number of active users remained stable in 2016. However, active users deepened their interaction with financial services, especially mobile money, with more adults becoming advanced active users.
- Since August 2015, when the Competition Authority required mobile money providers to display transaction costs, more consumers are aware of the fees and may be choosing to limit or maintain their current transaction levels. In contrast, banks have stable transaction costs, but poor accessibility limits the use of their services.

Active registered users
 (Shown: Percent of Kenyan adults for each year)



Advanced active registered users
 (Shown: Percent of Kenyan adults for each year)



FII did not measure NBFIs in 2013.

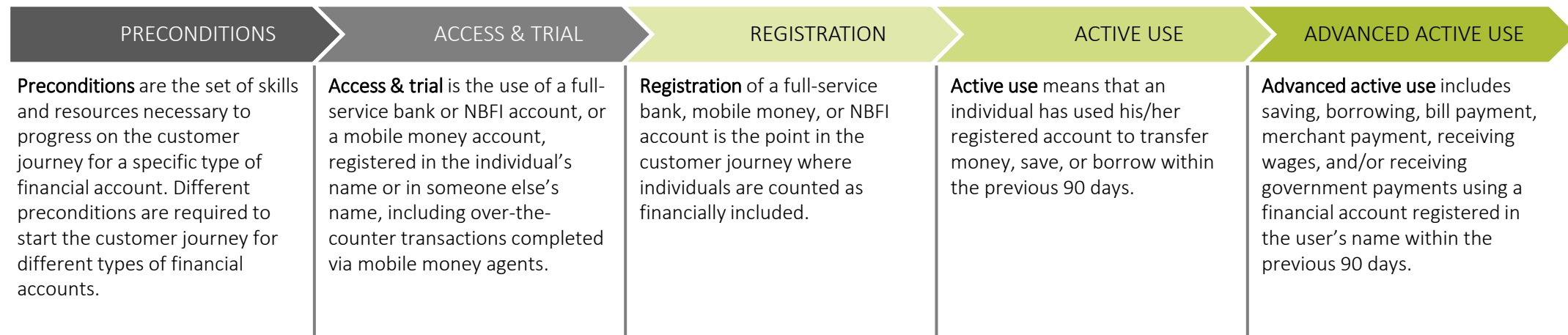
■ 2013 (N=3,000) ■ 2014 (N=2,995) ■ 2015 (N=2,994) ■ 2016 (N=3,000)

CUSTOMER JOURNEY



CUSTOMER JOURNEY

- Financial inclusion may be conceived as a process through which an individual’s needs are met by advancing step-by-step towards increasingly active engagement with a growing range of financial services.
- Understanding how different demographic groups advance on the customer journey is useful for developing strategies and interventions to assist more individuals to become users of the financial services that meet their needs.
- Five major stages in the customer journey are described in the figure below. The registration stage is where the FII program counts an individual as financially included, but the journey begins before, and extends after, registration.



PATHWAYS TOWARDS FINANCIAL INCLUSION

- Mobile money dominates financial services use, while banks provide a significant presence compared with NBFIs, reflecting the different access levels.
- The pathway to mobile money registration begins with the precondition of mobile phone ownership. The pathway to bank and NBFi registration begins with access to a point of service. The primary precondition for all of these services is having valid identification.

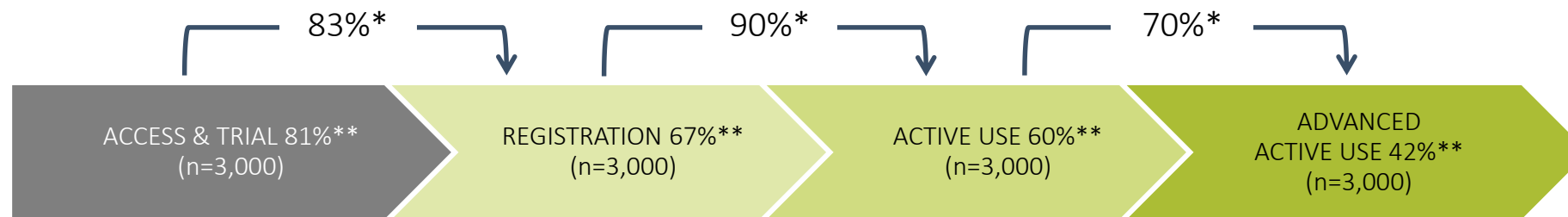


(Percentage of Kenyan adults, N=3,000)

THE MOBILE MONEY CUSTOMER JOURNEY

- The majority of Kenya’s adult population has progressed beyond the registration stage of the mobile money customer journey. The lowest conversion rate is seen when moving from active use to advanced active use. Three in 10 active users use mobile money for basic activities only, while 70% of active users use the services for advanced activities.
- Overall, 58% of Kenyans still do not use advanced mobile money services actively, however, mobile money still presents the best opportunity for Kenyans to engage in active and advanced use of financial services.

2016: Conversion rate for each step in the mobile money customer journey
 (Shown: Percentage of Kenyan adults)



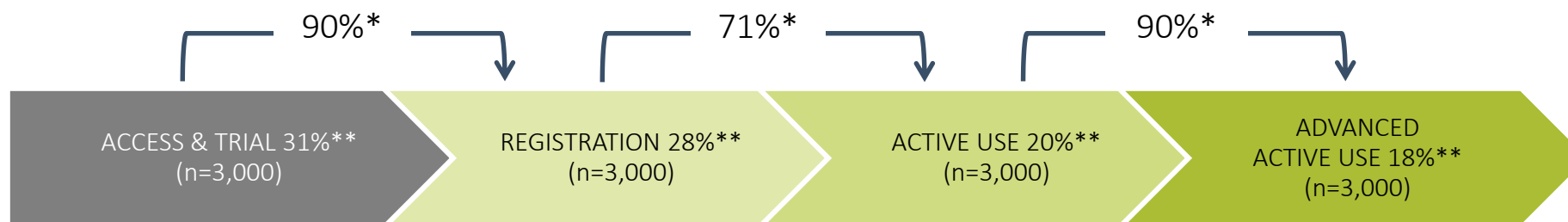
*Proportion that progressed to the next stage in the journey

**Proportion of the total population at each stage in the journey

THE BANKING CUSTOMER JOURNEY

- Banks follow mobile money as drivers of financial inclusion, but bank users show the highest conversion rates between active use and advanced active use. Nine in 10 moved from access to registration, and the same number moved from active use to advanced active use.
- However, the number of those who move from registered to active use is much lower, which indicates that nearly three in 10 bank account holders are inactive users of their accounts.

2016: Conversion rate for each step in the banking customer journey
 (Shown: Percentage of Kenyan adults)



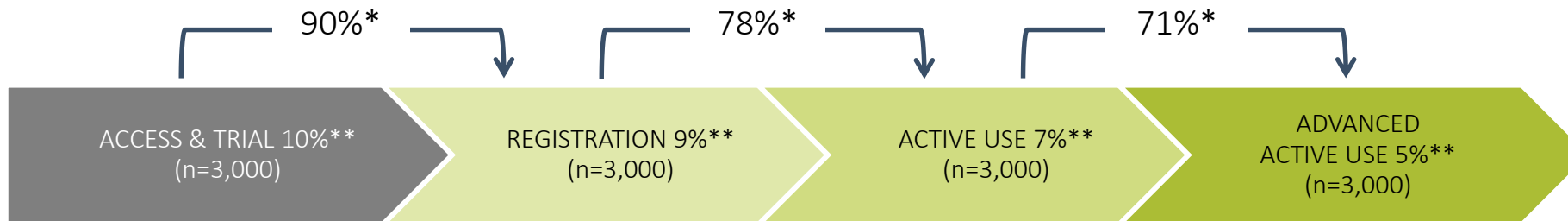
*Proportion that progressed to the next stage in the journey

**Proportion of the total population at each stage in the journey

THE NBFi CUSTOMER JOURNEY

- NBFi usage in Kenya is low, with just one in 10 adults accessing the service, and almost the same number holding registered accounts.
- When moving from registration, a steady decrease is seen as fewer adults progress along the customer journey toward advanced active use. NBFis are the only financial service institutions that show a steady decrease in conversion rates from access to advanced active use. This may be due to the fact that many NBFis only offer deposit-taking services and loans rather than advanced services such as bill pay.

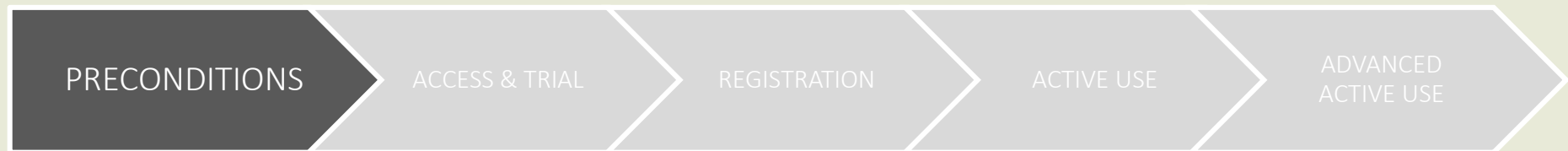
2016: Conversion rate for each step in the NBFi customer journey
 (Shown: Percentage of Kenyan adults)



*Proportion that progressed to the next stage in the journey

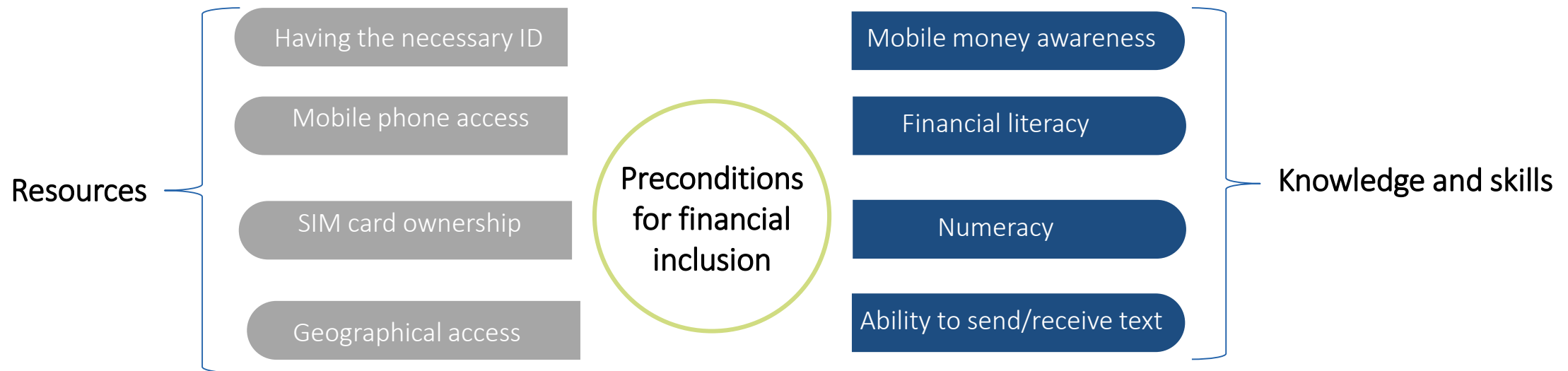
**Proportion of the total population at each stage in the journey

PRECONDITIONS



PRECONDITIONS FOR FINANCIAL INCLUSION

- Certain resources and skills are preconditions for advancing on the customer journey as shown below.
- While some of the following preconditions are necessary to access a financial account, others are not strictly necessary, but enable a consumer to register a financial account and use it in a meaningful manner to reap the benefits of financial inclusion.

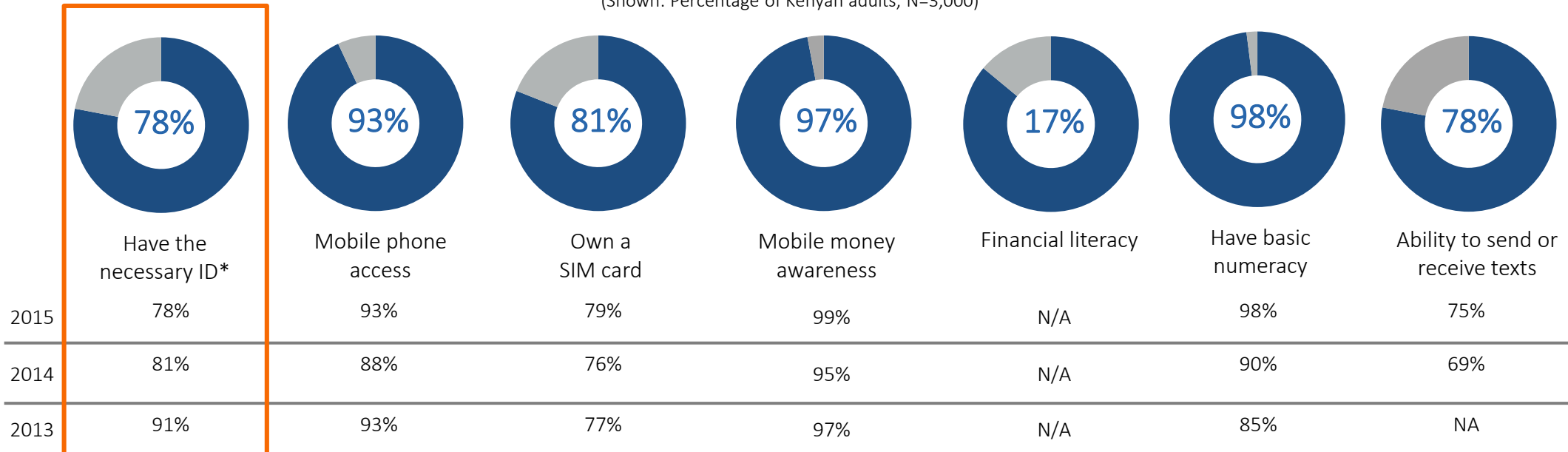


PRECONDITIONS: KEY INDICATOR TRENDS

- Most Kenyan adults meet the preconditions to DFS preparedness. Access to mobile phones remained stable in 2016, while the key skill for accessing DFS – competency in sending and receiving text messages – increased. Financial literacy, which helps financial services users understand advanced financial activities, stands at 17%.
- ID prevalence has, however, remained well below the 2013 level. The government has announced a plan to employ 1,200 additional registration clerks to help Kenyans acquire [identity cards](#) before the next general election, scheduled for August 2017.

2016: Key indicators of preparedness for digital financial services (DFS)

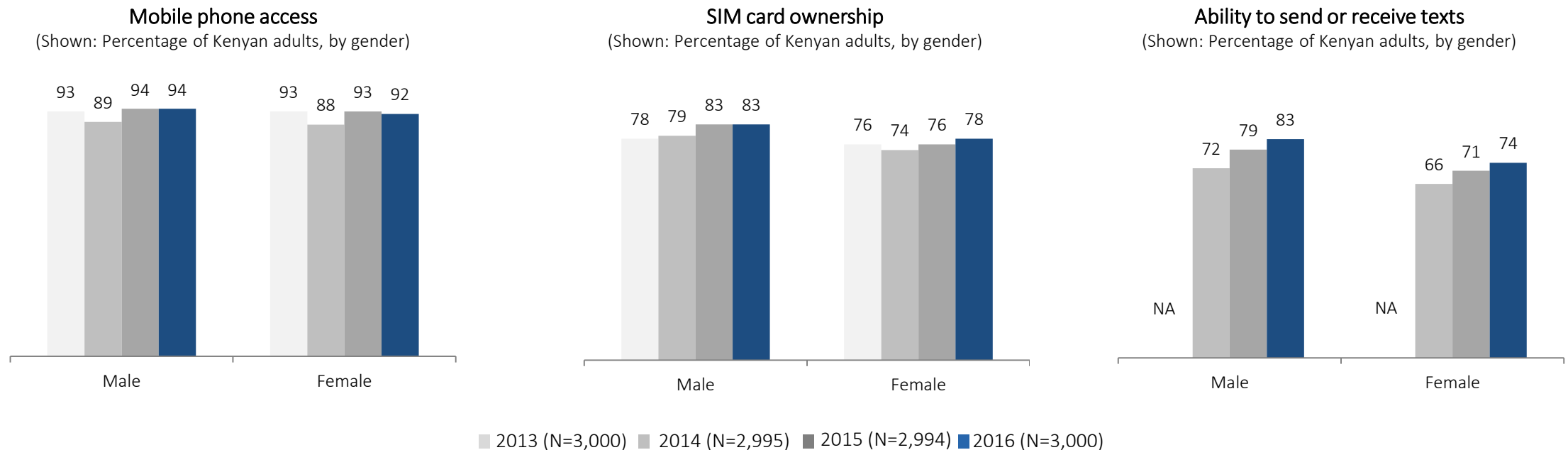
(Shown: Percentage of Kenyan adults, N=3,000)



Source: InterMedia Kenya FII Tracker surveys Wave 1 (N=3,000, 15+), September-October 2013; Wave 2 (N=2,995, 15+), September 2014; Wave 3 (N=2,994, 15+), September 2015; Wave 4 (N=3,000, 15+) August 2016.

