

# Kenya Consumer Protection in Digital Finance Survey

---

January 2020

Innovations for Poverty Action  
Competition Authority of Kenya

*Funding for this research was provided by the Bill & Melinda Gates Foundation.*



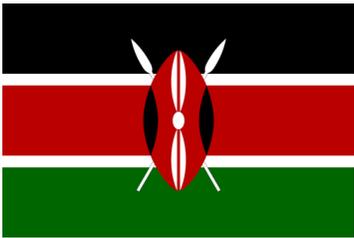
# IPA Consumer Protection Research Initiative

Four-year program to support policymakers, financial service providers, and civil society to develop and test consumer protection solutions in four emerging markets.

**Bangladesh**



**Kenya**



**Nigeria**



**Uganda**



# Understanding the challenges Kenyan consumers face with digital finance

IPA has collaborated with the Competition Authority of Kenya to conduct a survey on key themes in consumer protection, including:

- Fraud and loss of money
- Complaints handling and redress
- Pricing transparency and consumer choice
- Borrowing behavior

Survey responses identify which issues may be of greater or less concern, to inform future policy actions.



# Contents

- Methodology.....05
- Respondent Profile.....06–11
- Access and Usage.....12–18
- Challenges.....19–32
- Financial Stress.....33–37
- Competition and Choice.....38–47
- Transparency and Knowledge.....48–52
- Redress.....53–57
- Regulator Engagement.....58–60
- Policy Takeaways.....61



Photo by: Tugela Ridley



# Methodology

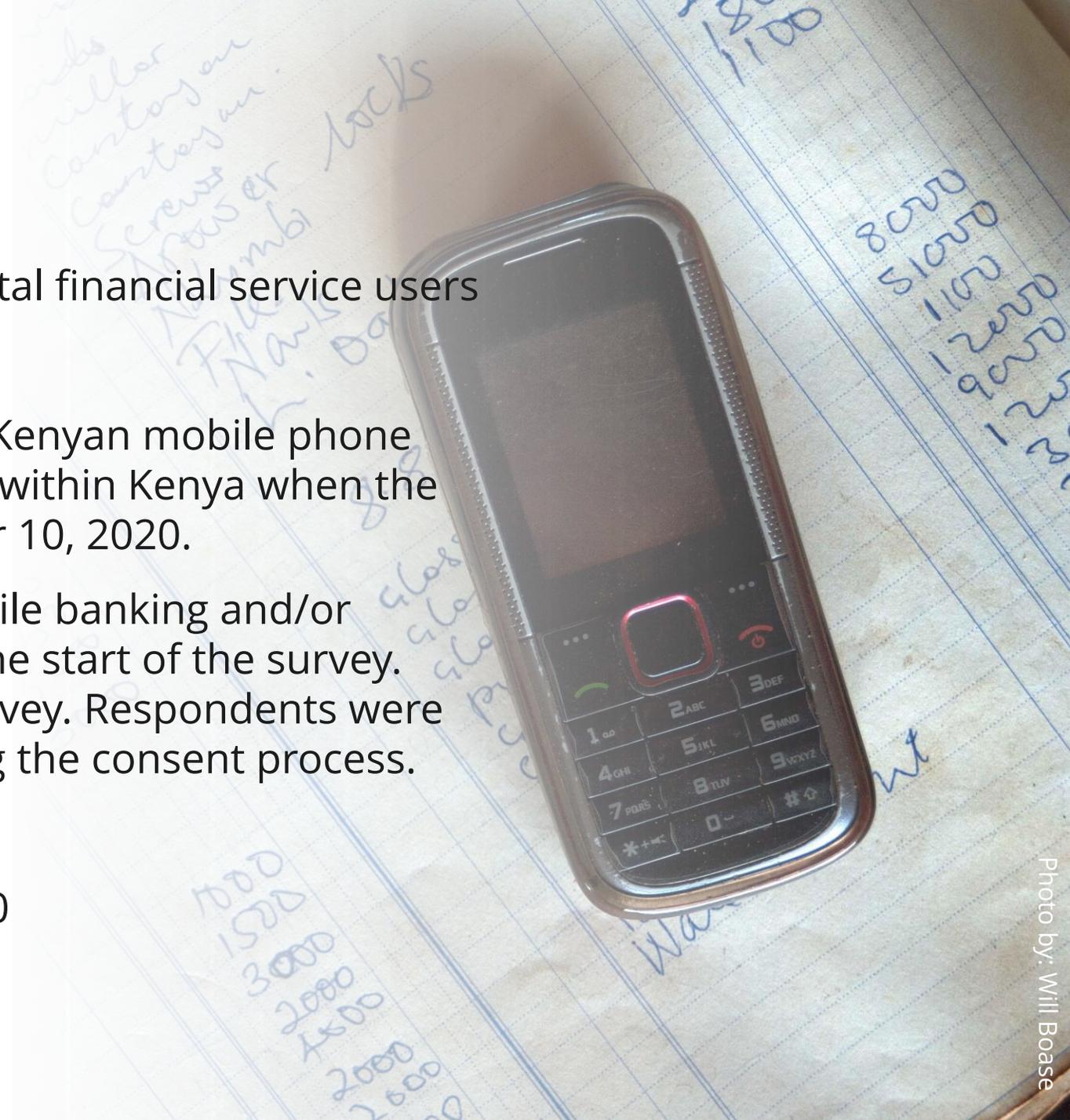
Random-digit dial (RDD) phone survey of digital financial service users

