

The digital credit revolution in Kenya: an assessment of market demand, 5 years on

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The supply of digital credit in Kenya

Market overview

Since the launch of M-Shwari in 2012, which offers a savings account and access to digital credit, the market for digital credit has expanded rapidly in Kenya. Digital credit is now offered by the three largest Kenyan banks (Kenya Commercial Bank, Equity Bank, and Co-operative Bank), as well as a growing number of FinTechs and non-bank institutions.

Digital credit providers have developed different models to score and deliver credit to customers. The largest players Mshwari and KCB Mpesa partnered with the largest telecommunication provider (Safaricom) to score customers and manage loan disbursements and repayments through the M-Pesa platform. Equity Bank established an independent MVNO called Equitel, and utilizes a combination of bank account data and credit bureau data to score customers. FinTechs such as Branch developed a standalone smartphone app that collects phone usage information to score customers.

The market has grown fast: Mshwari disbursed KSh 230 billion loans since inception in 2012 and Kenya Commercial Bank, the largest institution by asset size in Kenya, now provides 90% of its loans through the KCB Mpesa platform. Equity Bank reported the disbursement of KSh 57 billion since 2014.

Digital credit survey

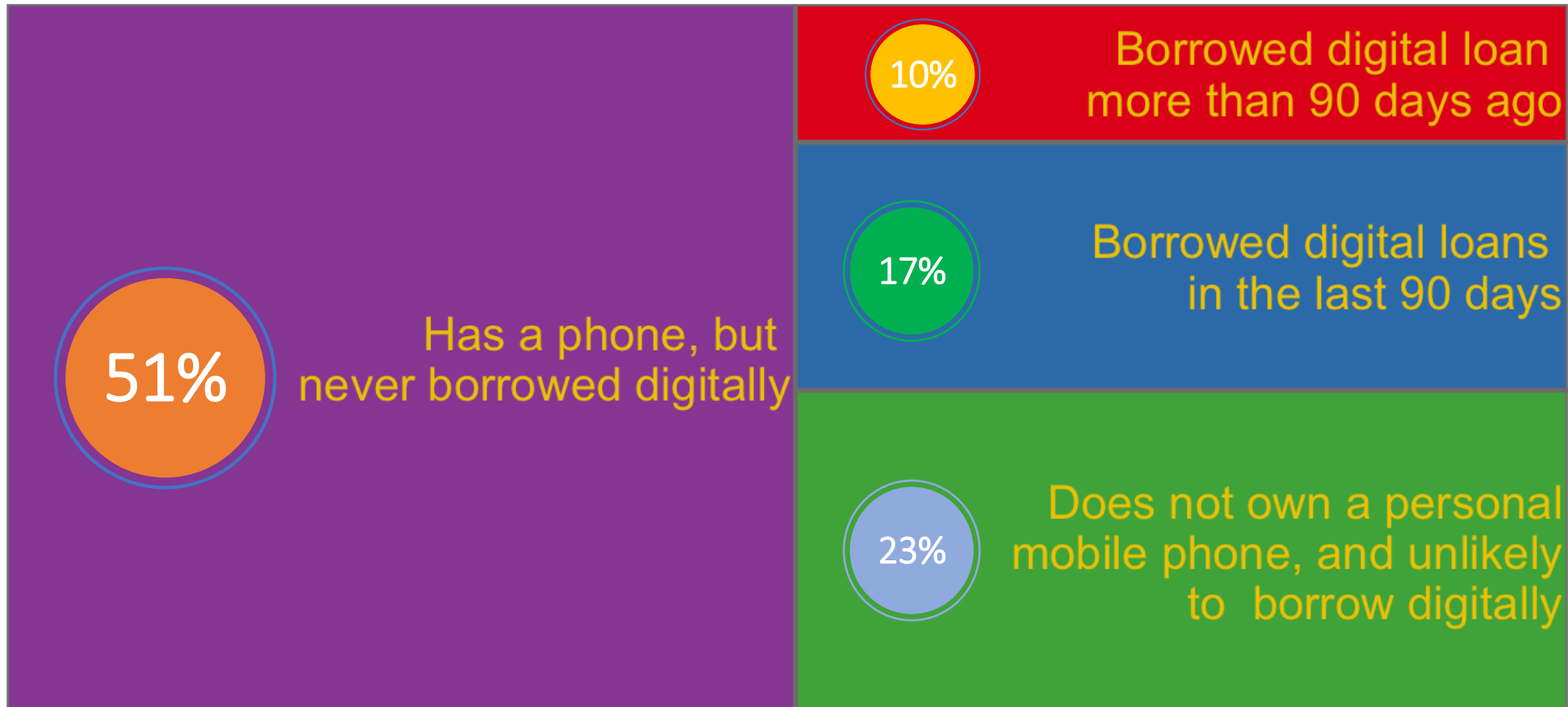
Overview of methodology

To assess progress, FSD-Kenya, in partnership with the Central Bank of Kenya (CBK), Kenya National Bureau of Statistics (KNBS) and CGAP conducted a nationally representative phone survey with 3150 Kenyans to measure the size of the market and the key characteristics of the customer base. The sample was selected from a random pool of respondents who participated to the [Finaccess 2016](#) survey, and can be considered representative of Kenyan adult phone owners (18+); these represent approximately 77.5% of all adults.

The fieldwork was conducted by IPSOS in mid-2017, and a set of survey weights was developed by the Kenya National Bureau of Statistics to reflect the population of phone owners in Kenya. A similar survey was conducted by CGAP in Tanzania and a comparative analysis between Kenya/Tanzania will be produced in the second quarter of 2018.

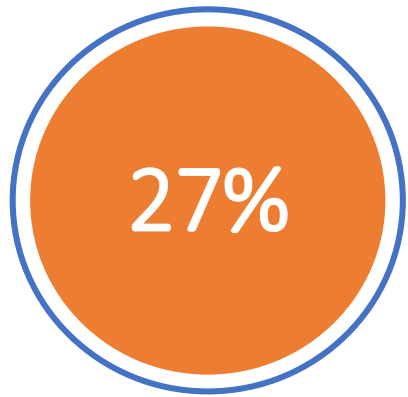
Overview of phone ownership and digital borrowing among Kenyan adults (>18)

27% of Kenyans are digital borrowers, about 17% are 90-day active. 23% does not own a mobile phone; and 51% owns a phone but never borrowed digitally



Nationally representative sample of N=3150 phone owners in Kenya, of whom 1037 have ever used digital credit. Mobile phone ownership is estimated from Finaccess 2016 data.

Estimating the demand for digital credit in Kenya



of Kenyan adults (>18) are digital borrowers

(Estimated Kenyan adult population = 23.5 mil)



of Kenyan phone owners (>18) are digital borrowers

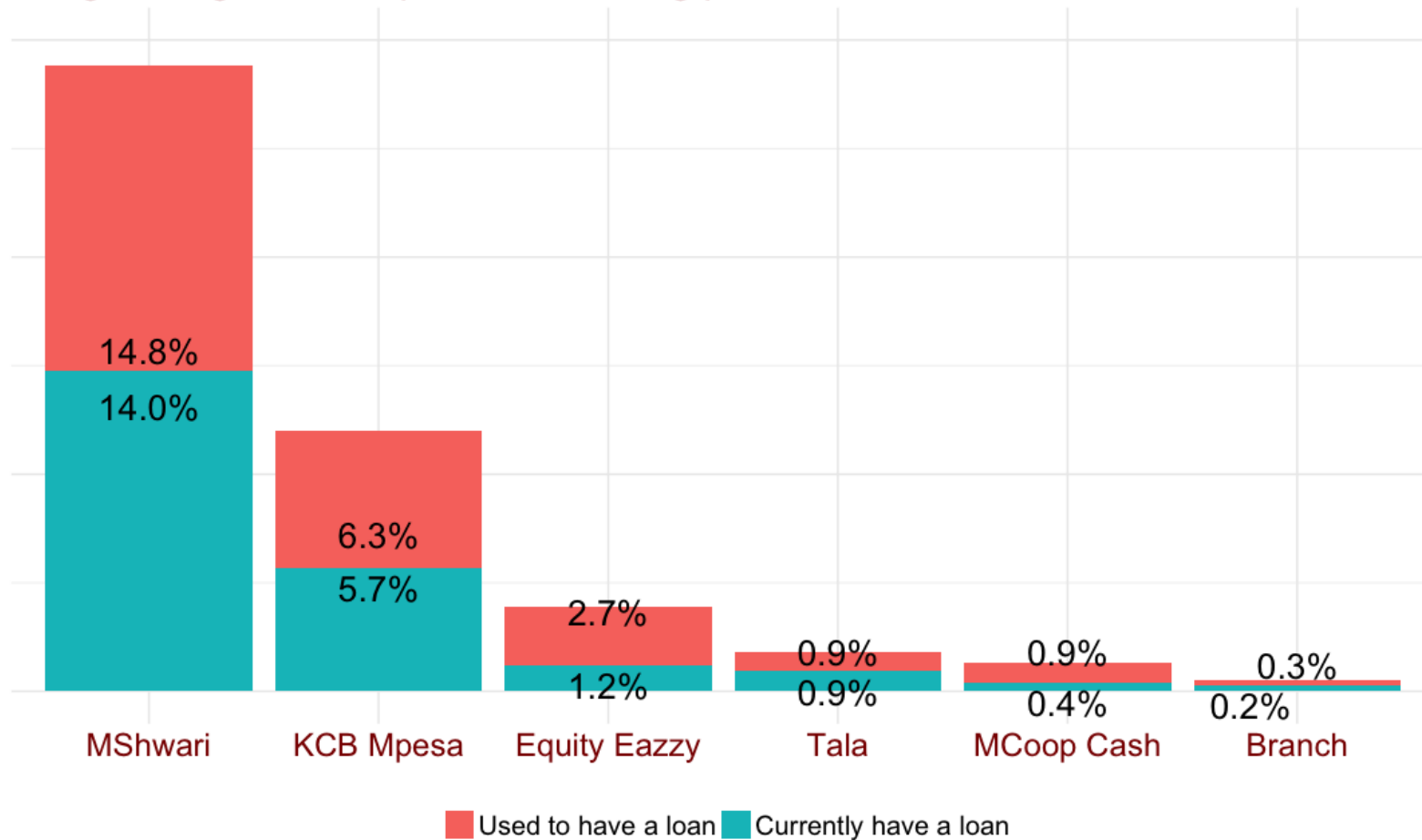
(Estimated number of phone owners = 18.2 mil, or 77.5% of all Kenyan adults)