MOBILE PHONE ACCESS, OWNERSHIP AND USE

- Women and men have nearly equal access to mobile phones in Kenya. The percentage of women who own SIM cards and are able to send or receive texts has steadily increased. Mobile phone access and SIM card ownership among men may have reached a peak, but the number of males who have texting capabilities has steadily grown.
- The most pronounced gap between males and females is seen in the ability to send text messages, despite the trend towards increasing prevalence of this skill among women. Empowering women with the ability to send and receive messages would lift a key constraint to the adoption of DFS.



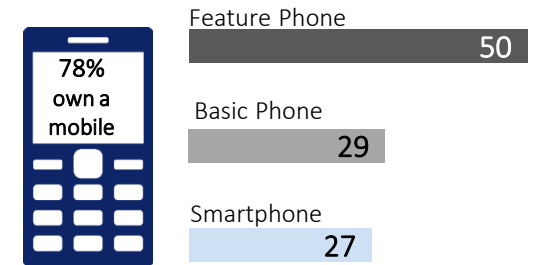
Source: InterMedia Kenya FII Tracker surveys Wave 1 (N=3,000, 15+), September-October 2013; Wave 2 (N=2,995, 15+), September 2014; Wave 3 (N=2,994, 15+), September 2015; Wave 4 (N=3,000, 15+) August 2016.

KENYA – PRECONDITIONS

PHONE OWNERSHIP DYNAMICS

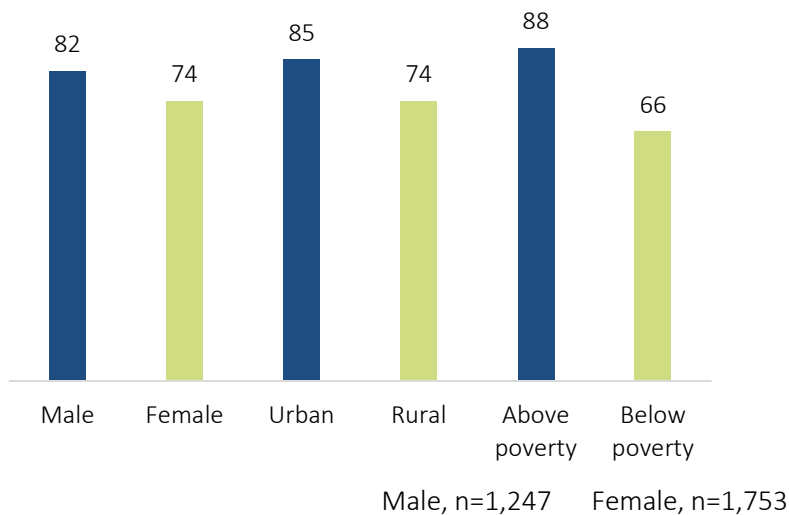
- Mobile phone ownership increased slightly in 2016 (78%), vs. 2015 (76%). Only 27 percent own smartphones, suggesting app-based mobile money services are unlikely to reach many, with USSD (Unstructured Supplementary Service Data) being more adaptable.
- Phone ownership traverses gender, location and poverty, but it is more pronounced for men, urban and higher income groups. Those who borrow phones are more likely to be women, people in rural areas and those below the poverty line.
- Lack of access to a phone is more prevalent among those in rural areas and those living below poverty.

(Shown: Percentage of mobile phone owners, n=2,351)



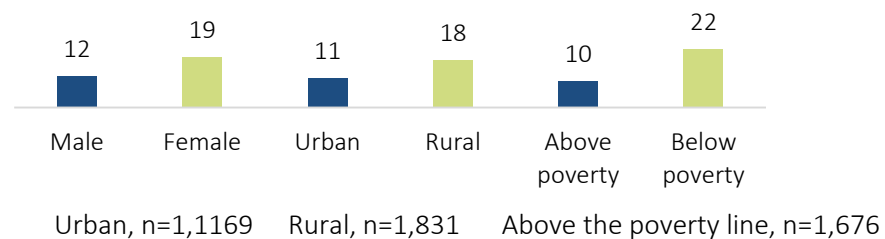
2016: Mobile phone ownership

(Shown: Percentage of Kenyan adults, by demographic)



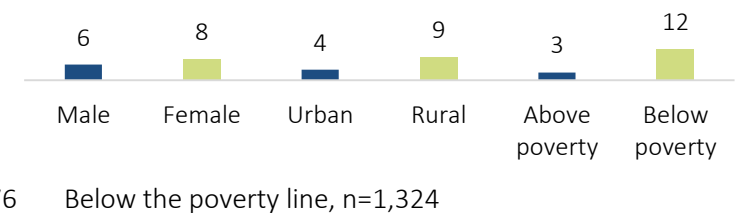
2016: Can borrow a phone

(Shown: Percentage of Kenyan adults, by demographic)



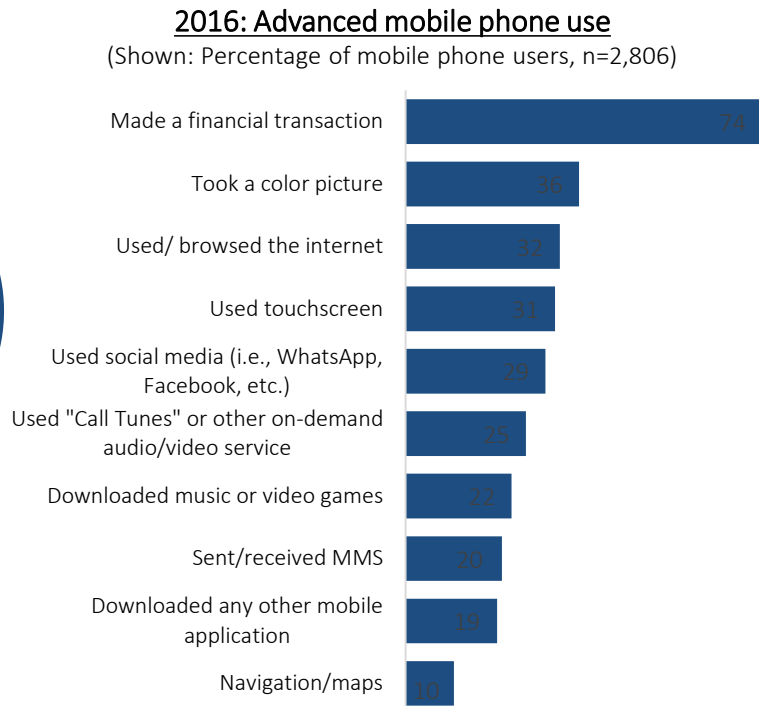
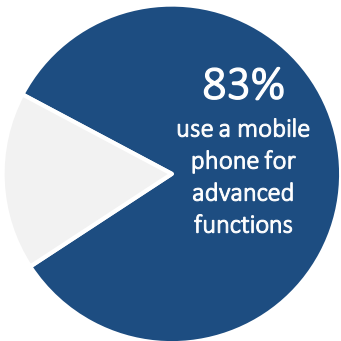
2016: Have no access to a mobile phone

(Shown: Percentage of Kenyan adults, by demographic)

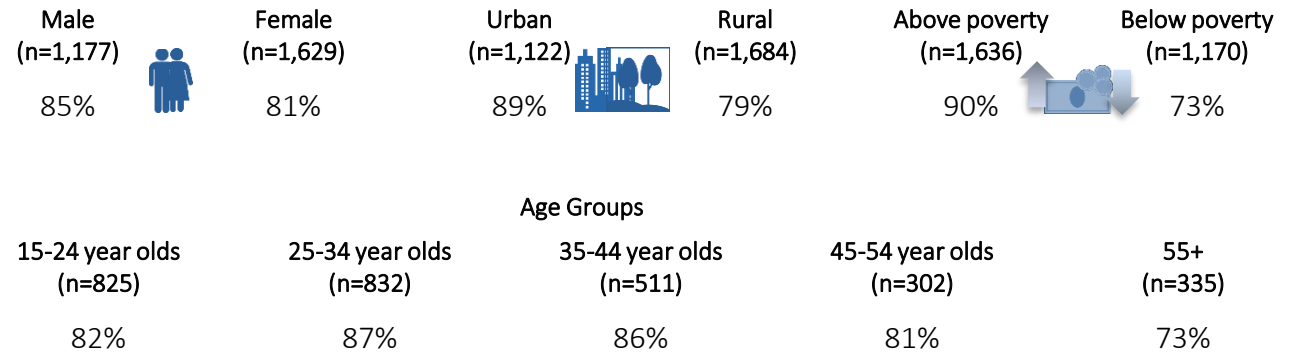


ADVANCED MOBILE PHONE USE

- More than eight in 10 use mobile phones for advanced functions, showing the potential for engaging even deeper with financial services and other channels like mobile applications and USSD. Those below the poverty line and over 55 years old are the least likely to be advanced users of mobile phones.
- Making a financial transaction is the most common advanced phone use; more than seven in 10 perform this advanced activity.

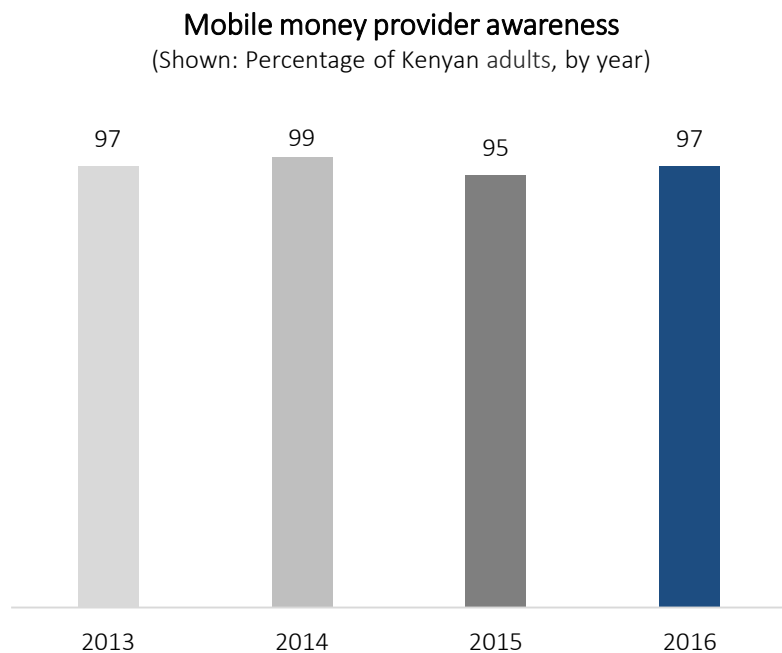


2016: Advanced mobile phone use, by demographic
 (Shown: Percentage of mobile phone users, by subgroups)



AWARENESS OF MOBILE MONEY

- Kenya is a mature mobile money market; almost all adults can name at least one mobile money provider, regardless of gender and poverty status. Awareness of mobile money has remained close to 100%.
- The small number who are unaware of mobile money lack basic literacy, and just over half have no phone access; a quarter lack basic numeracy skills.



2016: Awareness, by poverty level

100% of adults living above \$2.5/day poverty line are aware
 94% of adults living below \$2.5/day poverty line are aware

2016: Awareness, by gender

98% of males are aware
 97% of females are aware

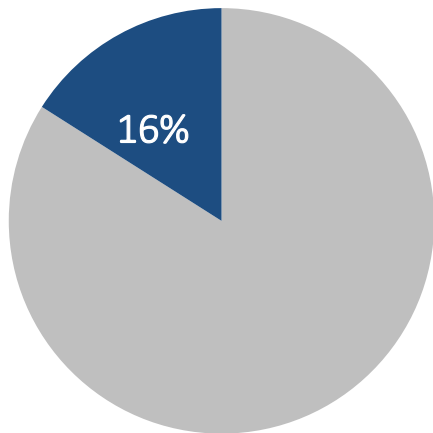
2016: Unaware of mobile money

70% Lack basic literacy
 25% Lack basic numeracy
 53% Have no access to a phone

AWARE NONUSERS OF MOBILE MONEY

- Close to one in five (16%) Kenyan adults know of mobile money but have not used it; the majority are young, below poverty, lack advanced education, live in rural areas and are unemployed.
- Very few aware nonusers of mobile money do not have financial accounts with other institutions, and few have insurance; however, they save and borrow, and a small percentage of this group invests.

2016: Aware nonusers of mobile money
 (Shown: Percentage of Kenyans adults, N=3,000)

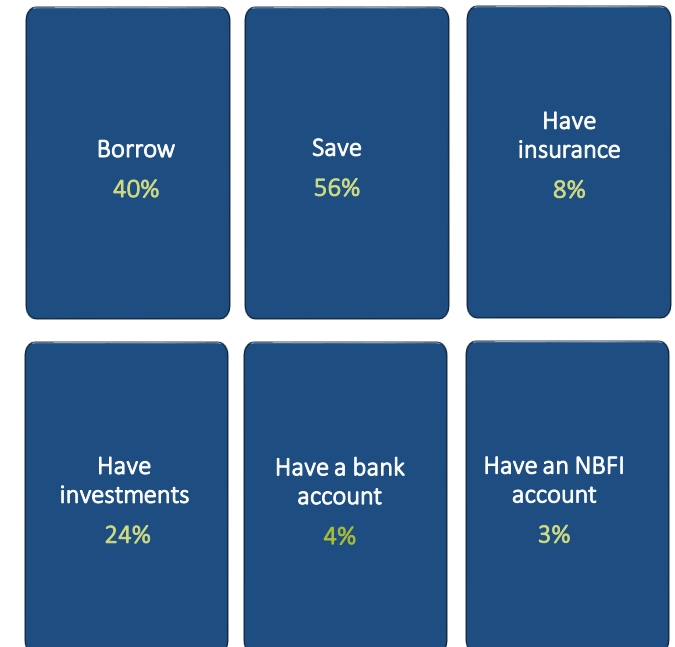


Those aged 15-24 comprise 57% of aware nonusers. Considering those in this age group do not yet have the resources to acquire and make use of mobile money, the high level of aware nonusers is expected; this also applies to those who live below the poverty line and in rural areas.

2016: Profile of aware nonusers of mobile money
 (Shown: Percentage of aware nonusers, n=459)



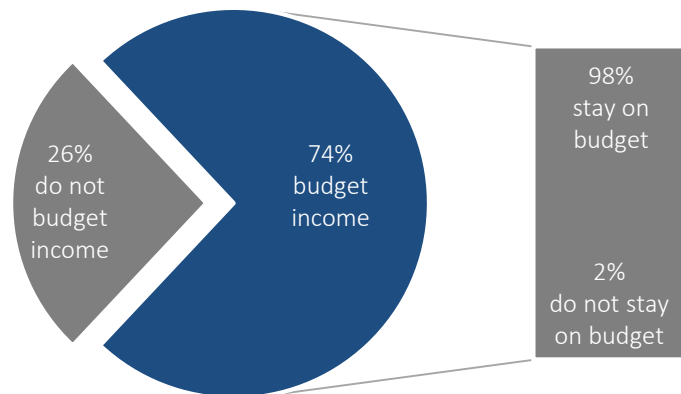
2016: Financial activities engagement
 (Shown: Percentage of mobile money aware nonusers, n=459)



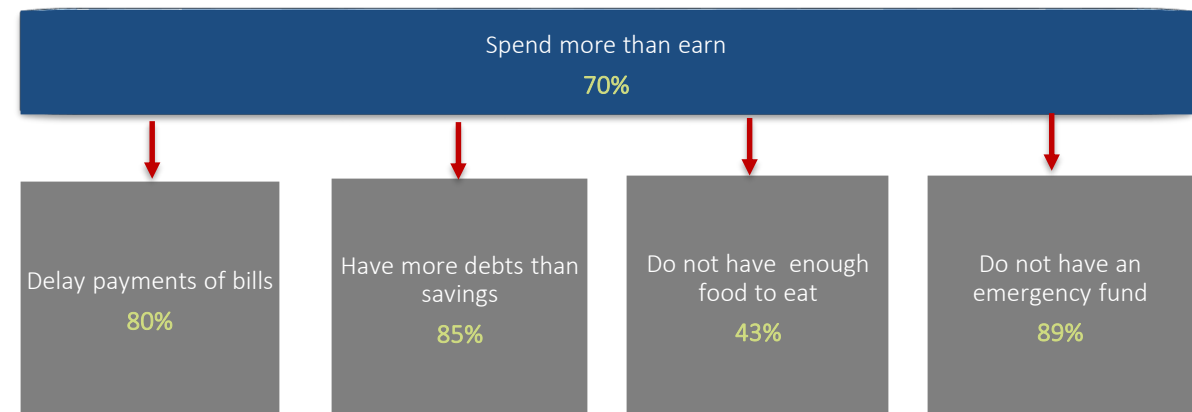
FINANCIAL BEHAVIORS OF AWARE NONUSERS OF MM

- Aware nonusers demonstrate positive financial behaviors by budgeting their incomes and staying on budget.
- Despite their efforts to stay on budget, aware nonusers have difficulty making ends meet, are not prepared for emergencies, and find themselves in debt and having to pay their bills late.