Sampling frame:

- All possible mobile numbers following the Kenyan mobile phone number allocation system that were active within Kenya when the RDD samples was generated on September 10, 2020.
- Survey limited to adult mobile money, mobile banking and/or mobile loan consumers through filters at the start of the survey. No further filtering occurred during the survey. Respondents were made aware of the survey's purpose during the consent process.

Sample size: 793

Conducted: September 14 – October 18, 2020



# Respondent profile

Respondent sample more male, younger, wealthier, and better educated than Kenya's overall adult population.

Some of this is due to filtering for digital financial service users, and some is due to the constraints of random digit dialing.

Individuals who do not have phones or reside within coverage areas are more likely to be older and more poor, but they are also less likely to use digital financial services.



# Geography

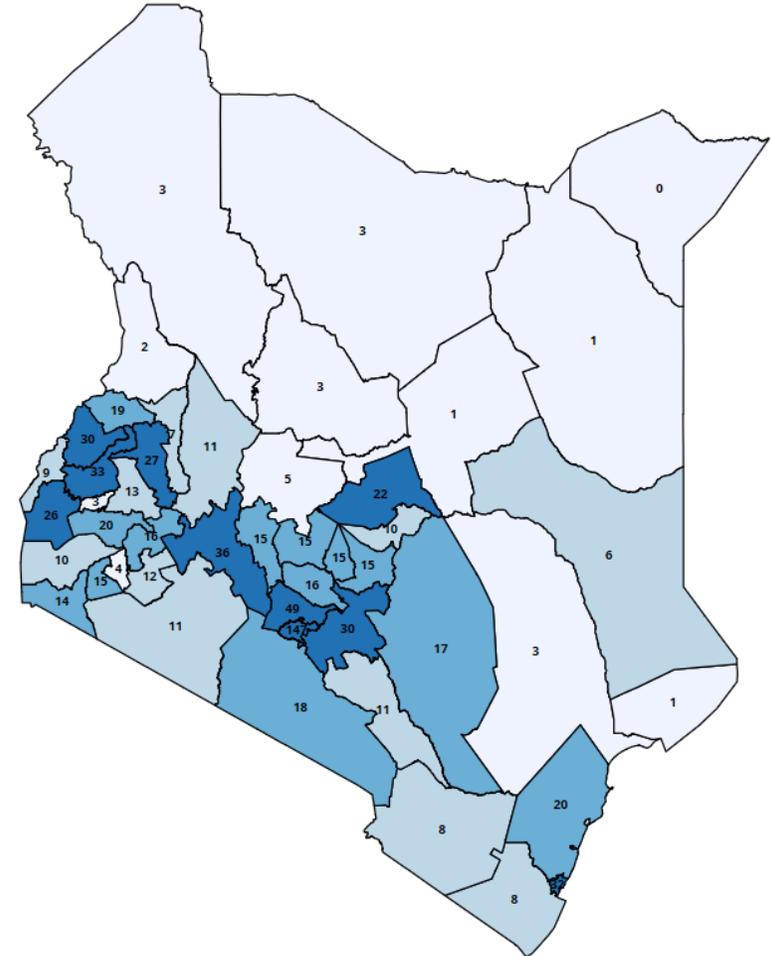