We estimate a market of over **6 million** unique digital borrowers in Kenya

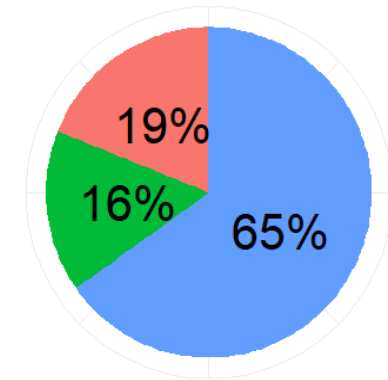
Measuring the market of digital credit

The Kenyan digital credit market is led by CBA's M-Shwari, but new market entrants are catching up

% of Kenyan phone owners who ever used *each* digital lender



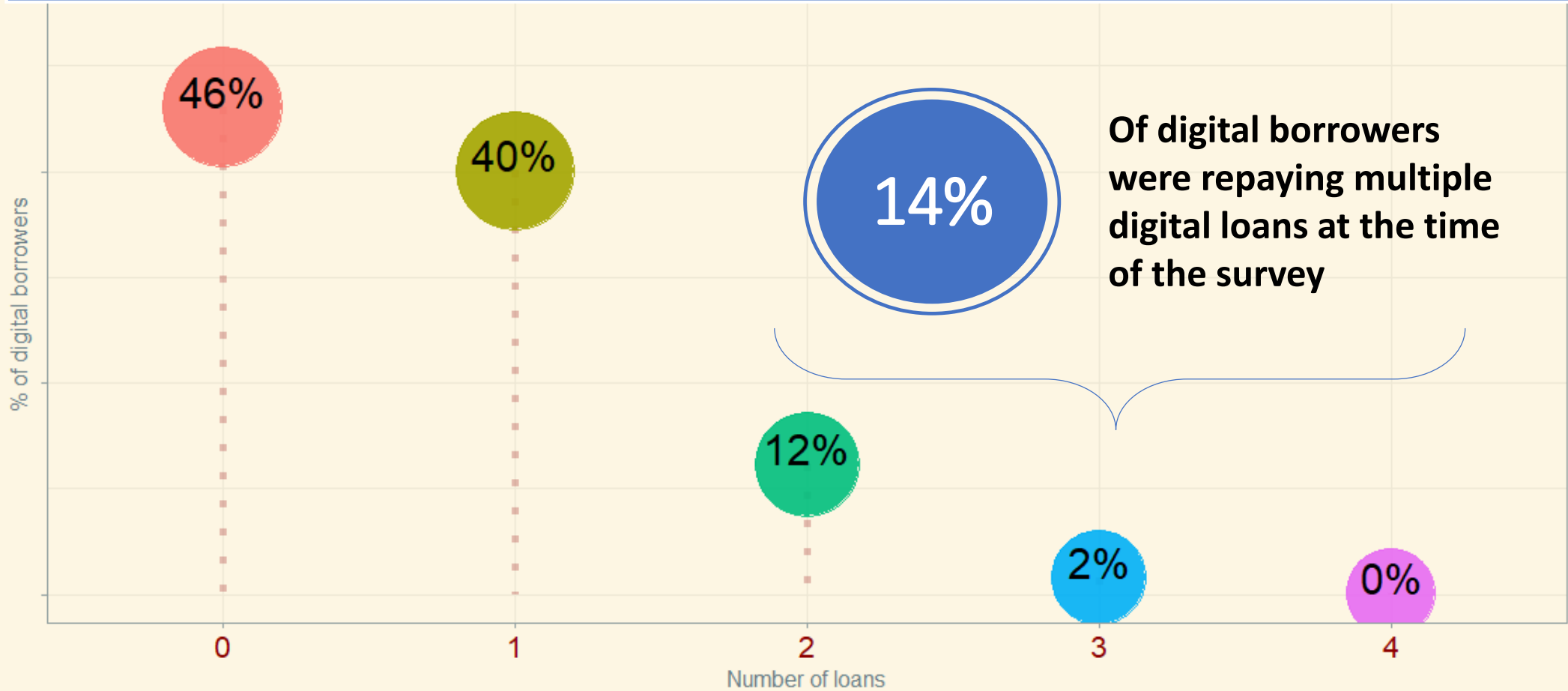
35% of Kenyan phone owners have tried *at least one* digital lender



Legend: ■ Currently borrowing digital credit ■ Used digital credit in the past ■ Never used digital credit

More than half of digital borrowers had at least one outstanding digital loan at time of the survey

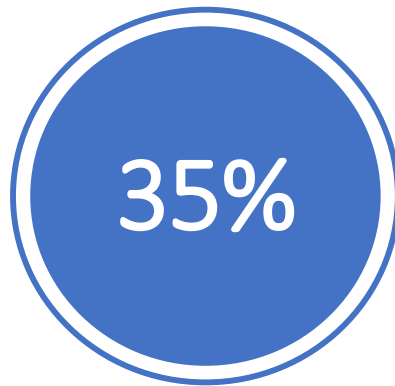
Number of digital loans used by phone owners at the time of the survey. The chart focuses on phone owners who are current digital borrowers, or borrowed a digital loan at any point in the past.



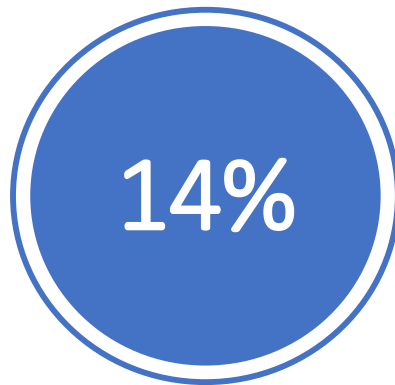
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Multiple digital borrowing