2016: Financial behaviors of aware nonusers
 (Shown: Percentage of aware nonusers, n=459)



2016: Financial behaviors of aware nonusers
 (Shown: Percentage of aware nonusers, n=459)



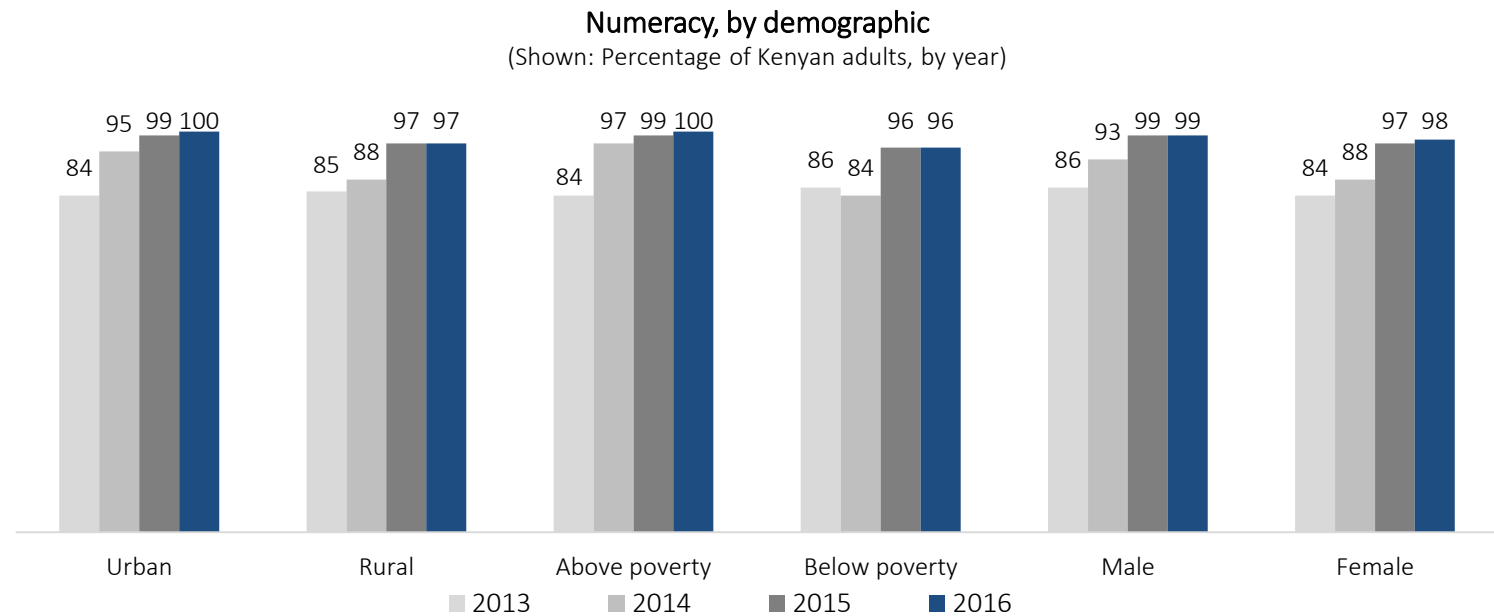
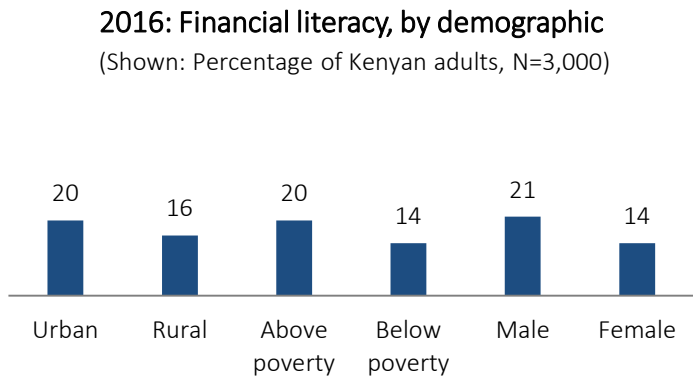
Financial behaviors

KENYA – PRECONDITIONS

FINANCIAL LITERACY AND NUMERACY

- Across demographics, financial literacy rates were very low in 2016, despite the high rates of numeracy (98%) and basic literacy (86%). Part of the reason for the low levels of financial literacy is that the Kenyan government still does not have a comprehensive financial education strategy that supports financial education to various segments of the population.
- Private institutions like the Equity Group Foundation, for example, have started their own financial literacy initiatives. In 2011, the foundation, in partnership with The MasterCard Foundation, started a [project](#) to scale up financial education among youth and women micro-entrepreneurs in Kenya.

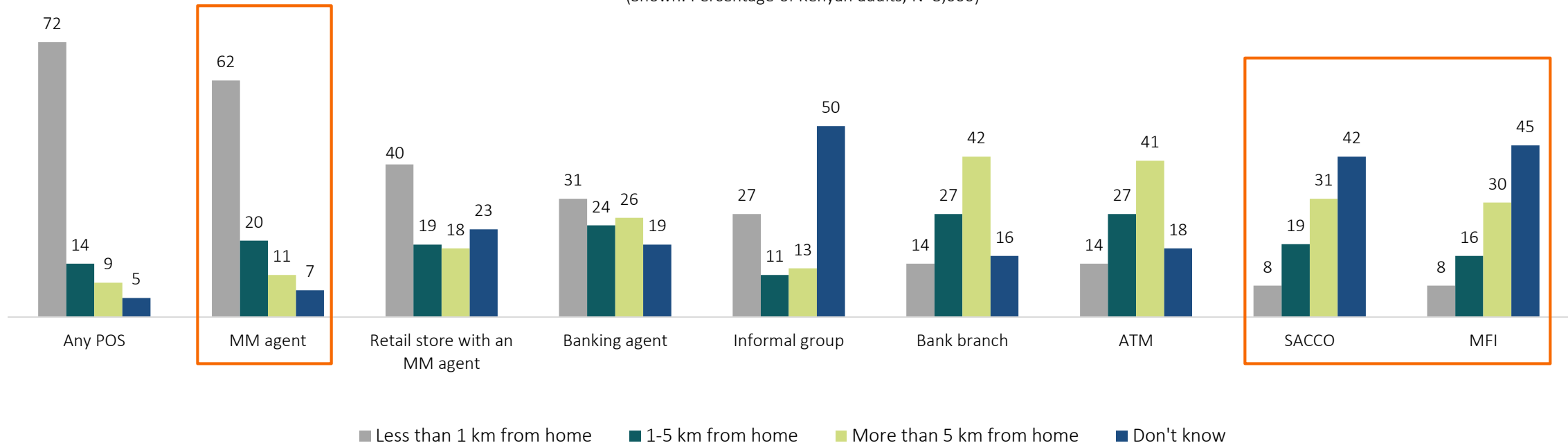
New to the FII survey in 2016, the financial literacy indicator uses a combination of survey items that measure basic knowledge of four fundamental concepts in financial decision-making (interest rates, interest compounding, inflation, and risk diversification) following the Standard and Poor’s Rating Service’s Global Financial Literacy Survey methodology.



GEOGRAPHICAL ACCESS

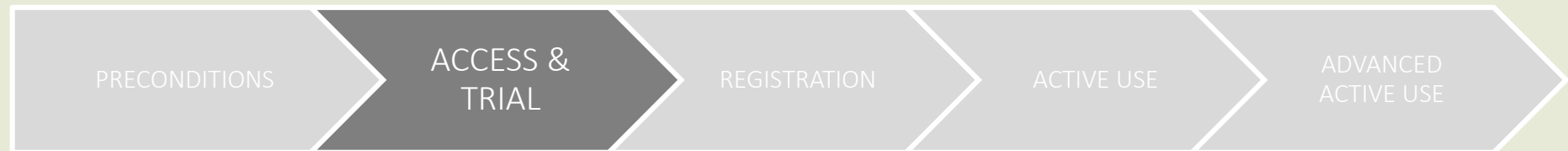
- Nearly three-quarters of Kenyans said they live within a kilometer of a financial point-of-service, with the closest being mobile money agents.
- The success of mobile money, in large part, has been due to this accessibility; mobile money points-of-service are widespread compared with those for SACCOs and MFIs.

2016: Proximity to points-of-service (POS) for financial institutions
 (Shown: Percentage of Kenyan adults, N=3,000)



Source: InterMedia Kenya FII Tracker survey Wave 4 (N=3,000, 15+), August 2016.

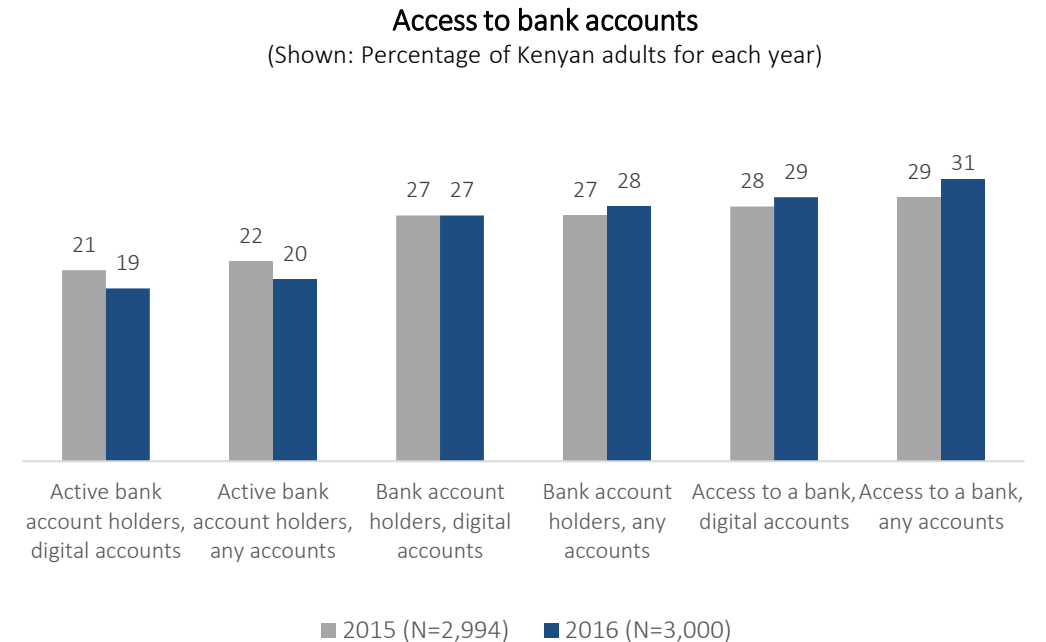
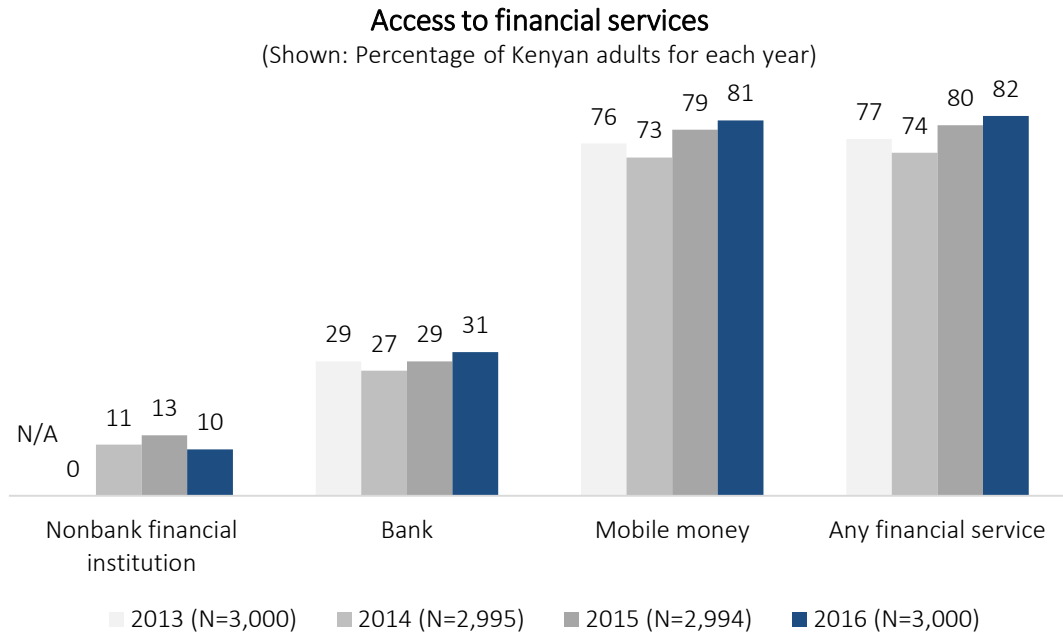
ACCESS & TRIAL



ACCESS AND TRIAL OF FINANCIAL SERVICES

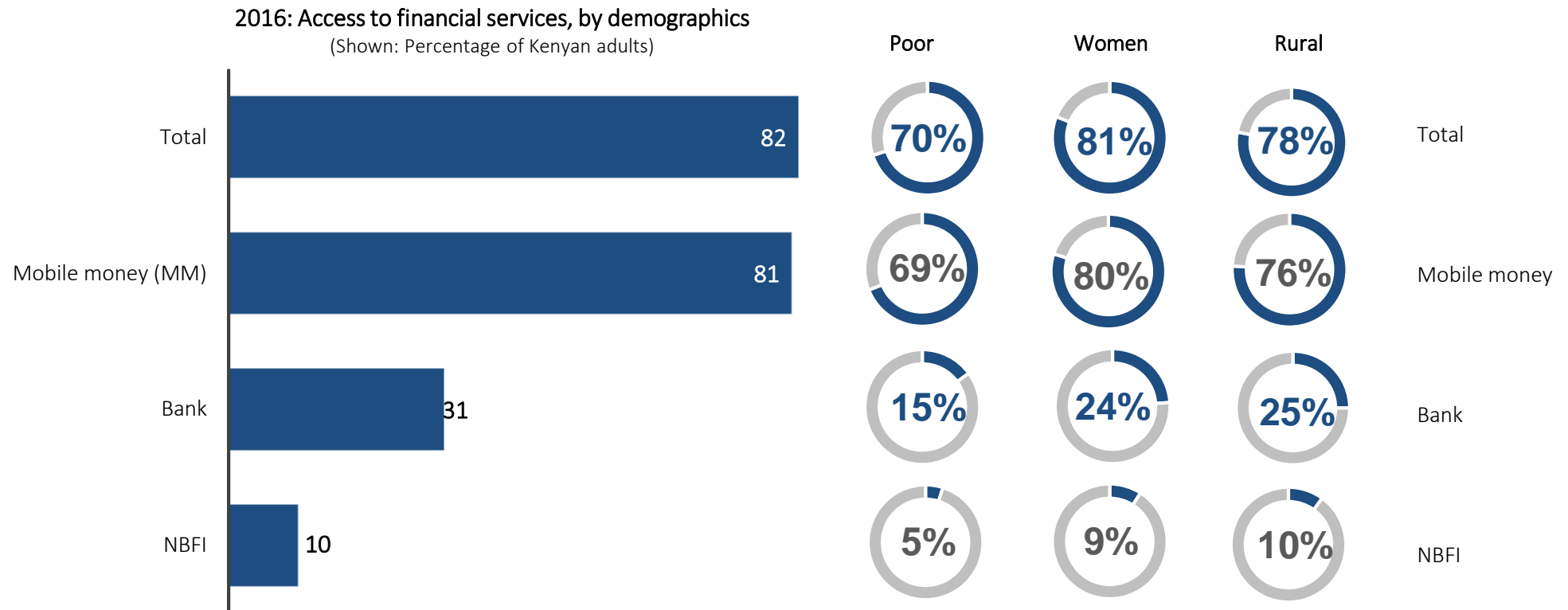
- More than 80% of adults had accessed full-service financial accounts (either their own or one belonging to someone else) in 2016. Seven in 10 adults report that a point-of-service (POS) is located within a kilometer of their household.
- NBFIs access has decreased due to the fact that many MFIs are now licensed as banks.
- With the increased use of banking-related technology (online and mobile banking coupled with the recent introduction of PesaLink), the number of adults who access digital bank accounts may be set to increase.

72%
 have access to a POS within a kilometer



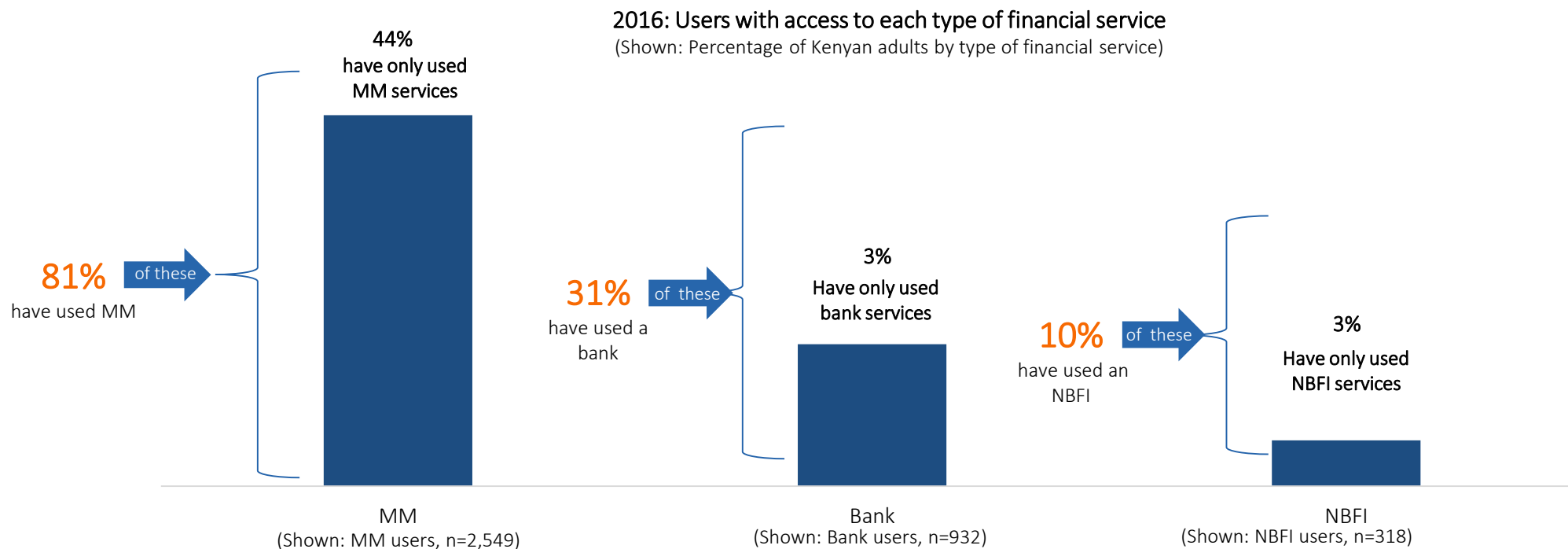
ACCESS TO FINANCIAL SERVICES

- More than seven in 10 of those who are in a demographic group that is considered “disadvantaged” (below the poverty line, female, and rural) have used at least one financial service. Their financial needs are mainly being met by mobile money followed by banks and, lastly, NBFIs, despite the fact NBFIs were initially designed to serve these demographic groups.



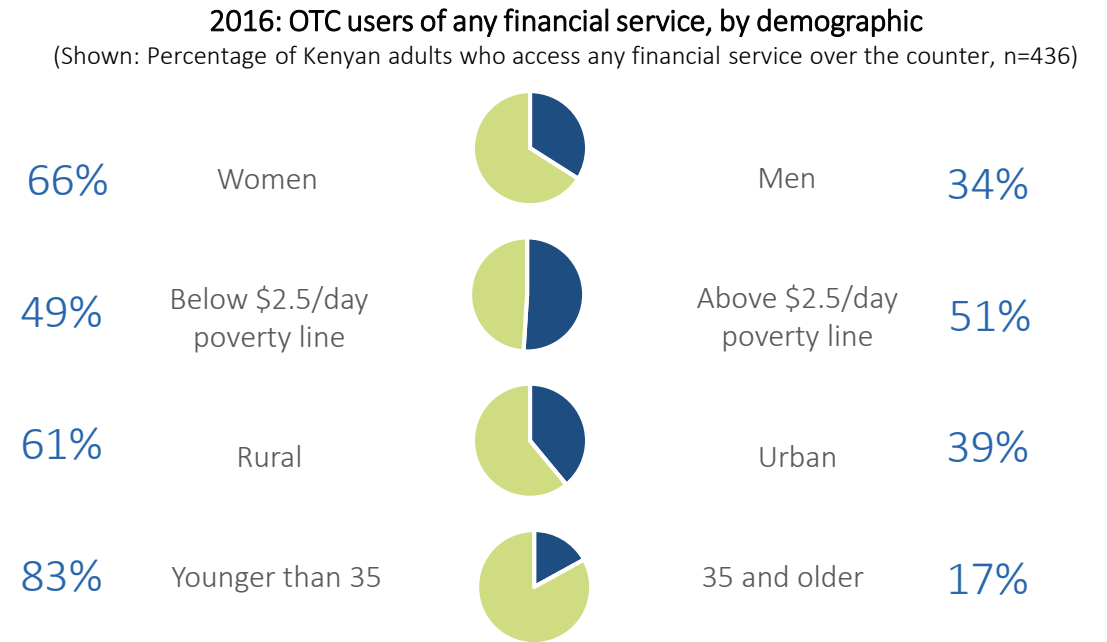
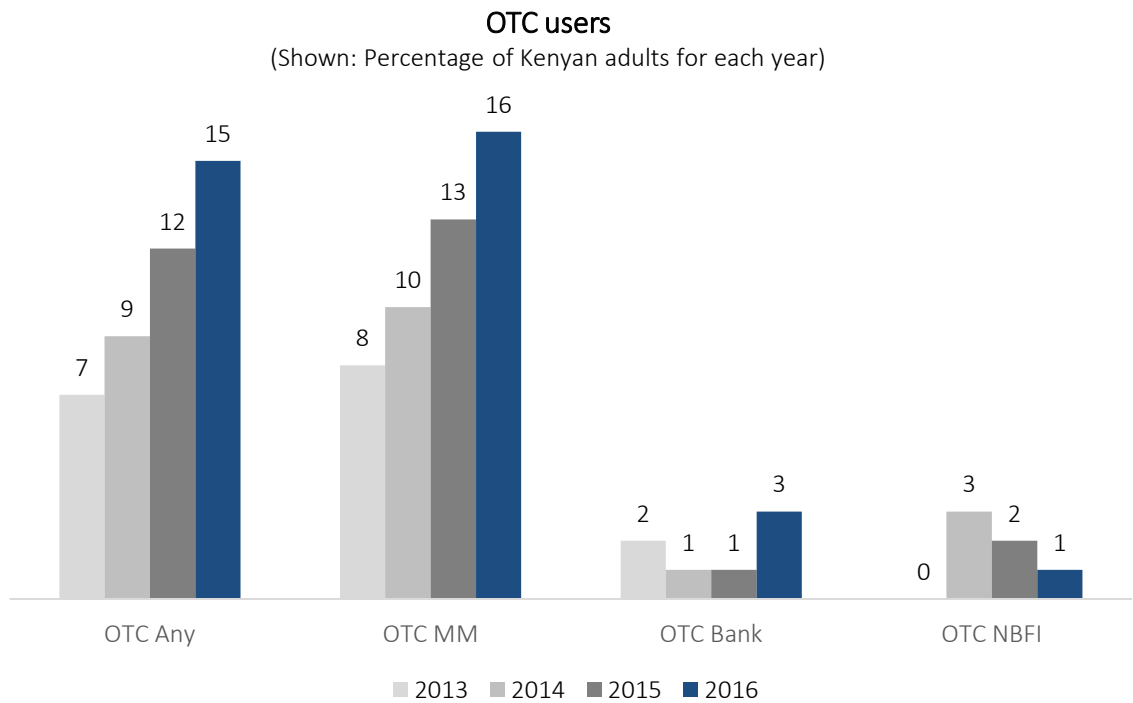
BANK, NBFİ AND MOBILE MONEY ACCESS

- Eighty-one percent of adults used a mobile money (MM) account in 2016. Out of these, 44% used mobile money exclusively, the rest used either a bank, NBFİ or both, in addition to mobile money.
- Mobile money has the highest proportion of users who use the service exclusively, which may mean the services (a) cater to the entire range of customers’ needs, even those with some advanced needs, and/or (b) they are the most accessible and convenient to use when compared to those of banks and NBFİs.



OVER-THE-COUNTER USE

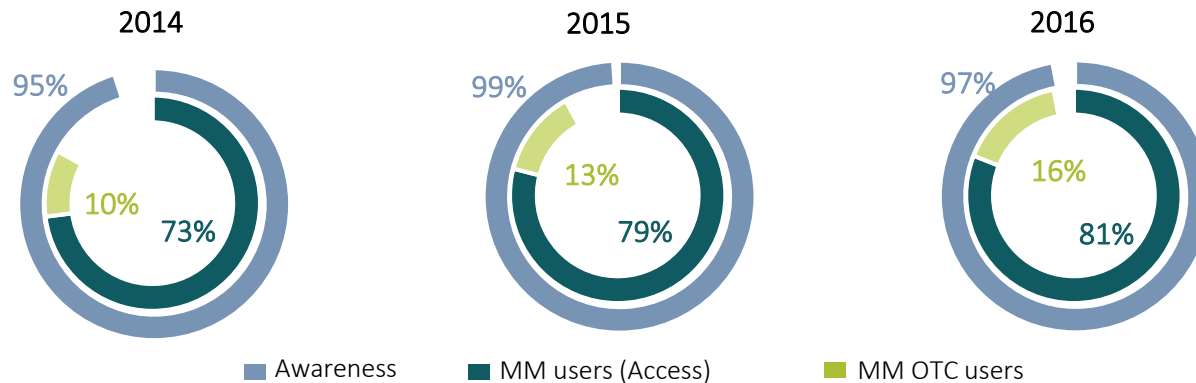
- Over-the-counter (OTC) use of mobile money services has increased steadily since 2013.
- OTC users are predominately female, rural, and younger than 35. Gaps in the requisite preconditions for registered use among these groups must be addressed for them to reach later stages of the customer journey.



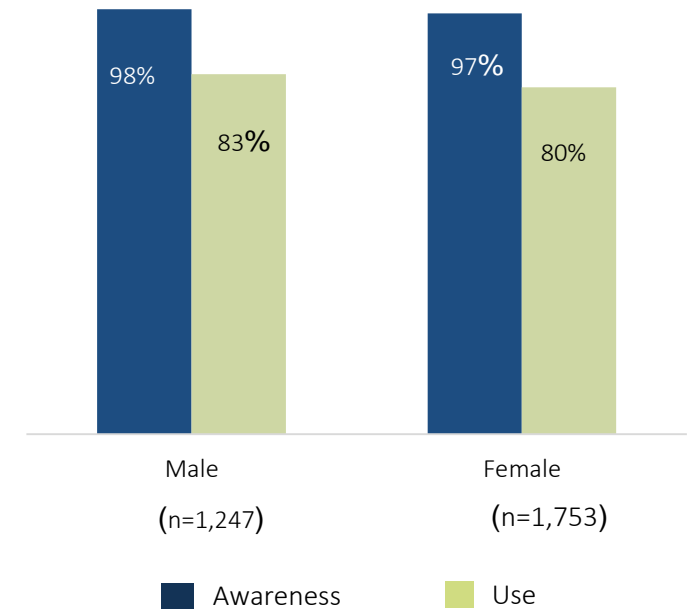
MOBILE MONEY AWARENESS TO USE

- With high rates of mobile money (MM) awareness, coupled with high mobile phone ownership, more than eight in 10 Kenyans were registered mobile money users in 2016. Men and women show nearly the same rates of awareness and use.
- Kenyan adults tend not to use mobile money services over the counter before registering an account; close to six in 10 registered a mobile money account before using the service.

Conversion from awareness of mobile money providers to mobile money use
 (Shown: Percentage of Kenyan adults for each year)



2016: Percentage of adults who are aware and use MM, by gender



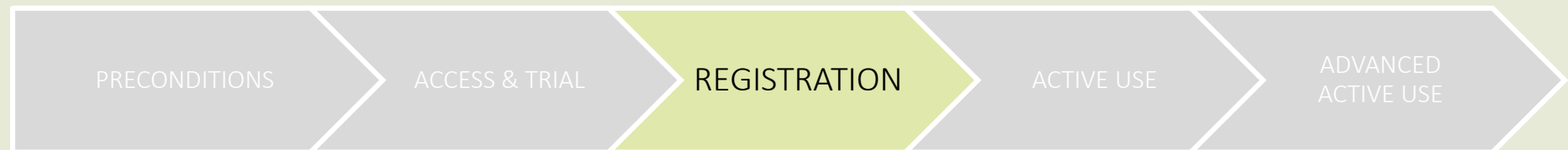
2016: Modes of account access

(Shown: Percentage of mobile money users, by account ownership)

Mobile money users	M-PESA (n=1,978)	Equitel (n=167)	Airtel Money (n=104)
Registered for mobile money before having used the services	60%	51%	57%
Registered for mobile money after using services over the counter	39%	48%	42%

Source: InterMedia Kenya FII Tracker surveys Wave 2 (N=2,995, 15+), September 2014; Wave 3 (N=2,994, 15+), September 2015; Wave 4 (N=3,000, 15+) August 2016.

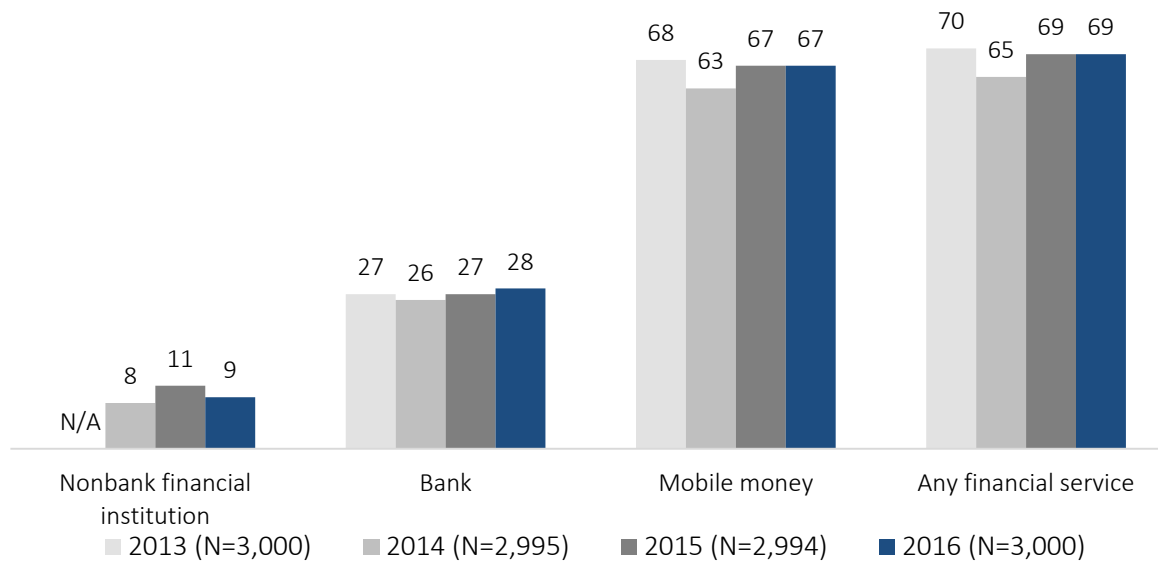
REGISTRATION



REGISTERED FINANCIAL ACCOUNT OWNERSHIP

- A 13-percentage-point gap exists between those who have accessed financial services accounts (82 percent) and those who own registered accounts (69 percent).
- Unregistered mobile money users are mainly female, live in rural areas and live below the poverty line vs. their registered counterparts.
- Bank account holders are primarily male and live above the poverty line, while NBFIs seem to mostly serve rural residents.

Registered financial account owners
 (Shown: Percentage of Kenyan adults for each year)



NBFIs were not included in 2013 survey. Types of account ownership are not mutually exclusive.

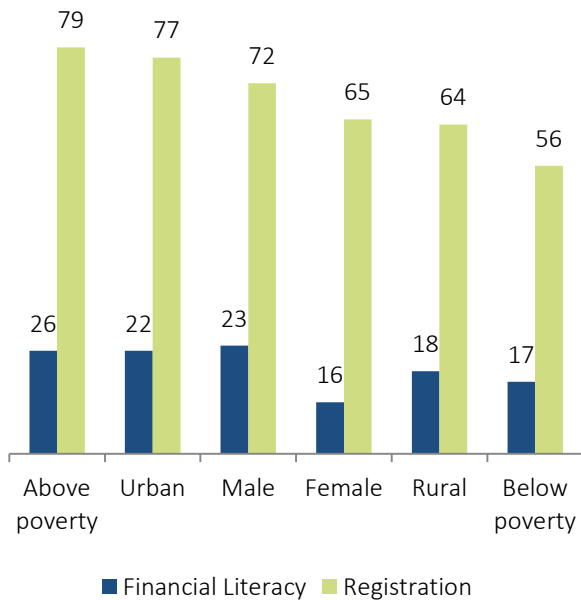
2016: Registered financial account owners, by demographic
 (Shown: Percentage of Kenyan adults under each category)

	Registered MM (n=2,060)	Unregistered MM (n= 461)	Bank n=857	NBFI n=291
Male	51%	43%	62%	56%
Female	49%	57%	38%	44%
Above \$2.5/day poverty line	64%	52%	79%	78%
Below \$2.5/day poverty line	36%	48%	21%	22%
Rural	59%	65%	50%	61%
Urban	41%	35%	50%	39%

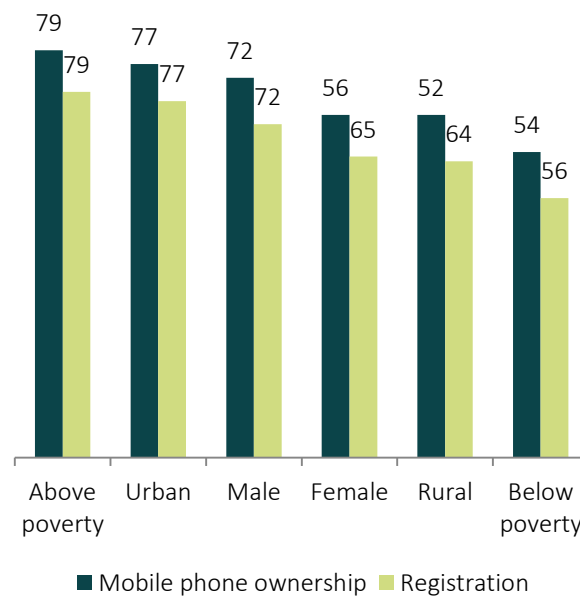
ACCOUNT REGISTRATION AND PRECONDITIONS

- For mobile money accounts, owning a phone and having the ability to send or receive texts are key preconditions, as they provide the equipment and skills necessary for operating a registered account.
- In Kenya, financial literacy is not observed as a key precondition to registration, however, financial literacy helps users understand the importance of basic and advanced financial services.