Over a third of borrowers tried multiple digital lenders



Of digital borrowers have ever borrowed from more than one digital lender

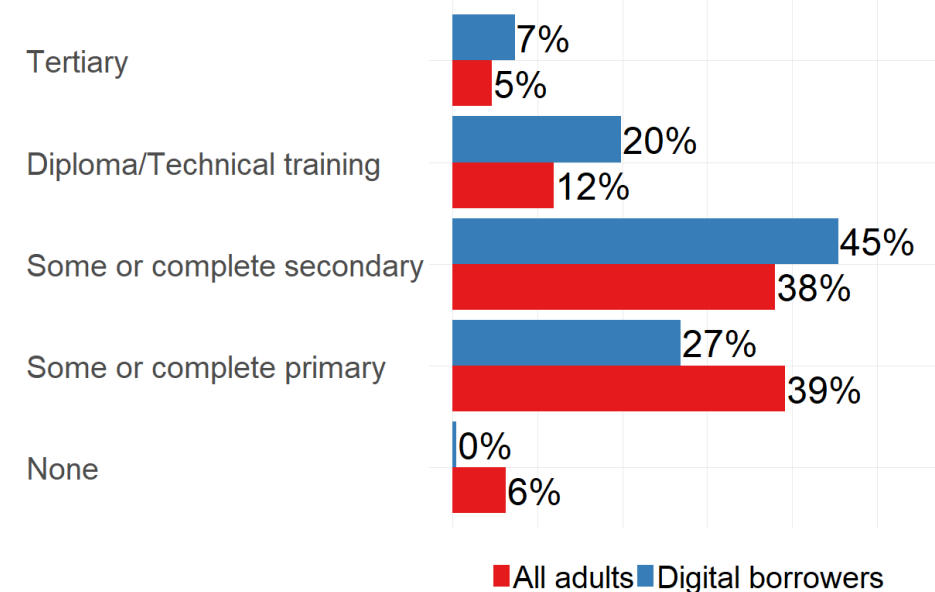
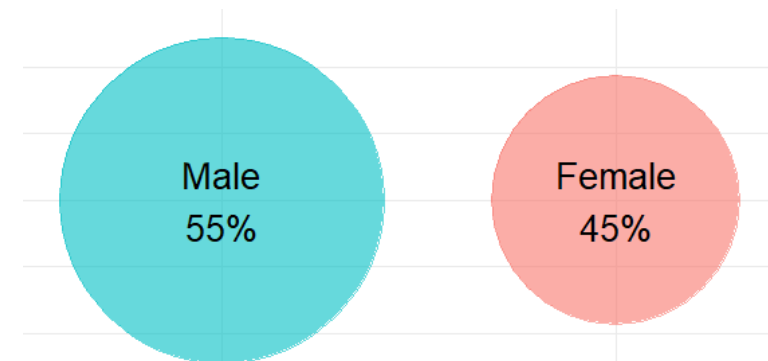
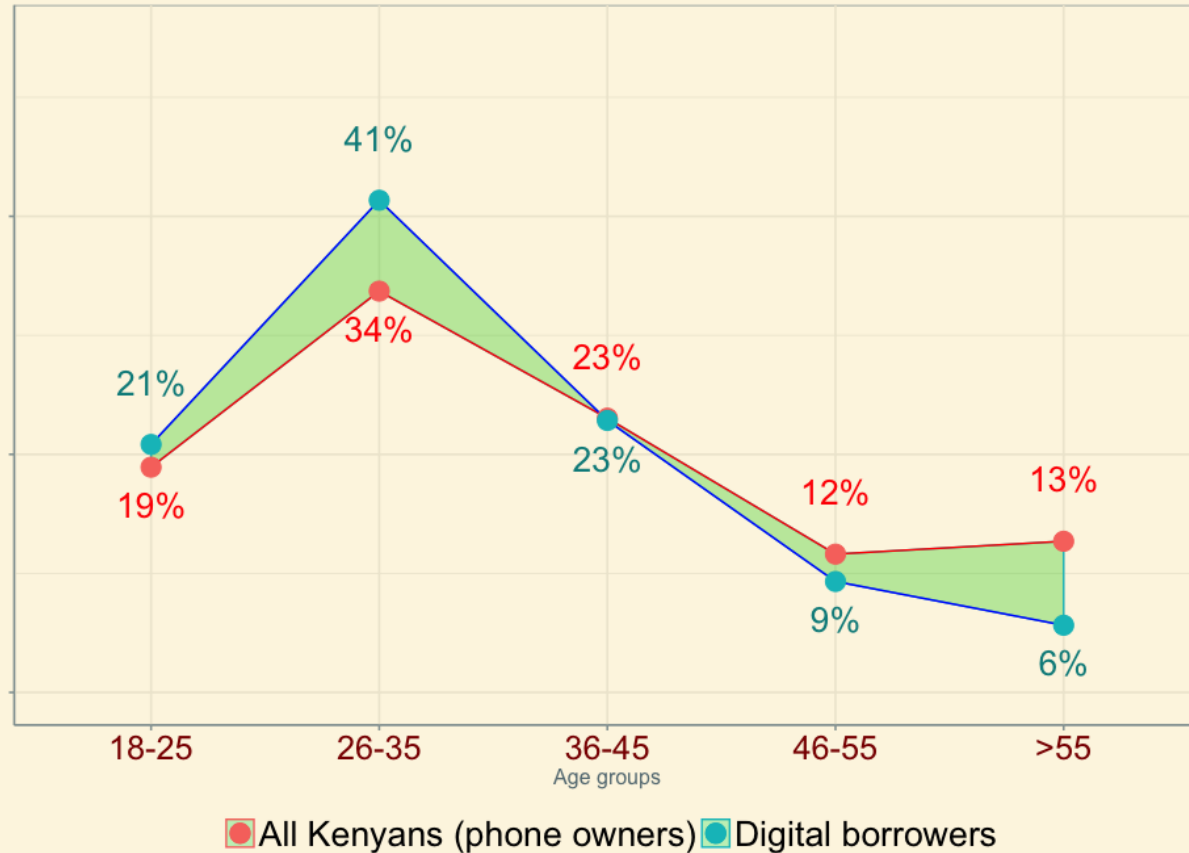


Of digital borrowers were currently balancing loans from more than one digital lender at the time of the survey

Demographics of Kenyan digital borrowers

Compared to a typical Kenyan, digital borrowers are more likely to be men, young and more educated:

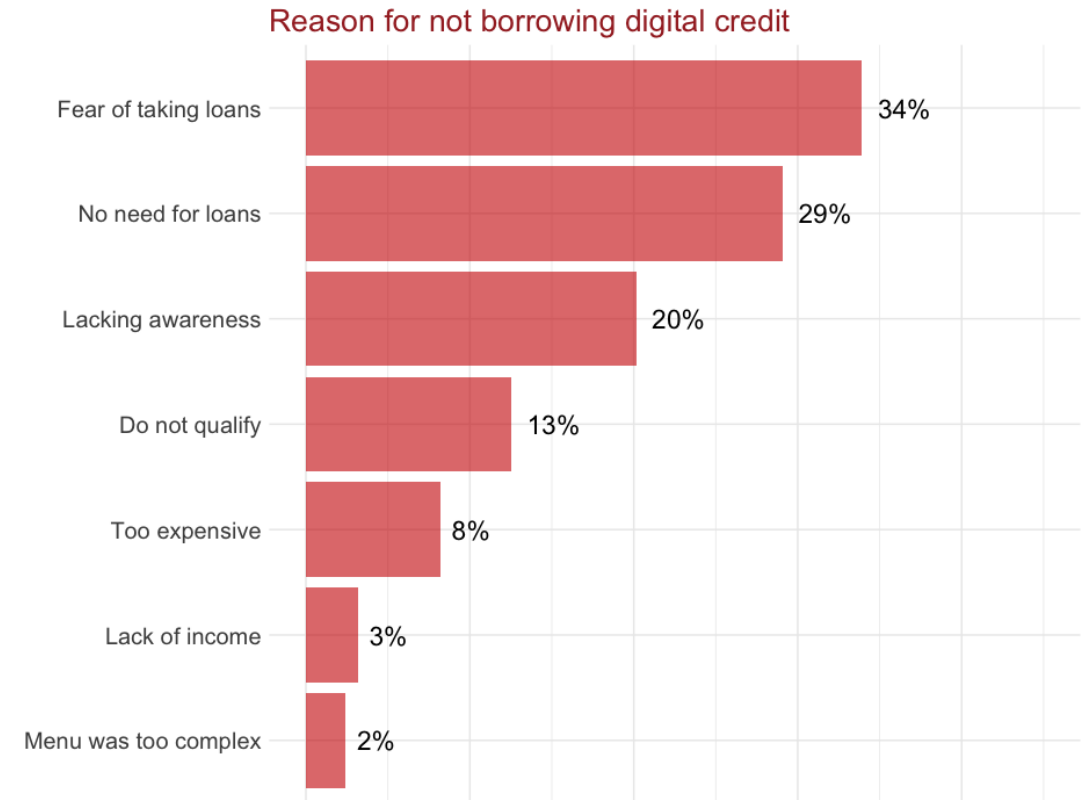
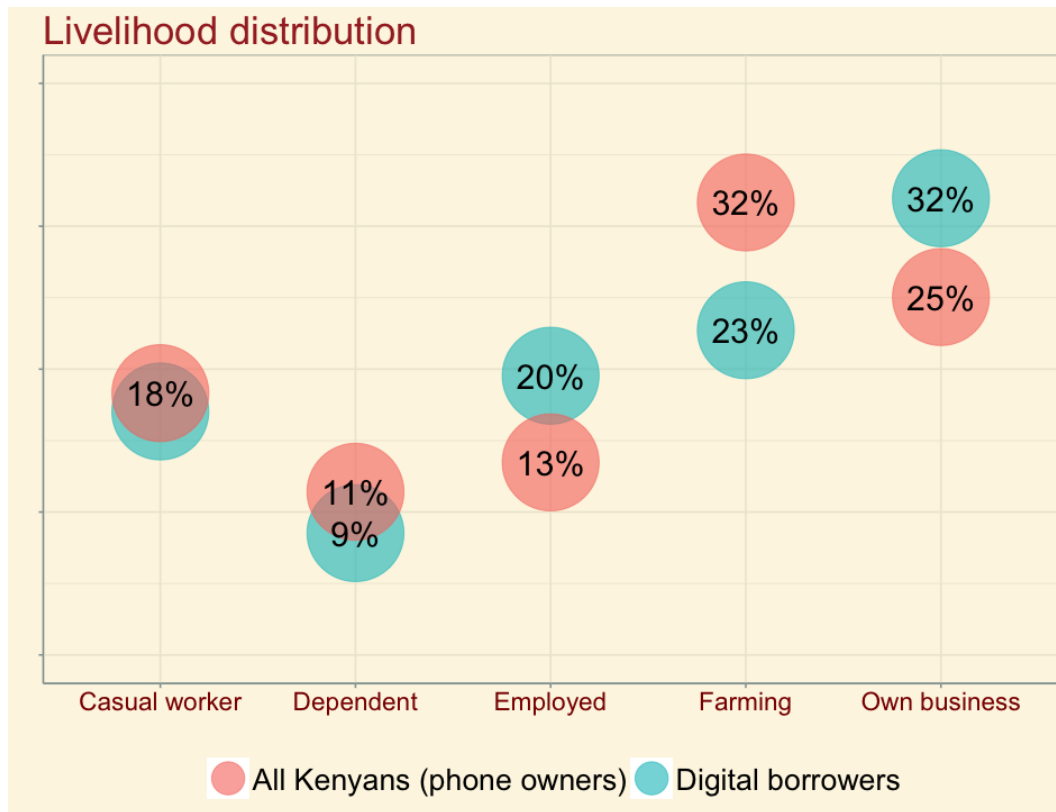
Age distribution