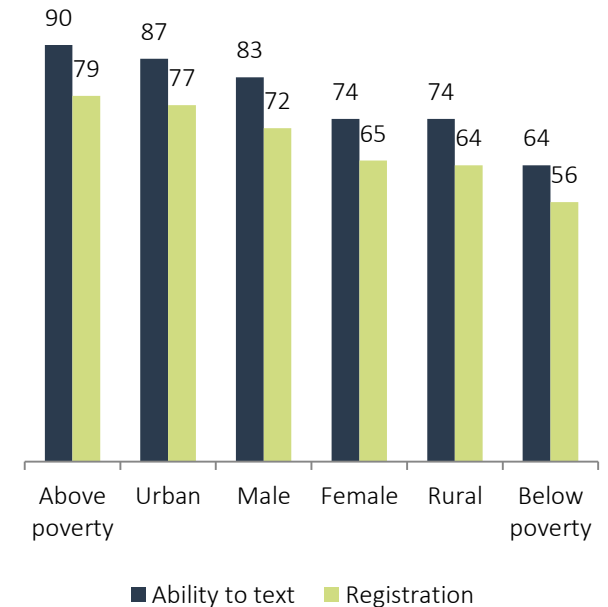
2016: Financial literacy and account registration
 (Shown: Percentage of Kenyan adults, by demographic)



2016: Mobile phone ownership and account registration
 (Shown: Percentage of Kenyan adults, by demographic)



2016: Ability to send/receive texts and account registration
 (Shown: Percentage of Kenyan adults, by demographic)



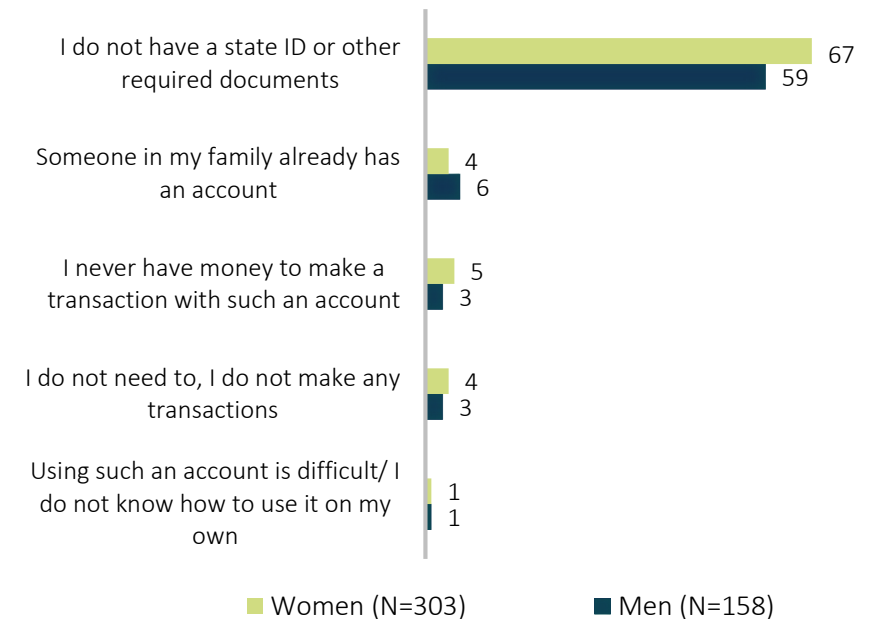
TOP REASONS FOR NOT REGISTERING ACCOUNTS

- When considering unregistered users, regardless of whether they own a phone or not, those who are younger than 25, live in rural areas, female, below poverty, have low education levels and are unemployed are less likely to have registered accounts.
- The main reasons Kenyans do not register for bank and mobile money (MM) accounts are the perceived lack of money and the lack of proper identification, respectively.

2016: Reasons for not registering a bank account, by gender
 (Shown: Percentage of Kenyan adults who do not have a registered account)



2016: Reasons for not registering a mobile money account, by gender
 (Shown: Percentage of Kenyan adults who do not have a registered MM account)



Questions allowed for multiple responses

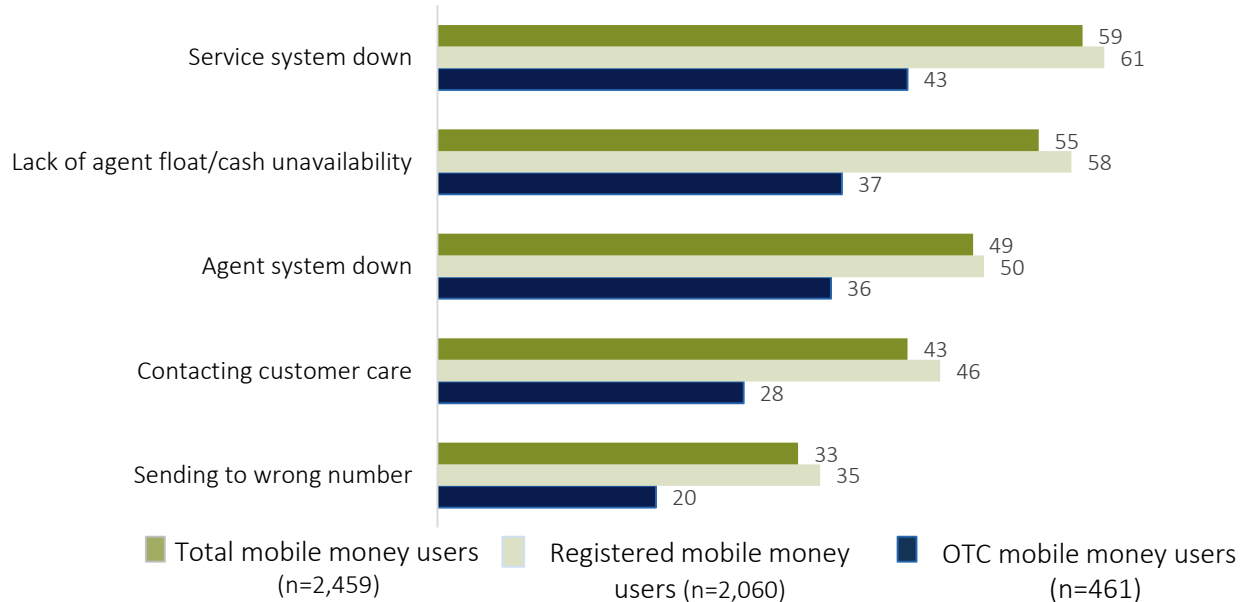
Source: InterMedia Kenya FII Tracker survey Wave 4 (N=3,000, 15+), August 2016.

CHALLENGES IN USING MOBILE MONEY

- Despite experiencing system downtime and mobile money agents' lack of cash (float), mobile money users still have a favorable opinion of mobile money providers.
- OTC users experience fewer issues as they use mobile money less frequently.
- Sending money to the wrong number still occurs despite the addition of features that allow senders to confirm the name of the recipient.

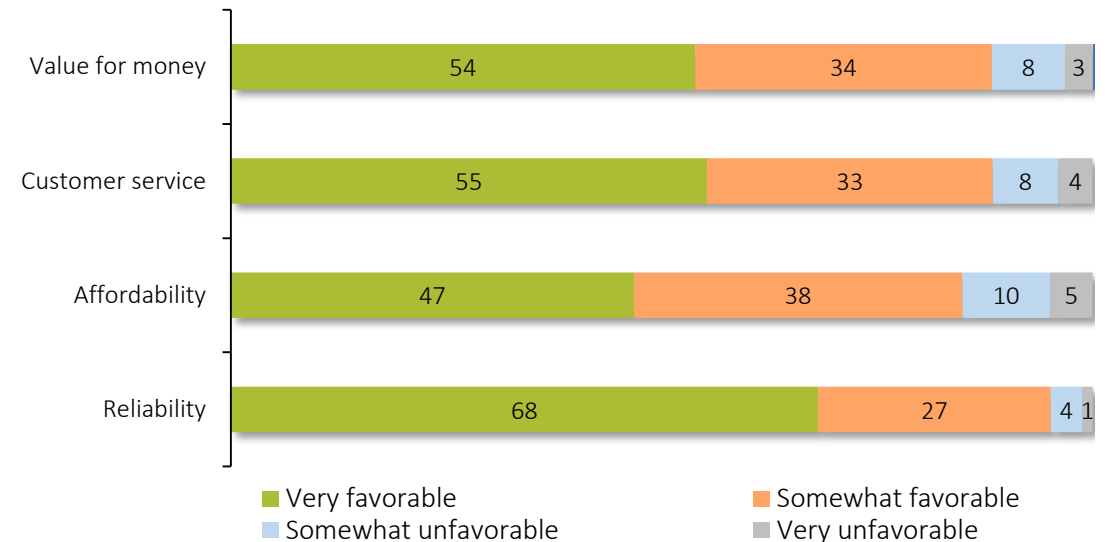
2016: Top challenges of mobile money users

(Shown: Percentage of mobile money users, by use type)



2016: General opinion of mobile service provider

(Shown: Percentage of Kenyan adults who use mobile money, n=2,434)



ENGAGING WITH FINANCIAL SERVICES

- Equitel, launched in 2015, has benefited from the increased consumer understanding of mobile money use. Equitel saw an overwhelming majority of its users accessing its services through their own accounts.
- Bank account users prefer ATMs and over-the-counter use at a bank.

2016: Modes of mobile money account access

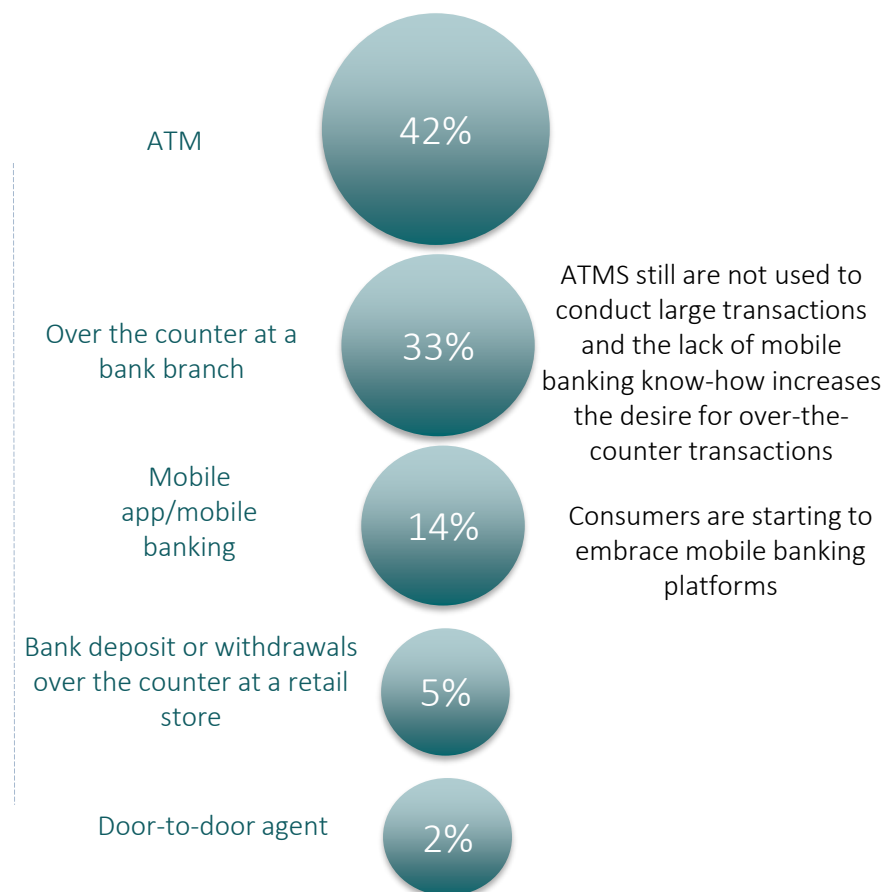
(Shown: Percentage of mobile money users, by account ownership)

Means of access	M-PESA	Equitel	Airtel Money
	Mobile money users (registered or OTC) (n=2,455)	Mobile money users (registered or OTC) (n=192)	Mobile money users (registered or OTC) (n=167)
Own account	76%	90%	74%
OTC	18%	5%	17%
Household account*	12%	3%	6%
Family/friend account*	5%	2%	5%

*Those without registered accounts who use their households' accounts or the accounts of a family or a friend.

2016: Preferred method of bank transactions

(Shown: Percentage of full-service bank account holders, n=857)

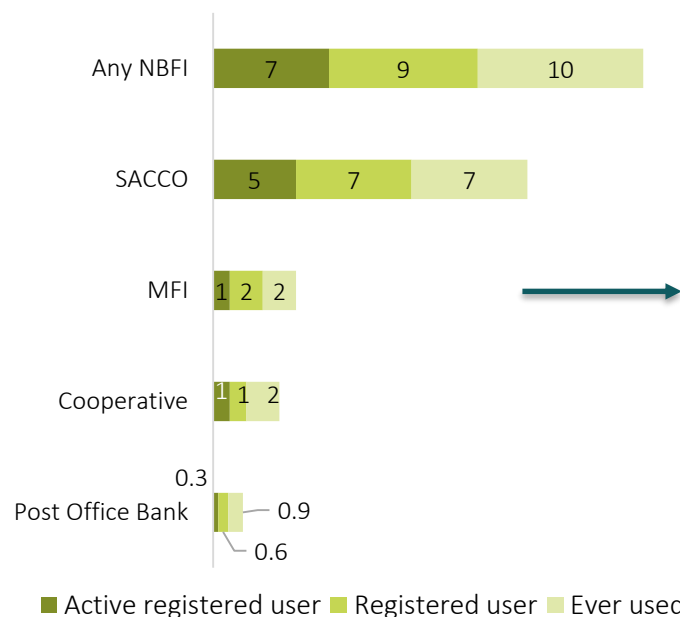


NBFI ACCOUNT HOLDERS

- Almost one in 10 hold full-service NBFI accounts; loans and saving drive NBFI use.
- The use of full-service NBFIs in Kenya is negligible, mainly because most NBFIs were launched to provide adults with alternative options for borrowing money. NBFIs continue to focus on lending.