Nationally representative sample of N=3150 phone owners in Kenya, of whom 1037 have ever used digital credit.

Digital borrowers are more likely than average to run their own business or be employed

They are less likely to be farmers, or dependent on family or government transfers

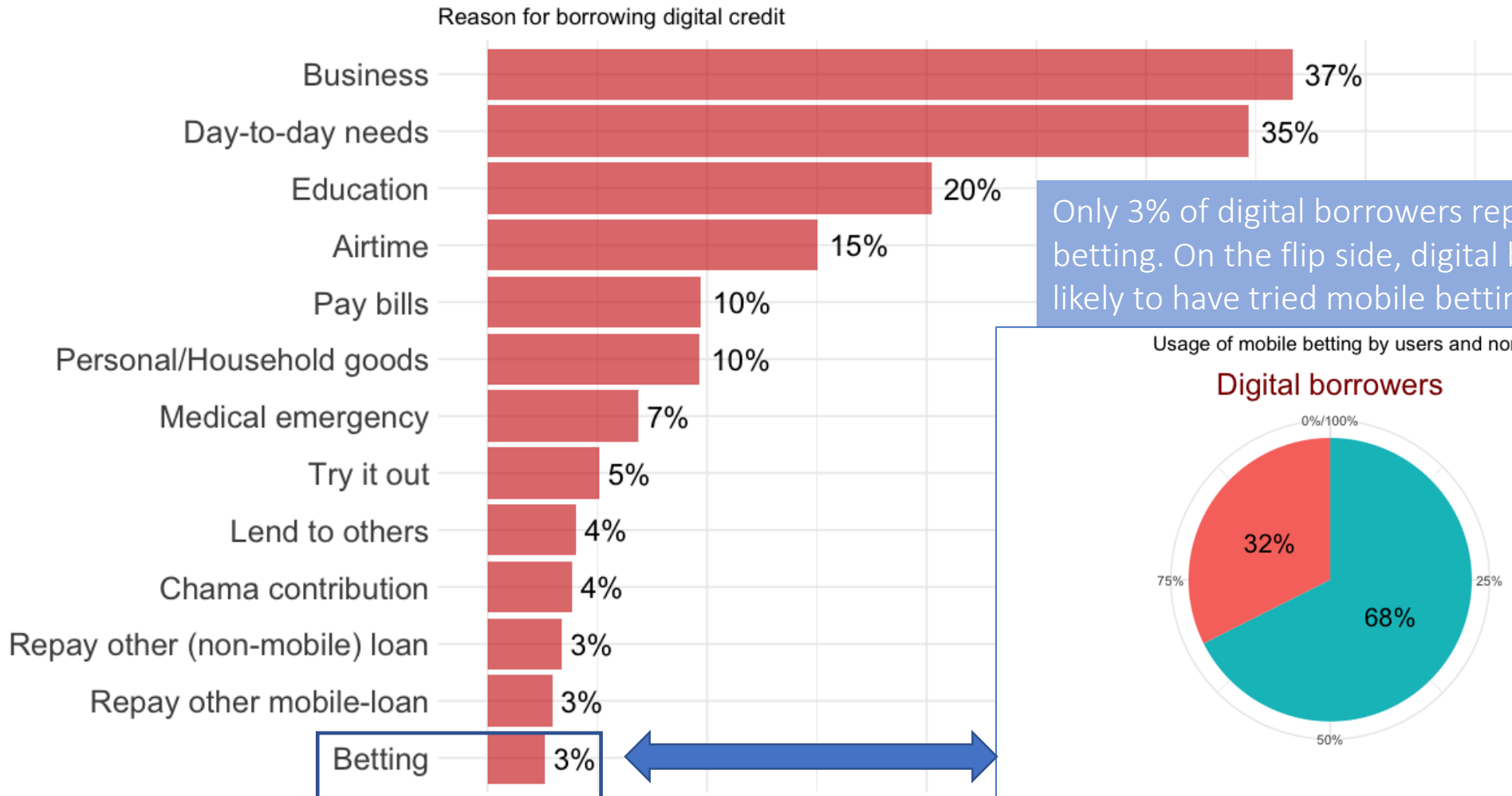


Most who don't use digital credit report "fear for borrowing", or not needing a loan

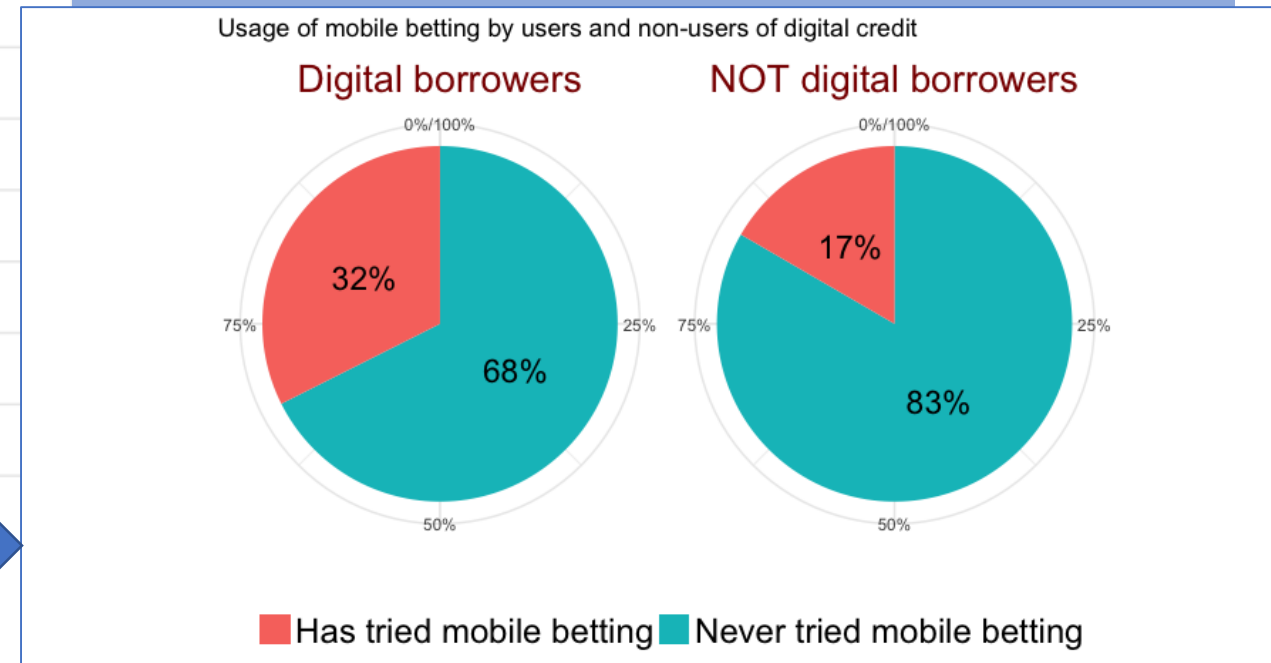
What are loans used for?

Most borrowers use digital credit for business purposes or to meet household needs

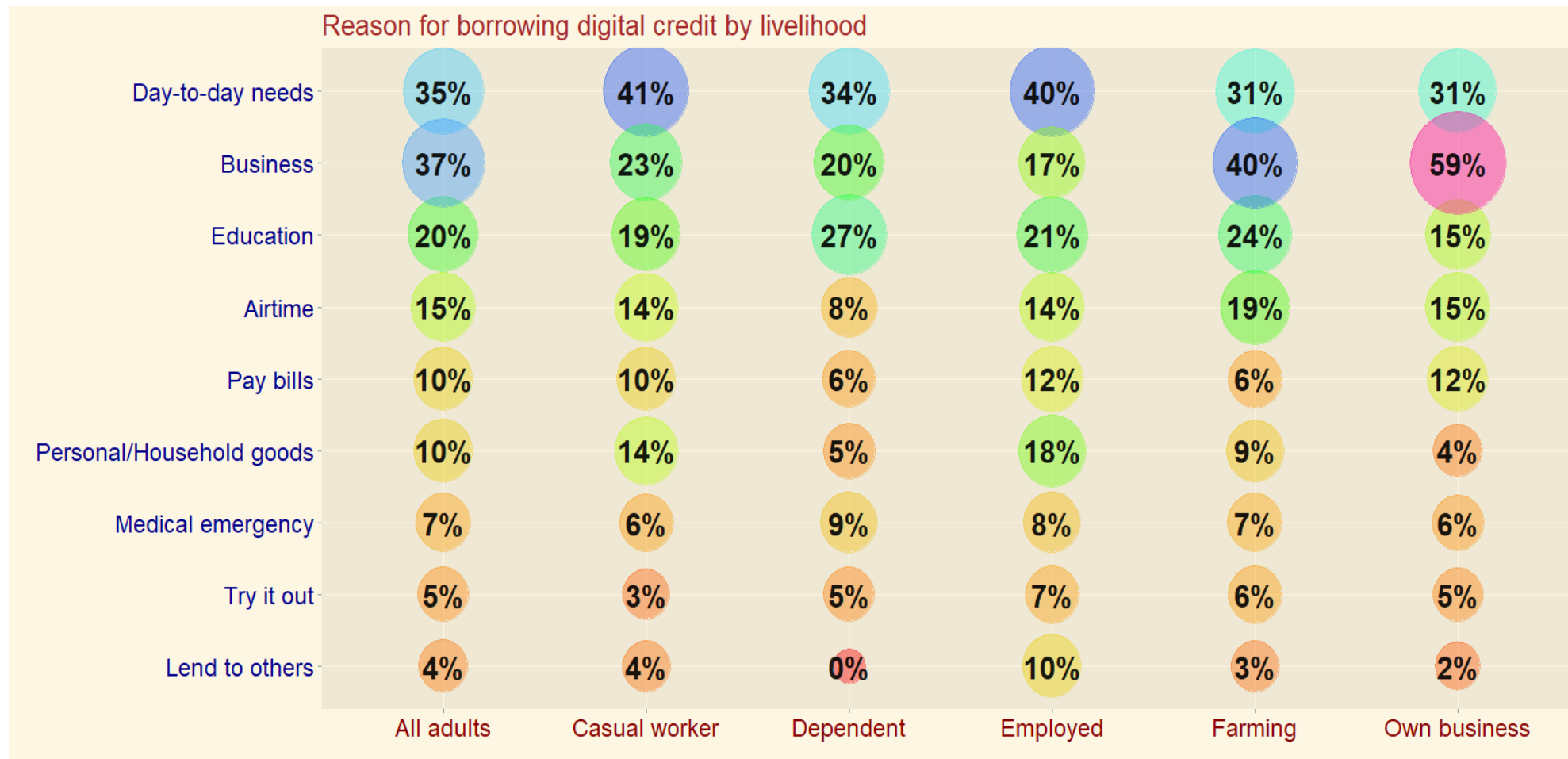
Education plays a very important role as well



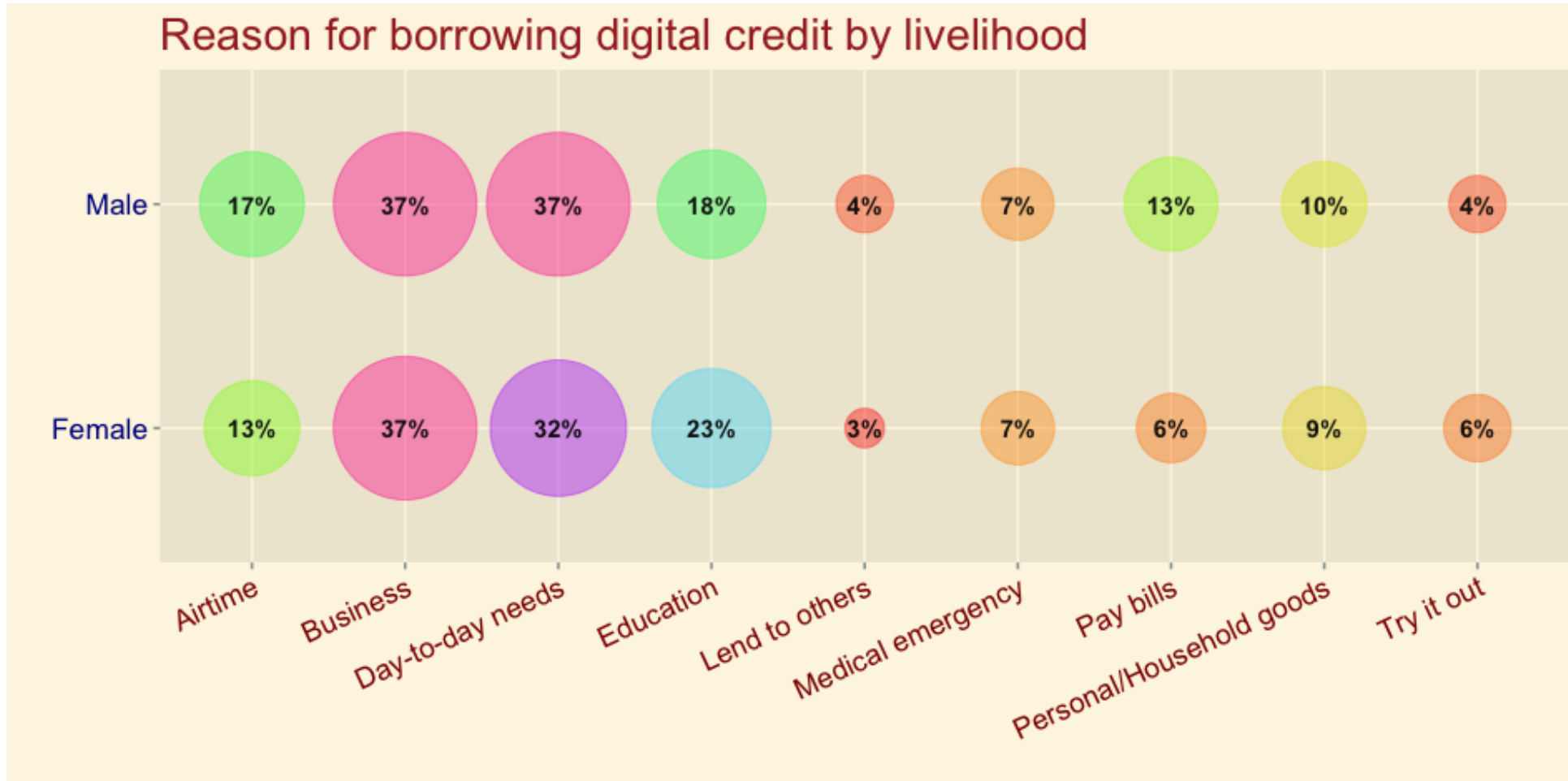
Only 3% of digital borrowers report using their loans for betting. On the flip side, digital borrowers are almost twice as likely to have tried mobile betting at least once in their life



Entrepreneurs and farmers use digital credit for business purposes. Employees and casual workers for day-to-day needs