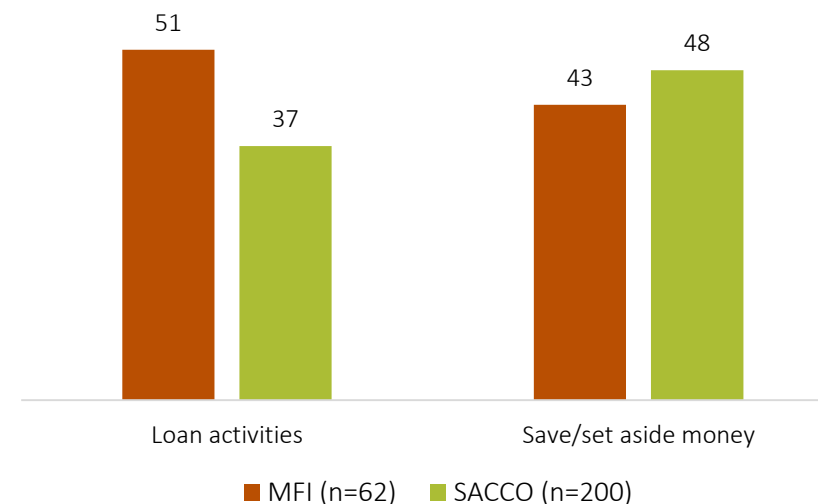
2016: Nonbank financial institution usage

(Shown: Percentage of Kenyan adults, N=3,000)



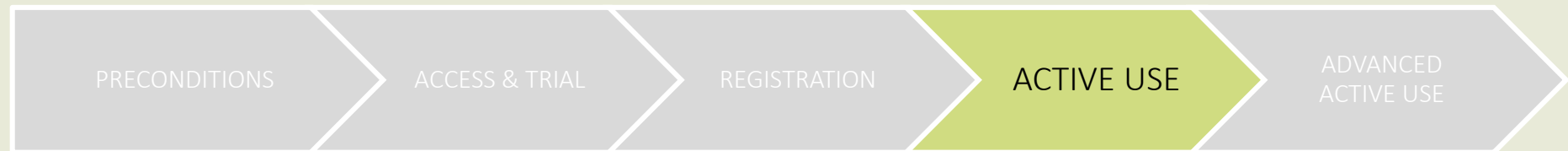
2016: Use of nonbank financial institution accounts*

(Shown: Percentage of account holders for each institution)



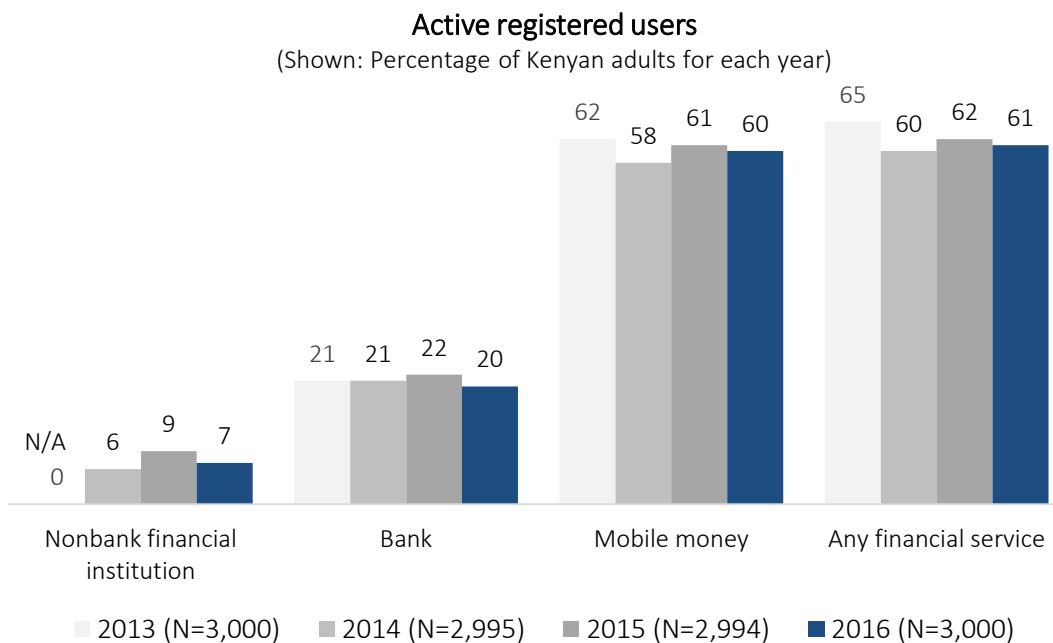
*Subgroups of registered cooperative and Post Office Bank users are too small for further analysis.

ACTIVE USE



ACTIVE USE

- In 2016, active registered account use was highest for mobile money account holders, and relatively low among bank and NBFi account holders.
- Active registered bank use decreased, potentially due to Kenyans making bank transactions using mobile money.
- Due to the switch to banks, active registered NBFi use decreased in 2016.



89% of registered mobile money account holders are active

99% of active mobile money account holdings are Safaricom M-PESA users

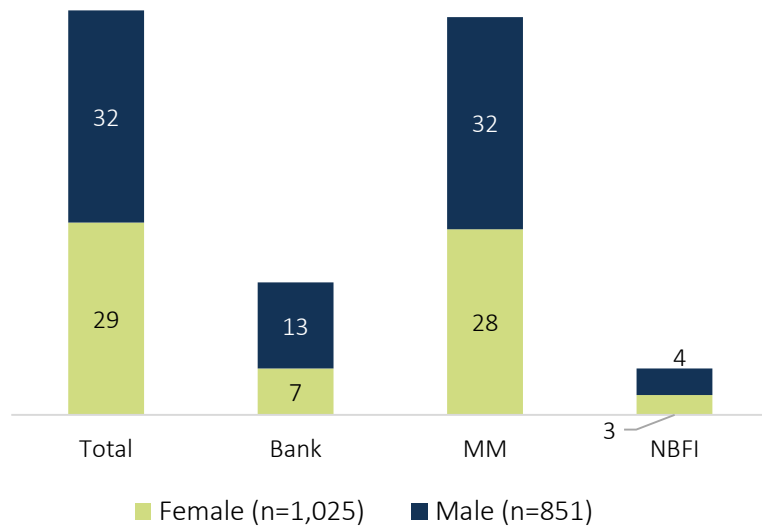
70% of registered bank account holders are active

75% of registered NBFi account holders are active

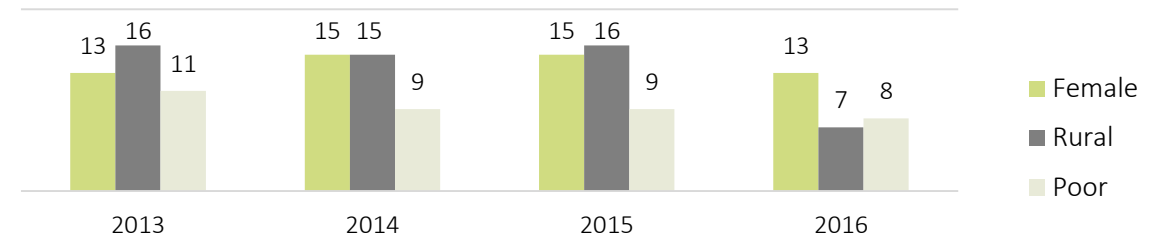
ACTIVE USE AMONG VULNERABLE GROUPS

- Generally, there is low active use among vulnerable groups. Gender and poverty status do not seem to adversely affect active use. However, bank use among the rural population decreased in 2016 as mobile money increasingly serves the needs of the rural population.

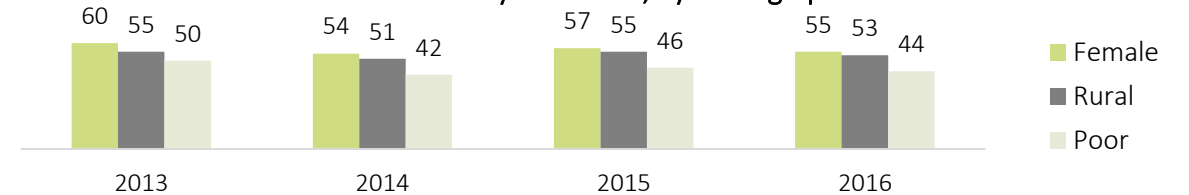
2016: Active use of financial accounts, by gender
 (Shown: Percentage of Kenyan adults, by gender)



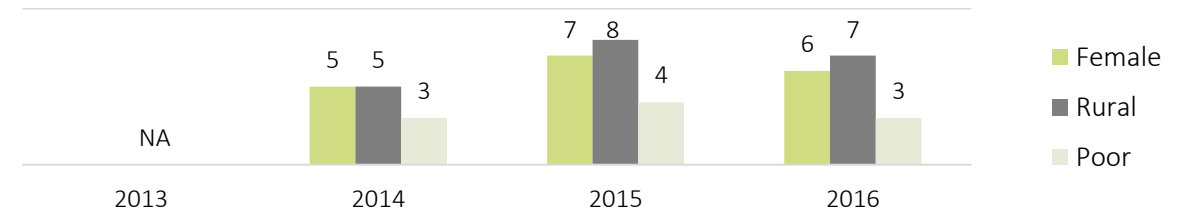
Bank active use, by demographic



Mobile money active use, by demographic



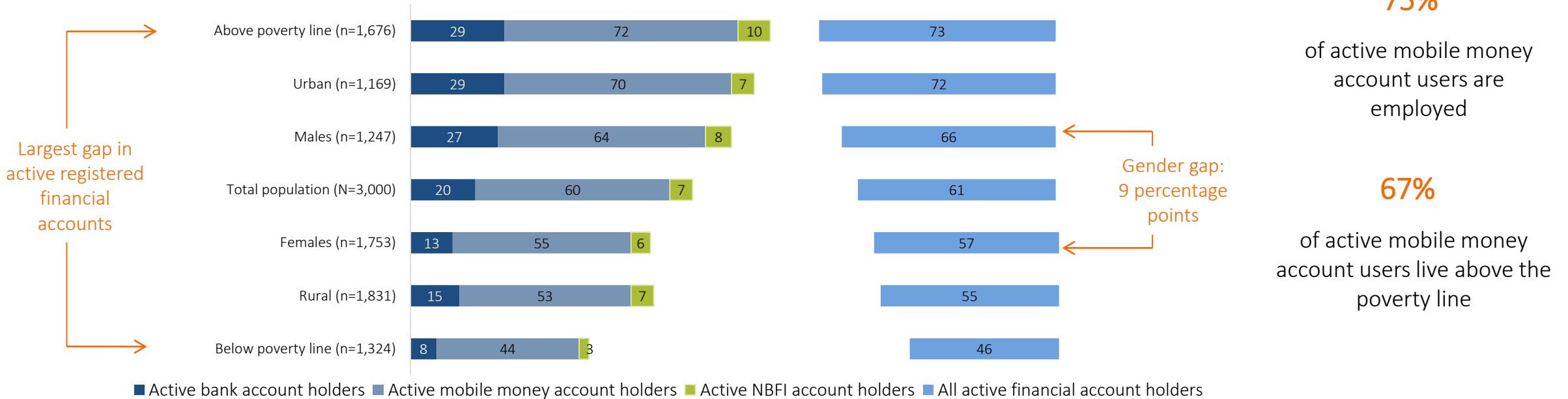
NBFI active use, by demographic



ACTIVE USE BY DEMOGRAPHICS

- The largest gap in active usage is seen between those who are above and below the poverty line.
- There is a nine-percentage-point gap in gender.

2016: Active use of registered financial accounts, by demographic
 (Shown: Percentage of each subgroup)



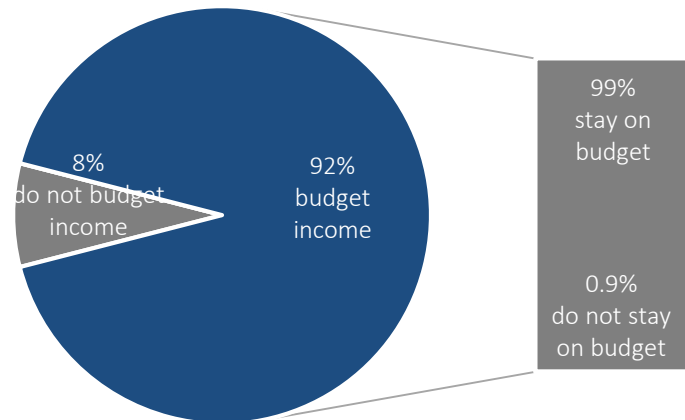
Source: InterMedia Kenya FII Tracker surveys Wave 1 (N=3,000, 15+), September-November 2013; Wave 2 (N=2,995, 15+), June-August 2014; Wave 3 (N=2,994, 15+), August-September 2015; Wave 4 (N=3,000, 15+), August-September 2016

FINANCIAL BEHAVIORS OF MOBILE MONEY USERS

- Most active mobile money account holders report exercising financial discipline by budgeting their income and staying on budget.
- However, some find it difficult to make ends meet as they have to spend more than they earn, cannot pay bills on time or maintain an emergency fund.

2016: Financial behaviors of active mobile money users

(Shown: Percentage of active mobile money users, n=1,828)



2016: Financial behaviors of active mobile money users

(Shown: Percentage of active mobile money users, n=1,828)



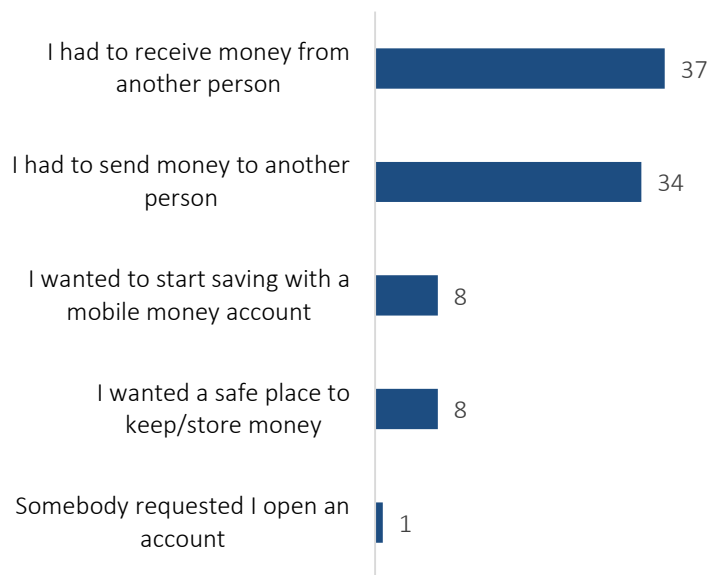
Financial behaviors

REASONS FOR USING MOBILE MONEY

- Person-to-person transfers continue to drive mobile money adoption and continued active use, along with cash-in, cash-out (CICO) transactions.
- Person-to-person transfers along with CICO transactions continue to dominate active use as they are the transactions mobile money users conduct the most.

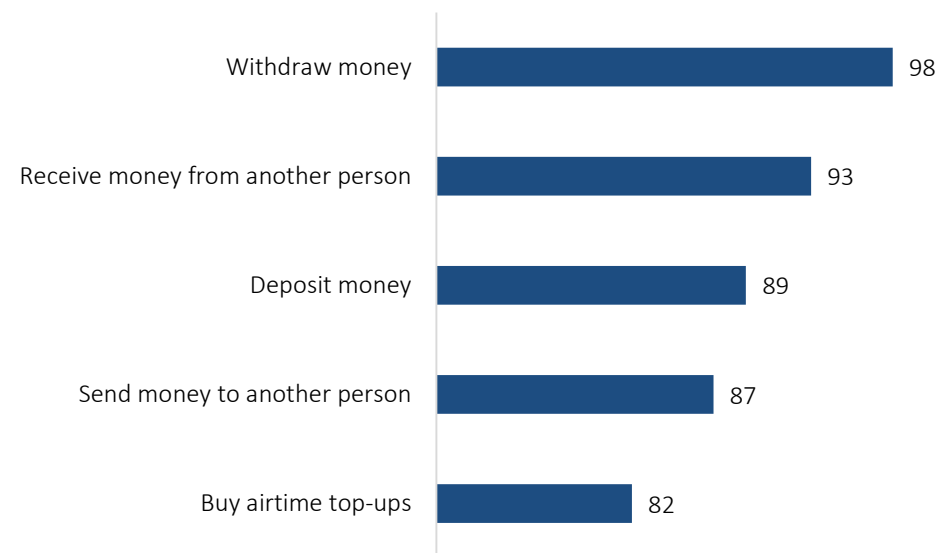
2016: Top reasons active account holders start use mobile money

(Shown: Percentage of active mobile money account holders, n=1,828)

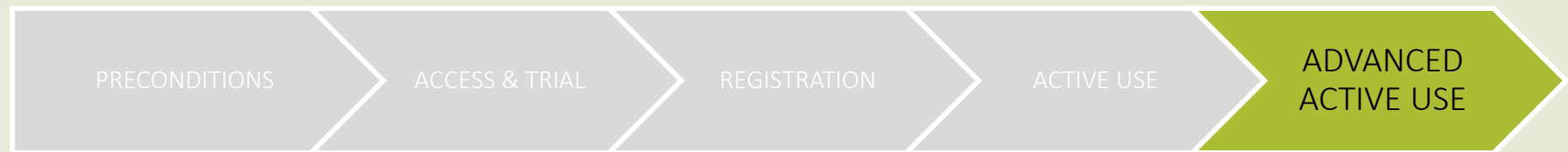


2016: Top uses of mobile money services among active account holders

(Shown: Percentage of active mobile money account holders, n=1,828)



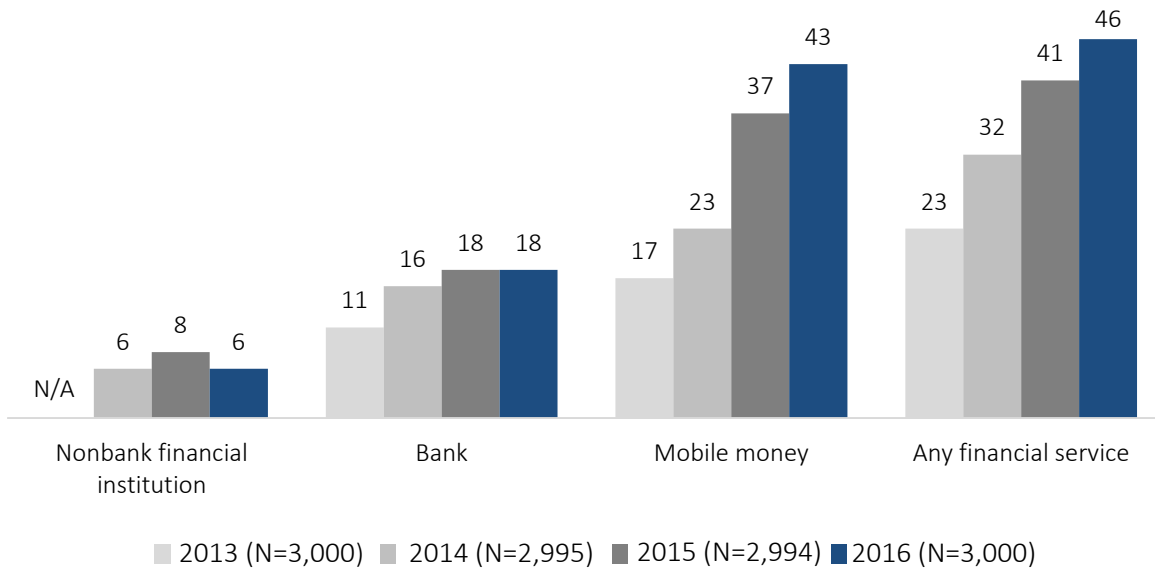
ADVANCED ACTIVE USE



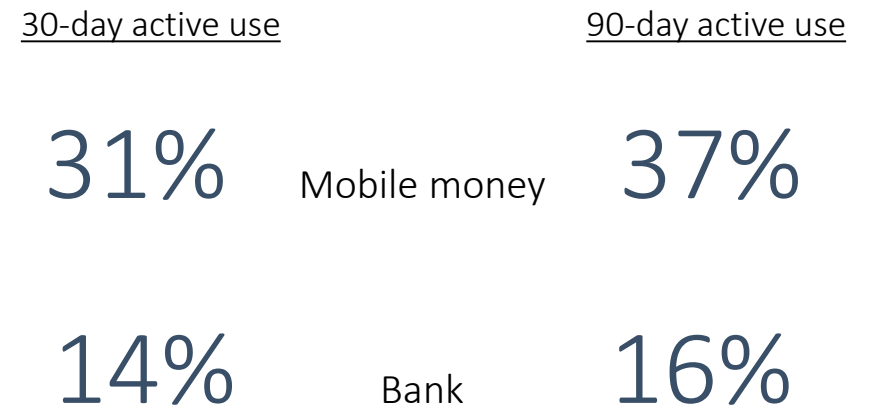
ADVANCED ACTIVE USE

- More than 40% of Kenyan adults tend to use their accounts actively for advanced mobile money activities.
- Advanced active use is highest for mobile money. Three in 10 Kenyans used advanced services in the past 30 days prior to the survey, signaling mobile money services, versus banks, fit well with consumers’ routine activities.

Advanced active registered users
 (Shown: Percentage of Kenyan adults for each year)



2016: Thirty- and 90-day active users of advanced services*
 (Shown: Percentage of Kenyan adults, N=3,000)



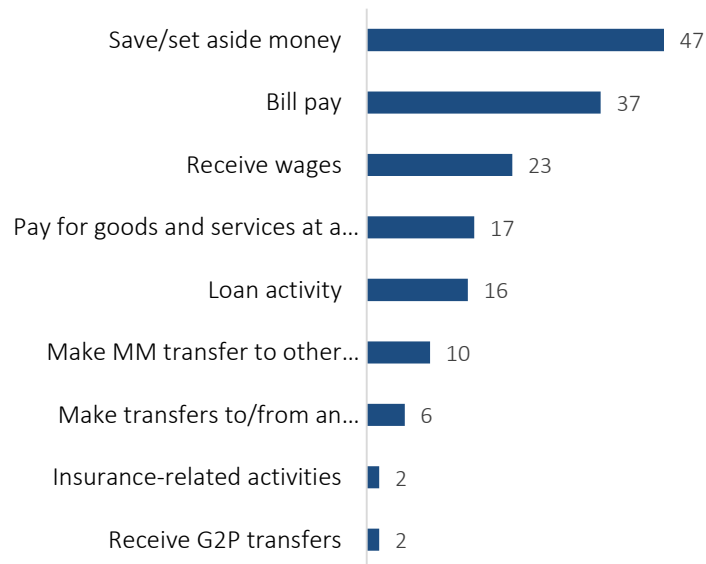
*Individuals who have used their accounts in the past 30 or 90 days for advanced financial services

ADVANCED USER ACTIVITIES

- Savings was the main driver of advanced use of financial services in 2016. Close to six in 10 bank account holders saved. Nearly half of mobile money account holders and half of nonbank financial institution (NBFI) account holders used their mobile money accounts to save or set aside money.
- After saving, bill pay and receiving wages were the next most frequent drivers of advanced use among mobile money and bank account holders.

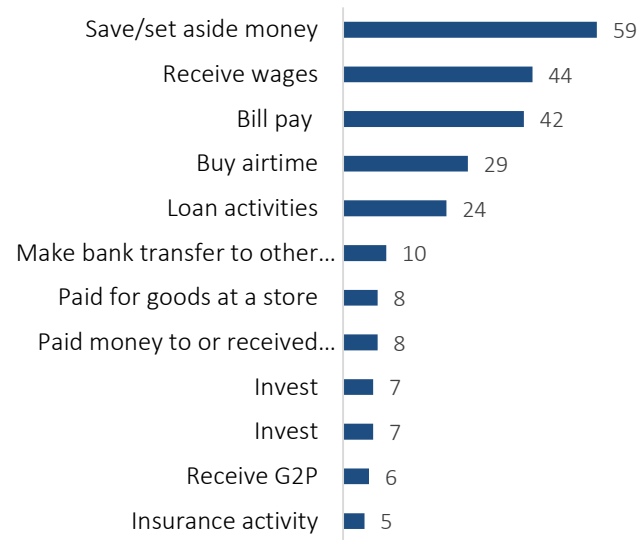
2016: Advanced mobile money (MM) account uses

(Shown: Percentage of active mobile money account holders, n=1,828)



2016: Advanced bank account uses

(Shown: Percentage of active bank account holders, n=596)



2016: Advanced NBFI account uses

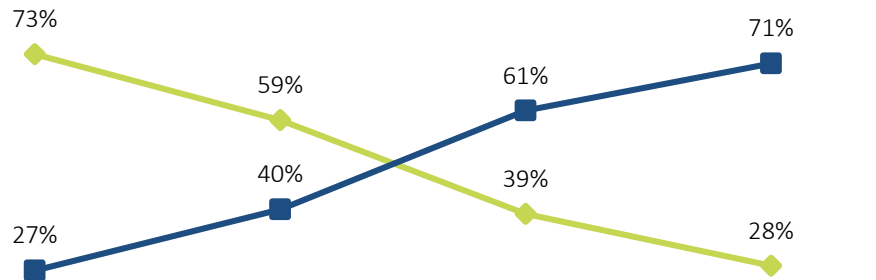
(Shown: Percentage of active NBFI account holders, n=217)



ADVANCED USE

- Large increases in advanced use of mobile money and bank accounts shows Kenyans are growing more engaged with their accounts over time, as the proportion of the population that has only used basic functions falls in tandem.
- Seventy-one percent of active mobile money account holders have used at least one advanced mobile money function, up from 61% in 2015.
- Eighty-eight percent of active bank account holders have used at least one advanced banking feature, up from 81% in 2015.

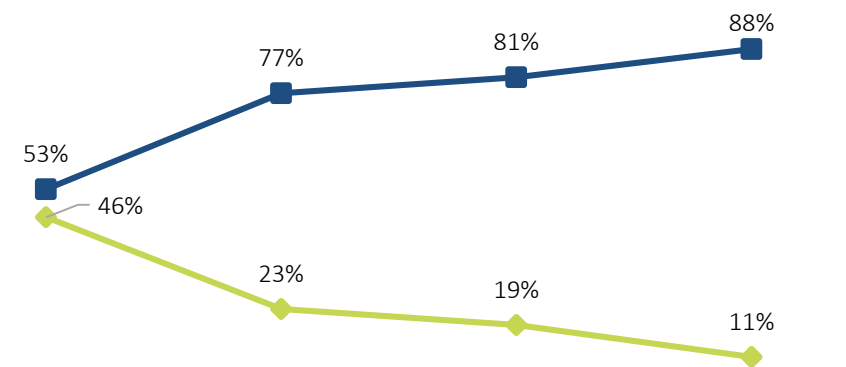
Basic and advanced mobile money uses
 (Shown: Percentage of active mobile money account holders)



2013 (N=1,999) 2014 (N=1,859) 2015 (N=1,919) 2016 (N=1,828)

◆ Basic activities only (CICO, buying airtime, account management and P2P)
 ■ At least one advanced activity

Basic and advanced bank uses
 (Shown: Percentage of active bank account holders)



2013 (N=659) 2014 (N=666) 2015 (N=668) 2016 (N=596)

◆ Basic activities only (CICO, account management and P2P)
 ■ At least one advanced activity

CHARACTERISTICS OF ADVANCED USERS

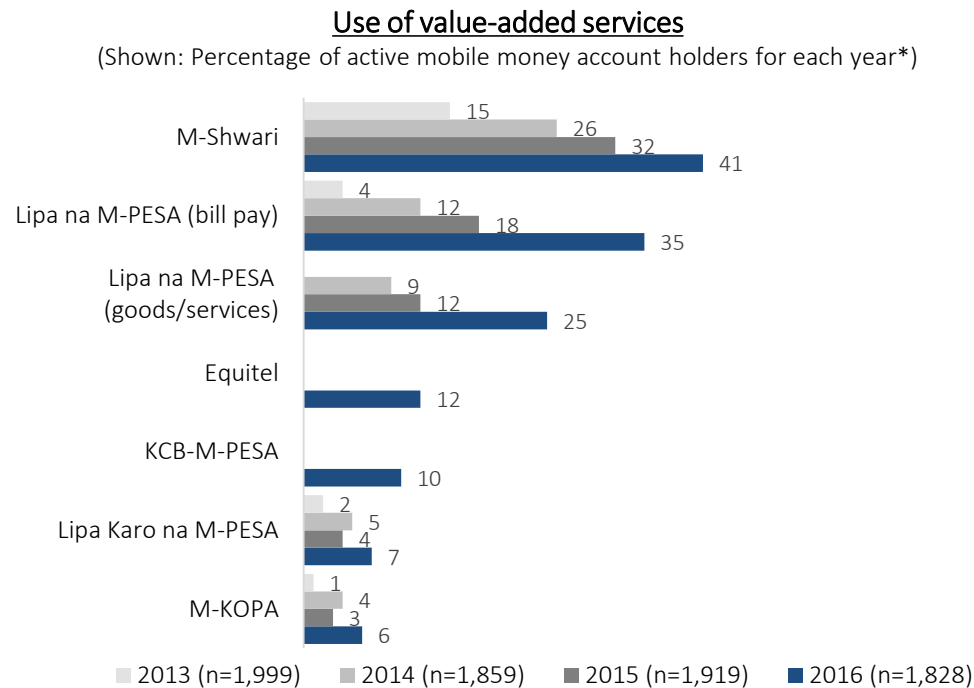
- Those below the poverty line, with a primary or lower education, and females are the least likely to be advanced users.
- Advanced active use is driven by high levels of preparedness; almost all advanced active users have the necessary equipment and technical capabilities.
- More NBFi and bank advanced active users save, borrow, invest and purchase insurance than mobile money advanced active users.

Characteristics of advanced active users	% Mobile money (n=1,286)	% Bank (n=526)	% NBFi (n=167)
Females	42	33	41
Younger than 35 years old	57	52	42
Rural	53	47	59
Below the poverty line	26	18	18
Primary or lower education	39	23	32
Own a phone	97	98	95
Own a SIM card	99	99	96
Ever sent/received an SMS	94	95	93
Basic literacy	93	97	96
Basic numeracy	100	100	100
Save	90	96	97
Have a loan	78	84	90
Invest	52	60	72
Have insurance	45	68	68

Source: InterMedia Kenya FII Tracker survey Wave 4 (N=3,000, 15+), August 2016.

ADVANCED SERVICES USE

- Value-added services can be looked at as an extra incentive for the financially excluded. Providers of value-added services continued to expand their customer bases, with new entrants, Equitel and KCB-M-PESA, emerging in 2016. M-Shwari continues to lead the way and Lipa na M-PESA is experiencing tremendous growth.
- Most users of value-added services are younger and live above the poverty line, and generally tend to be male and live in urban areas.



M-Shwari
 A savings account and credit provider

Lipa na M-PESA
 A merchant and bill payments tool

Equitel
 Savings account and credit provider, and a mobile virtual network operator offering additional telecom services

KCB-M-PESA
 A bank-MNO partnership that offers mobile money services exclusively to M-PESA customers

Lipa Karo na M-PESA
 A payment service for school fees

M-KOPA
 Mobile-money-based product for acquiring solar electric systems

*Active mobile money account holders can have accounts with more than one provider. Value-added services appear in each year they were included in the questionnaire.

PAYING SCHOOL FEES: LIPA KARO NA M-PESA

- Lipa Karo na M-PESA use is a unique value-added service that targets those who pay school fees. The service, however, has not seen the kind of growth expected. Only 6 percent of those who have children enrolled in school use Lipa Karo na M-PESA to pay school fees.
- Gender and age are not determinants of the use of Lipa Karo na M-PESA, however, it is mostly used by those who are above the poverty line and have children.

Lipa Karo na M-PESA user demographics, n=164	
Female	52%
Male	48%
35 years and above	50%
Below 35 years	50%
Secondary or higher	62%
Primary or lower	37%
Below poverty line	27%
Above poverty line	73%
Have children in the house	77%

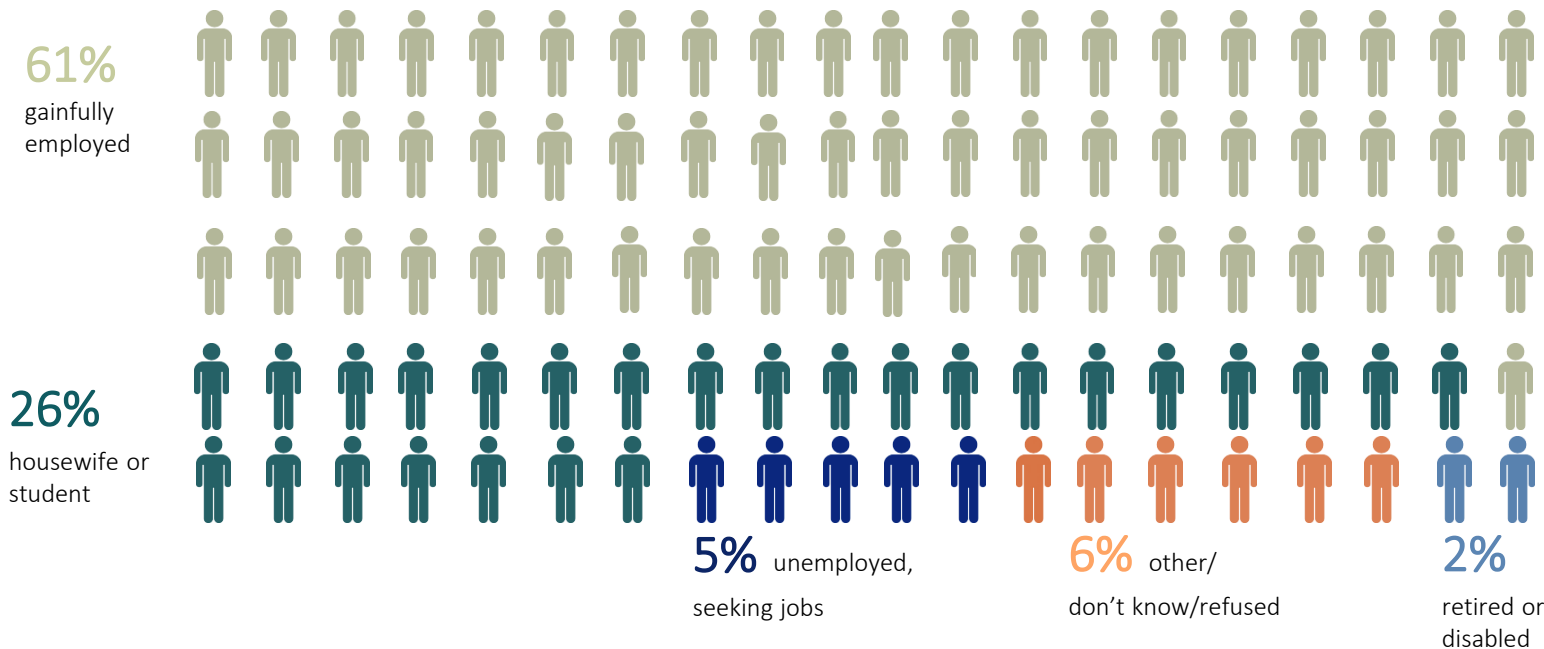
- Only 6% use Lipa Karo na M-PESA, despite 56% of Kenyans having children enrolled in school. The number of those using the service to pay school fees increased from 3% in 2015.
- There is a need for some form of payment plan for school fees. Forty-seven percent of those who are required to pay school fees said they lacked some of the funds to pay the fees or could not pay them at all.
- Traditionally, school fees have been paid in cash or through bank deposits (banker’s checks). This value-added service was expected to gain traction with the increased use of advanced services and more schools enrolling with the service.