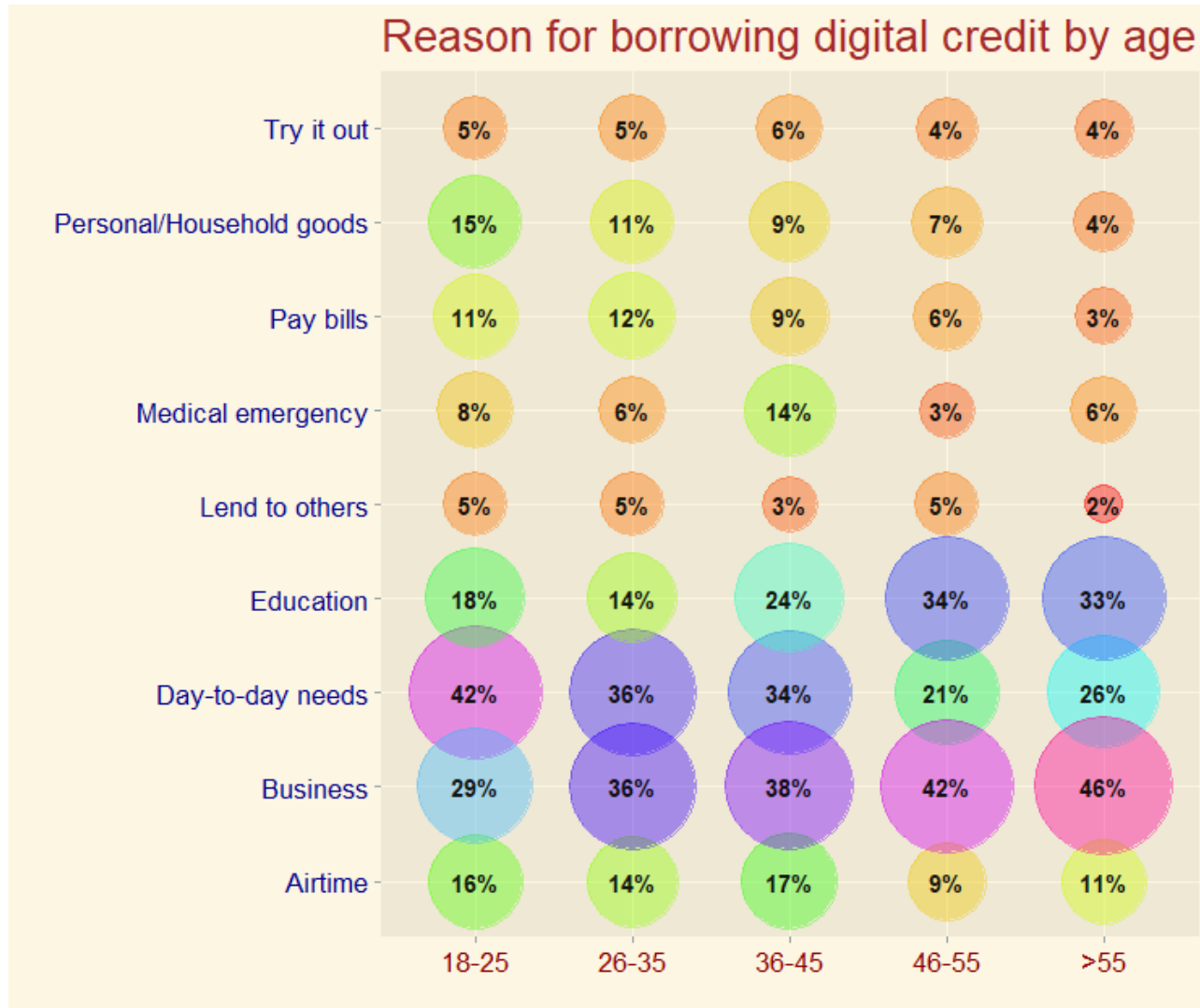


Use patterns are quite consistent across men and women



There are minor differences between men and women in how digital credit is used.

Age plays an important role as well



Younger customers (<25) primarily borrow for day-to-day needs. The key age group of digital credit (26-35) is equally split between business and day-to-day needs

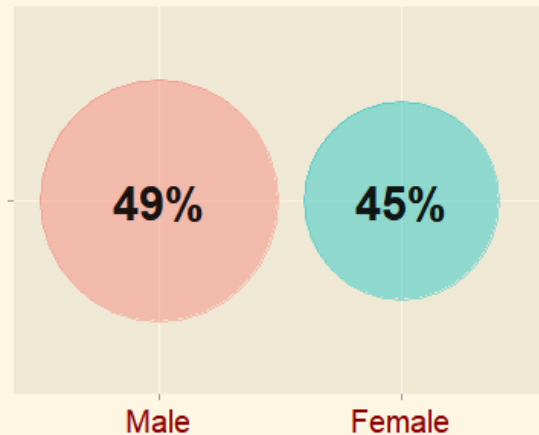
Borrowing for business purposes increases with age. However, only 6% of digital borrowers are above 55 years

What risks are emerging from digital credit use?

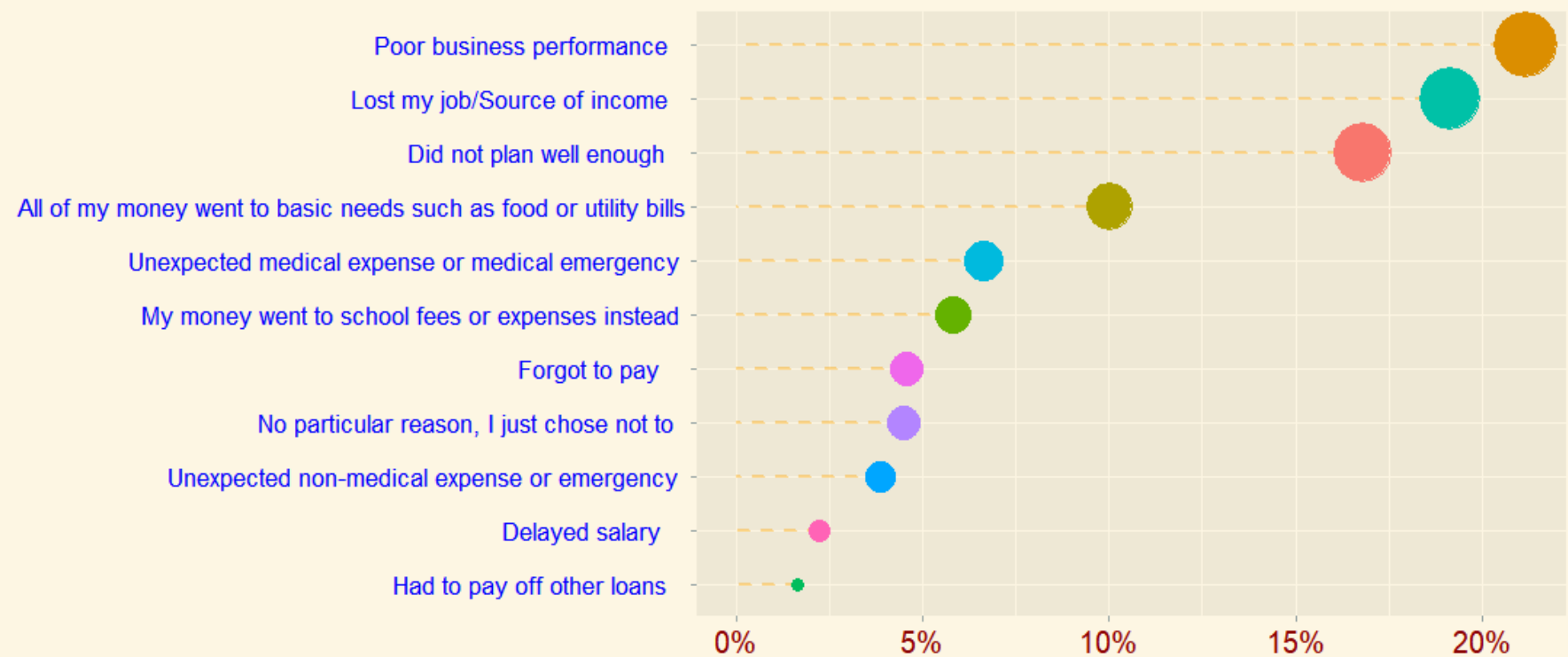
Almost half of digital borrowers report having been late in repaying the loan

Late repayment is slightly more common among men. Poor business performance and losing the source of income are the main reasons.

Ever repaid late by gender
(% digital borrowers)

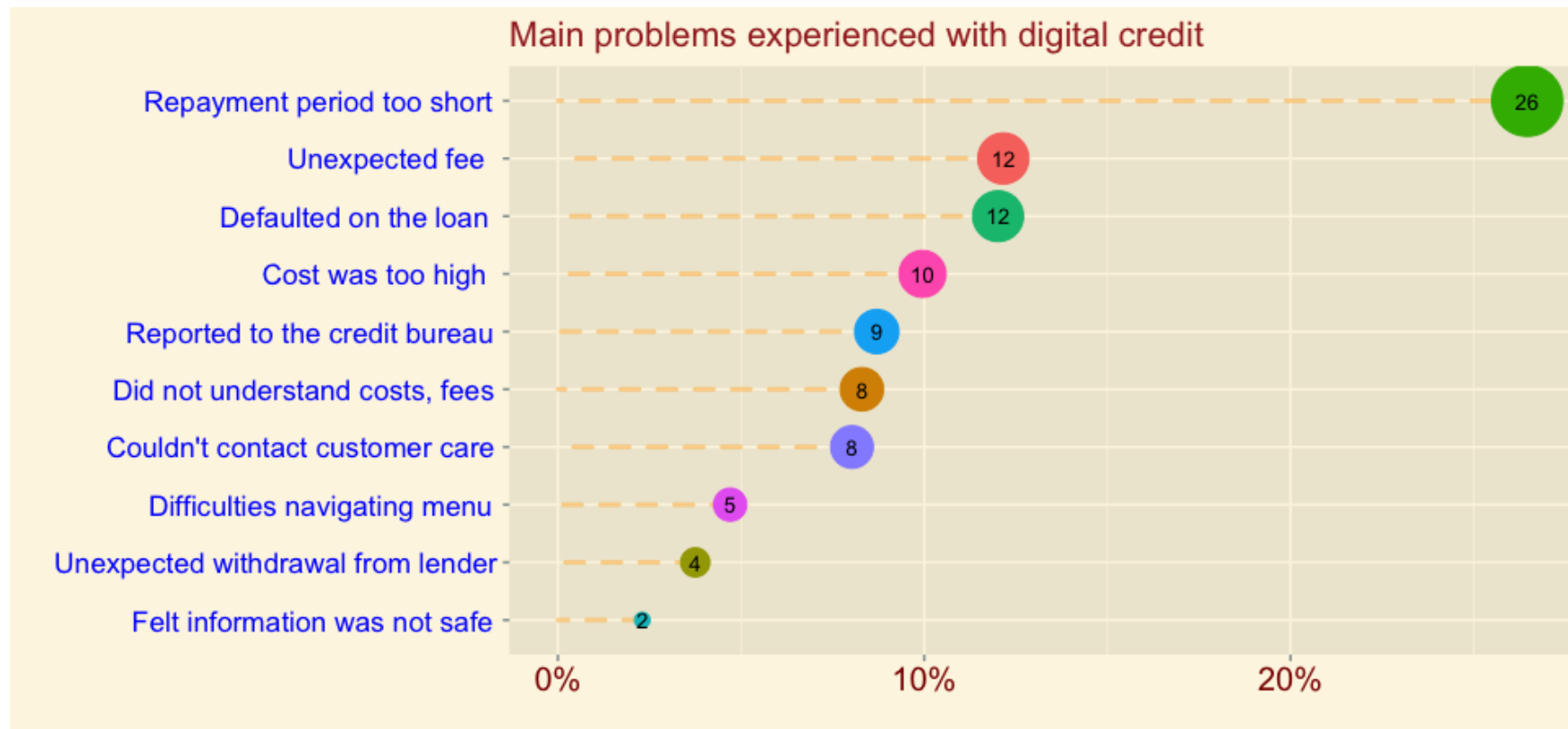


Reason for repaying late a digital loan



One in four digital borrowers perceive that repayment periods are too short. One in five report problems of transparency

We asked digital borrowers to mention the main problems they experienced with digital credit. Responses are divided between product design (repayment period, cost), transparency (fees, understanding of terms) and difficulty to repay.



26% of digital borrowers did not report any negative experience in digital borrowing

Default in this survey is self-reported. More data is required to mitigate the risk of under-reporting

Nationally representative sample of N=2890 phone owners in Kenya, of whom 956 have ever used digital credit. Multiple answers allowed

One in five digital borrowers experienced a lack of transparency



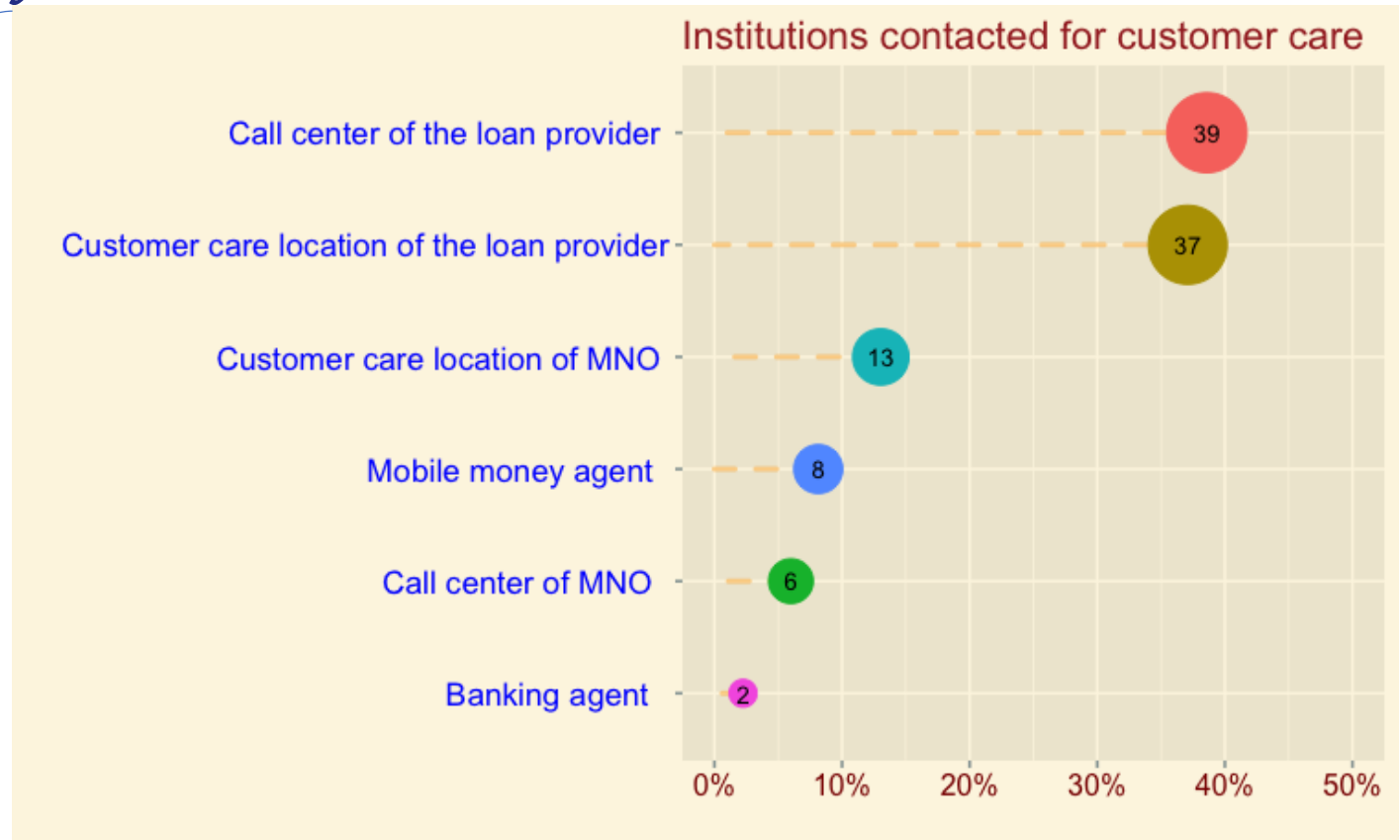
- *Borrower was charged fees they didn't expect*
- *Borrower did not fully understand the costs or fees associated with the loan*
- *Lender unexpectedly withdrew money from account*

Few digital borrowers have contacted customer care

Most have contacted the call centers of the providers, but many also went to their physical location

10%

Of digital borrowers have contacted anyone with a question, concern, or complaint about their digital loan