SPECIAL TOPIC: FINANCIAL LIVES

SOURCE OF LIVELIHOOD AND EMPLOYMENT

- Six in 10 Kenyans are gainfully employed, with more males (66%) gainfully employed than females (56%). Kenya, like most African countries, has low levels of formal employment. The primary occupation is farming.
- There is no clear link between employment and financial inclusion. However, a [paper](#) by the International Labor Organization states that young people, who lack access to formal financial services, are more often engaged in informal employment or vulnerable employment. But, this does not necessarily mean that financial inclusion increases a young person’s likelihood of engaging in formal employment.

2016: Sources of income
 (Shown: Percentage of Kenyan adults)



2016: Most common primary occupation
 (Shown: Percentage of gainfully employed adults, n=1,877)



Source: InterMedia Kenya FII Tracker survey Wave 4 (N=3,000, 15+), August 2016.

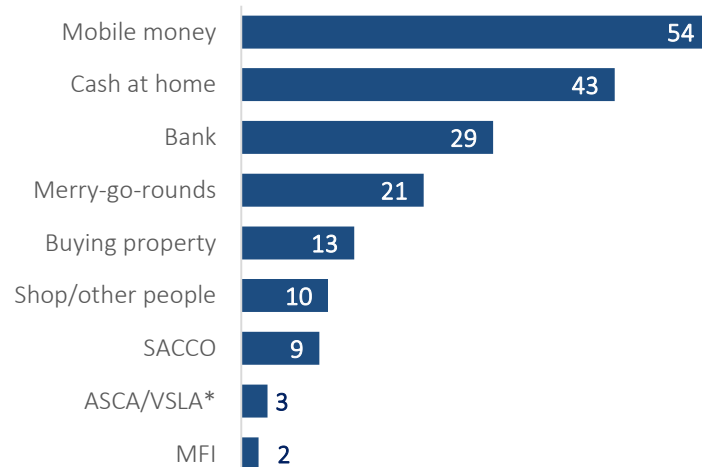
SAVINGS LOCATION AND REASONS FOR SAVING

- Close to eight in 10 Kenyans are saving; mobile money services continue to be the most popular mode of saving.
- The main reasons Kenyans save money are to be prepared for emergencies, make ends meet, protect their families, and start or expand a business.

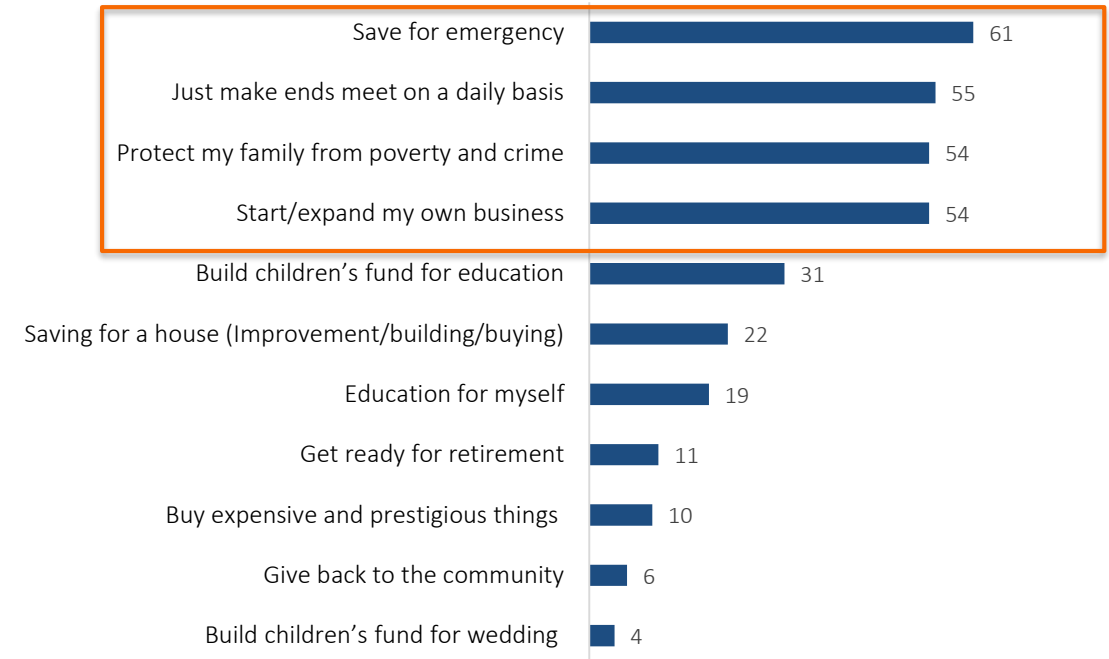
76%
 have savings; up
 from 74% in 2015

50%
 know the
 interest rates
 they earn

2016: Location of savings
 (Shown: Percentage of adults who save, n=2,277)



2016: Why do you save money?
 (Shown: Percentage of adults who save, n=2,277)



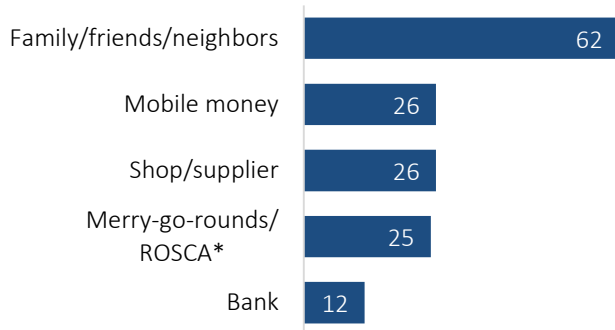
*Accumulating savings and credit association (ASCA); Village savings and loan association (VSLA)

BORROWING AND THE NEED FOR CREDIT

- More than six in 10 Kenyans (63%) have borrowed money in the past 12 months, mainly from family and friends. The most common formal lending source is mobile money, reflecting Kenyans’ increasing preference for this service.
- Kenyans understand credit. Close to three in 10 said they needed credit but could not access it mainly because they did not qualify and didn’t have the required documents.

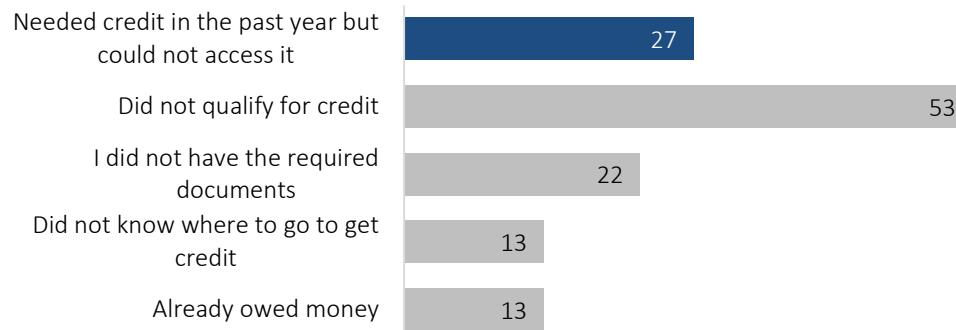
2016: Source of loans

(Shown: Percentage of adults who borrow, n=1,913)



2016: Demand for credit

(Shown: Percentage of Kenyan adults, n=3,000)



72%

know the interest rates on their loans

Mobile credit products are increasingly being launched in Kenya and now 1% of borrowers use mobile applications. Recently, one of the major app providers, Branch, signed a deal to give loans to Uber taxi drivers based on their earnings, which could increase the uptake of these products.

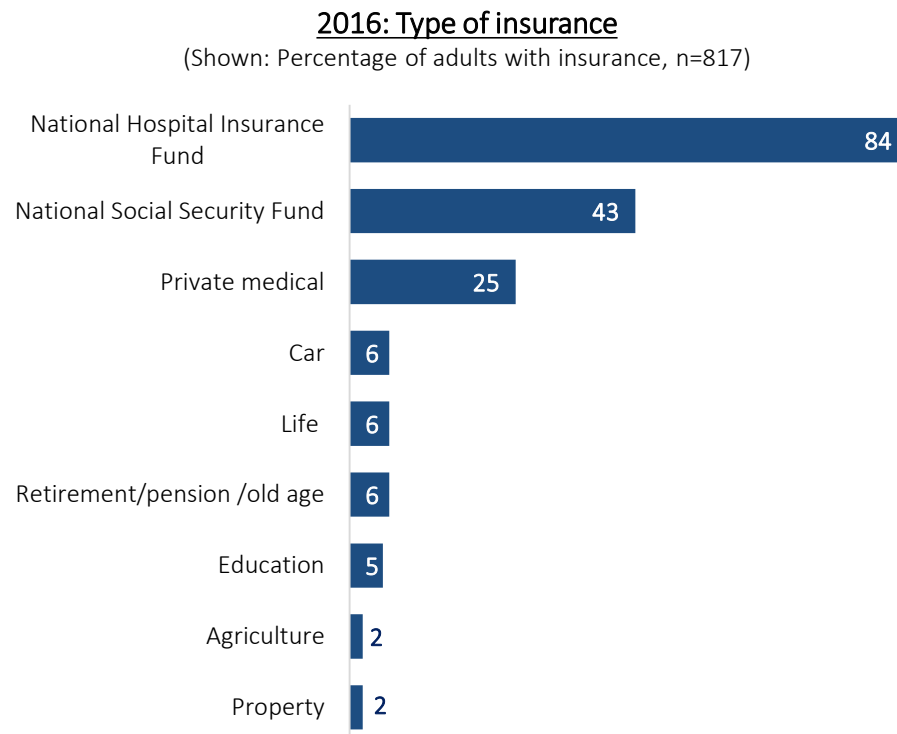
INSURANCE

- Just over a quarter of Kenyans own insurance; the number of insured is driven by compulsory employee deductions by the National Hospital Insurance Fund and the National Social Security Fund.
- With over 60% gainfully employed, the number of insured should be close to 60 percent, given these statutory deductions. However, since most are employed in the informal sector, the statutory deductions are not enforced.

Banks are working to promote growth in the insurance sector through their bank branches. Several banks have sought collaboration with insurance companies and some have bought majority stakes in insurance companies (e.g., Barclays bank bought a majority stake in First Assurance).

Microinsurance products targeting low-income segments are still struggling. Insurance companies are trying to design the most appropriate products using alternative distribution channels such as mobile phones. Agricultural microinsurance products are showing greater promise as new products are being steadily introduced and adopted.

27%
of adults have insurance



Source: InterMedia Kenya FII Tracker survey Wave 4 (N=3,000, 15+), August 2016.

KEY INDICATORS SUMMARY

KEY INDICATORS SUMMARY

Key Indicators	Year			Base Definition
	2014	2015	2016	
Adults who have active digital stored-value accounts	59%	62%	61%	All adults (15+)
	2,995	2,994	3,000	
Poor adults who have active digital stored-value accounts	43%	48%	45%	Adults (15+)
	1,502	1,474	1,324	<\$2.5/day
Poor women who have active digital stored-value accounts	39%	44%	42%	Women (15+)
	916	929	817	<\$2.5/day
Rural women who have active digital stored-value accounts	47%	54%	51%	Rural women (15+)
	1,068	1,105	1,061	
Adults who have active digital stored-value accounts and used advanced financial services (beyond basic wallet & P2P)	31%	41%	46%	All adults (15+)
	2,995	2,994	3,000	
Poor adults who have active digital stored-value accounts and used advanced financial services (beyond basic wallet & P2P)	17%	25%	27%	Adults (15+)
	1,502	1,474	1,324	<\$2.5/day
Poor women who have active digital stored-value accounts and used advanced financial services (beyond basic wallet & P2P)	12%	20%	22%	Women (15+)
	916	929	817	<\$2.5/day
Rural women who have active digital stored-value accounts and used advanced financial services (beyond basic wallet & P2P)	17%	29%	31%	Rural women (15+)
	1,068	1,105	1,061	

Digital stored-value accounts: accounts in which a monetary value is represented in a digital electronic format and can be retrieved/transferred by the account owner remotely. For this particular study, DSVAs include a bank account or NBFi account with digital access (a card, online access or a mobile phone application) and a mobile money account.

METHODOLOGY & RESEARCH DESCRIPTION

FII KENYA TRACKER SURVEY DETAILS

SURVEY SUMMARY

- Annual, nationally representative survey (N=3,000) of Kenyan adults aged 15+
- Face-to-face interviews lasting, on average, 107 minutes
- Fourth survey (Wave 4) conducted from Aug. 1 to Sept. 19, 2016
- Tracks trends and market developments in DFS based on the information gathered in the first survey, conducted in 2013, the second survey, conducted in 2014, and the third survey conducted in 2015.

DATA COLLECTION

- Basic demographics and poverty measurement (Grameen Progress Out of Poverty Index). A new set of questions from the Grameen Foundation was compared with previous years.
- Access/use of mobile devices
- Access/use of mobile money
- Access/use of formal financial services (e.g., bank accounts)
- Access/use of semi-formal and informal financial services (e.g., MFIs, SACCOs, cooperatives, self-help groups)
- Financial literacy and preparedness
- General financial behaviors

GLOSSARY

Access to banks – Counts individuals who have a full-service bank account registered in their name or report use of a full-service bank account that belongs to someone else.

Access to mobile money or an NBFi – Counts individuals who have ever used a mobile money service or a full-service NBFi account.

Active registered user – An individual who has an account registered in their name and has used it in the last 90 days.

Advanced active registered user – An active registered user who has ever used at least one advanced financial service.

Advanced DFS use – Advanced use of digital financial services includes activities beyond basic cash-in/cash-out and person-to-person transfers (e.g., savings, bill pay, investment, insurance).

Basic use – The use of an account to cash-in (deposit) or cash-out (withdraw), transfer money to another individual, or conduct account maintenance.

Below the poverty line – In this particular study, adults living on less than \$2.50 per day, as classified by the Grameen Foundation's Progress out of Poverty Index.

Cooperative – Typically, a business or other professional organization that is owned and run jointly by its members, who share profits or benefits. Cooperatives may release some of the profits/funds as loans to its members.

Credit-only nonbank financial institutions – Financial institutions that only disburse loans to their customers.

Customer journey – An illustration of progressive stages through which consumers become more active users of more sophisticated financial services.

Digital financial services (DFS) – Financial services provided through an electronic platform (e.g., mobile phones, debit or credit electronic cards, internet).

Financial inclusion – Individuals who have an account with an institution that provides a full suite of financial services and comes under some form of government regulation. Services include savings, money transfers, insurance or investment. Institutions that only offer loans to consumers, such as some MFIs, are not considered to be full-service institutions.

Financial literacy – Basic knowledge of four fundamental concepts in financial decision-making (interest rates, interest compounding, inflation, and risk diversification) as measured by the Standard and Poor's Rating Service's Global Financial Literacy Survey.

Full-service financial institutions – Financial institutions that offer loans to their customers and at least one of the following additional services: savings, money transfers, insurance, or investments.

Grameen Progress out of Poverty Index (PPI) – A poverty measurement tool from the Grameen Foundation wherein a set of country-specific questions are used to compute the likelihood that a household is living below a specific income threshold.

Microfinance institution (MFI) – An organization that offers financial services to low income populations. Almost all give loans to their members, and many offer insurance, deposit and other services.

Mobile money (MM) – A service in which a mobile phone is used to access financial services.

Nonbank financial institution (NBFi) – A financial organization that is not formally licensed as a bank or a mobile money provider, but whose activities are regulated, at least to some extent, by the central bank within the country. Such financial institutions include microfinance institutions (MFI), cooperatives, Post Office (Savings) Banks and savings and credit cooperatives (SACCOs).

Numeracy – The ability to use basic math skills, including counting, addition, division, multiplication and computing short- and long-term interest rates

Post Office (Savings) Bank – A bank that offers savings and money transfers and has branches at local post offices.

Registered user – Counts individuals who have a financial account registered in their name

Savings and credit cooperative (SACCO) – A unique member-driven, self-help group owned and managed by its members, who have a common bond. Its main purpose is to build up funds through regular contributions by each member, with the aim of providing affordable credit and collective investments for its members.

Unregistered/over-the-counter (OTC) user – An individual who has used DFS through someone else's account, including a mobile money agent's account or the account of a family member or a neighbor.

Urban/rural – Urban and rural persons are defined according to their residence in urban or rural areas as prescribed by the national bureau of statistics.

Value-added services – These are non-core financial services that go beyond the standard services provided by financial institutions.

For more information, contact:

David Musiime, FII Africa Lead musiimed@InterMedia.org

Samuel Schueth, Director of Research SchuethS@InterMedia.org



www.finclusion.org | Twitter: @finclusion_FII

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Headquarters
Washington, D.C.
Tel: +1.202.434.9310

InterMedia Africa
Nairobi, Kenya
Tel: +254.720.109183