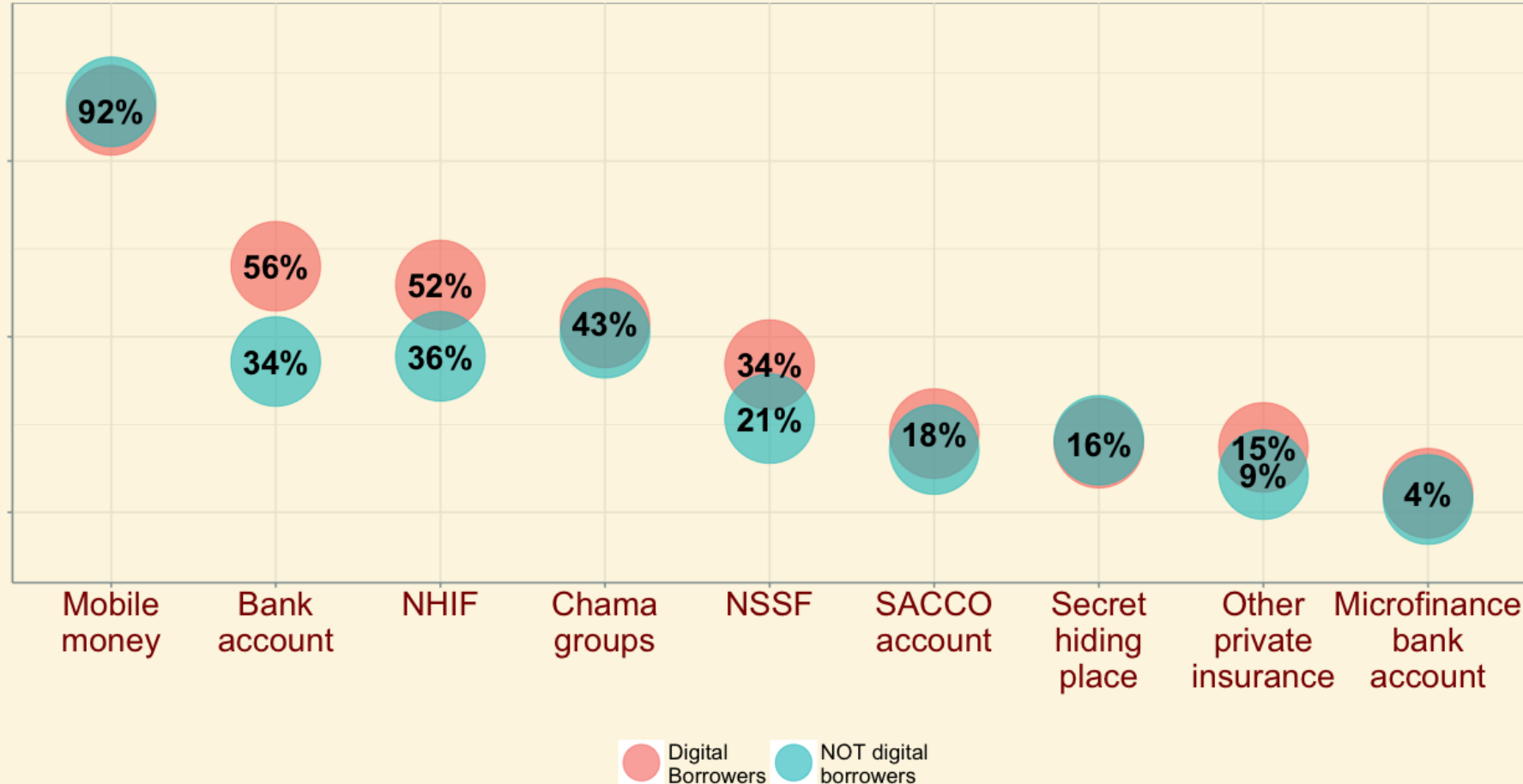


Nationally representative sample of N=2890 phone owners in Kenya, of whom 956 have ever used digital credit

Understanding the financial
portfolios of digital borrowers

Digital borrowers are more likely to have bank accounts, medical insurance (NHIF) and statutory pension (NSSF)

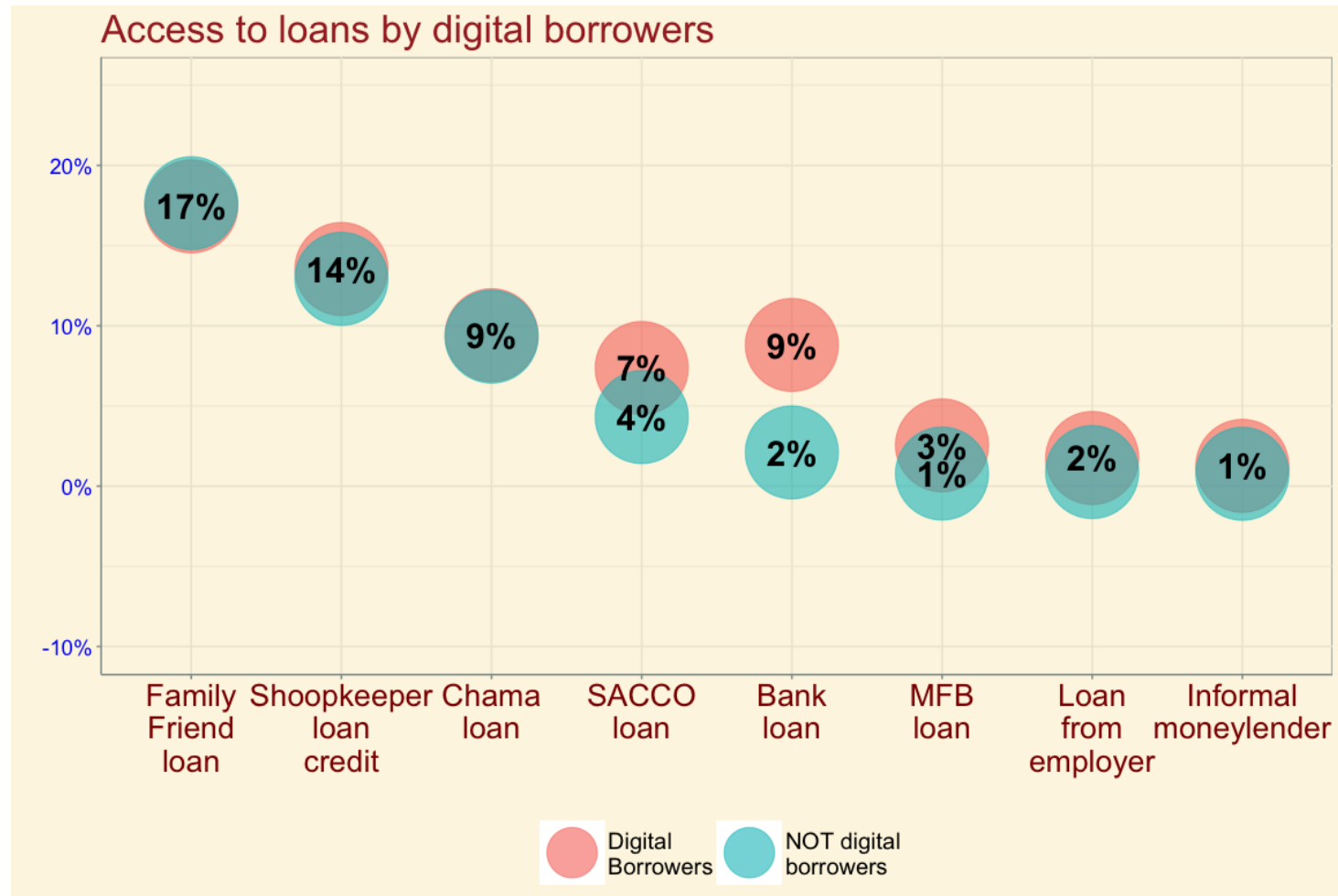
Usage of financial services



Uptake of mobile money is above 90% among all phone owners irrespective of digital credit usage. Informal savings groups (chama) are equally important for digital borrowers and non-digital borrowers.

Overall, digital borrowers seem to use slightly more financial services and have more diversified financial portfolios compared to non-borrowers

Digital borrowers are more likely to have bank loans than non-borrowers. The rest of the financial portfolio however is similar



Usage of informal credit does not vary much between digital borrowers and those who don't borrow from their phone.

This suggests that digital credit could complement, rather than substitute, other sources of credit

Has digital credit delivered on its
promise?

Finaccess tracker: next steps

While digital credit represents a tremendous step forward for formal financial inclusion, a lot more is needed to understand the real economic and social impact of digital credit on low income Kenyans. A number of questions and issues remains to be solved:

Despite growing market competition, digital credit remains ill-suited for the majority of livelihoods characterized by irregular cash-flows such as farmers and casual workers. Reaching these segments requires deeper understanding of their financial lives, the key risks that they face, and the day-to-day liquidity needs.

The survey suggests that digital borrowers tend to be very active: almost half of them borrowed in the 30 days prior to the interview. At the moment, it is unclear if these borrowers are able to graduate to larger and more affordable loans. It is crucial to ensure that digital borrowers do not remain stuck with low-value, short-term expensive credit despite building positive credit histories.

It is important to monitor transparency and consumer protection in the digital credit marketplace. The last two years registered the entry of many unregulated players, who do not respond to any law or regulatory authority. Although there have not been many known cases of fraud or privacy concerns, an oversight body should be designed to monitor this growing market segment.

Similarly, better tools need to be developed to track over-indebtedness and multiple borrowing. Many borrowers report cutting on consumption to repay the loans, and many report dipping into their savings. Providers should be encouraged to improve their submission and use of data from credit reference bureaus.

Thank you

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