## URBAN/RURAL ESTIMATION

Because surveys were conducted by phone, respondents' urban/rural status was estimated based on the population density of the constituency in which respondents reported residing. A cutoff of 600 individuals/km<sup>2</sup> was selected so that the urban population approximately matched the World Bank urban population estimate for 2009, the latest year where constituency-level population statistics are available. Because of changes in constituencies between 2009 and today, we were able to generate an urban indicator for 71% of respondents. Approximately 36% of respondents were categorized as residing in urban areas using this method (compared with 23% of the population according to the World Bank 2009 estimate).

## FORMER PROVINCES

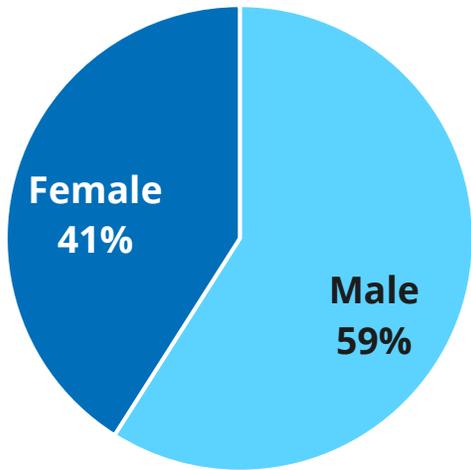
Province	Survey	Census
Rift Valley	23%	25%
Nairobi	19%	11%
Eastern	14%	15%
Central	14%	13%
Nyanza	11%	12%
Western	9%	10%
Coast	9%	9%
North Eastern	1%	4%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>

## COUNTIES

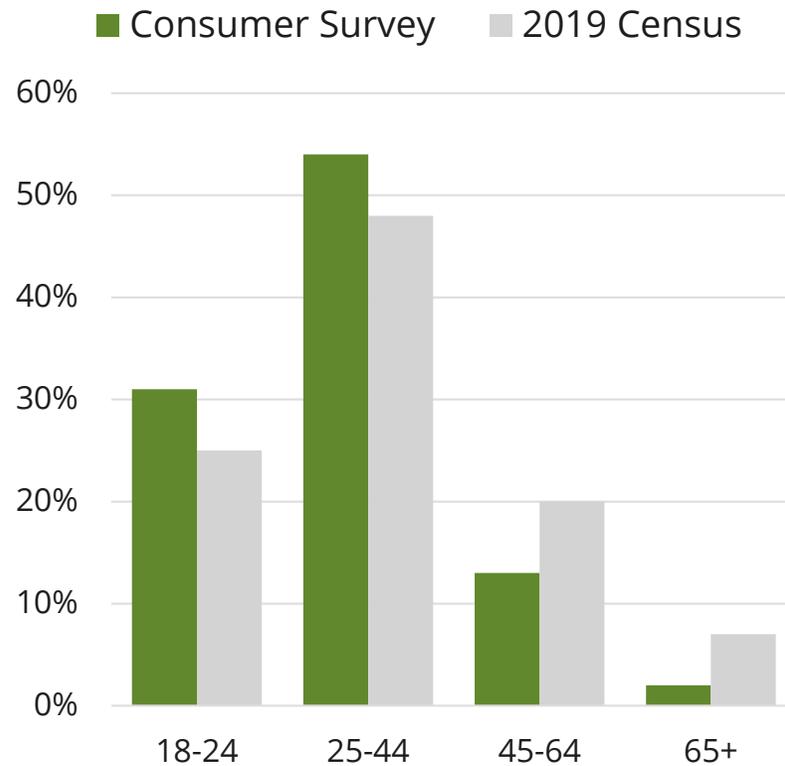


# Gender, Age, and Education

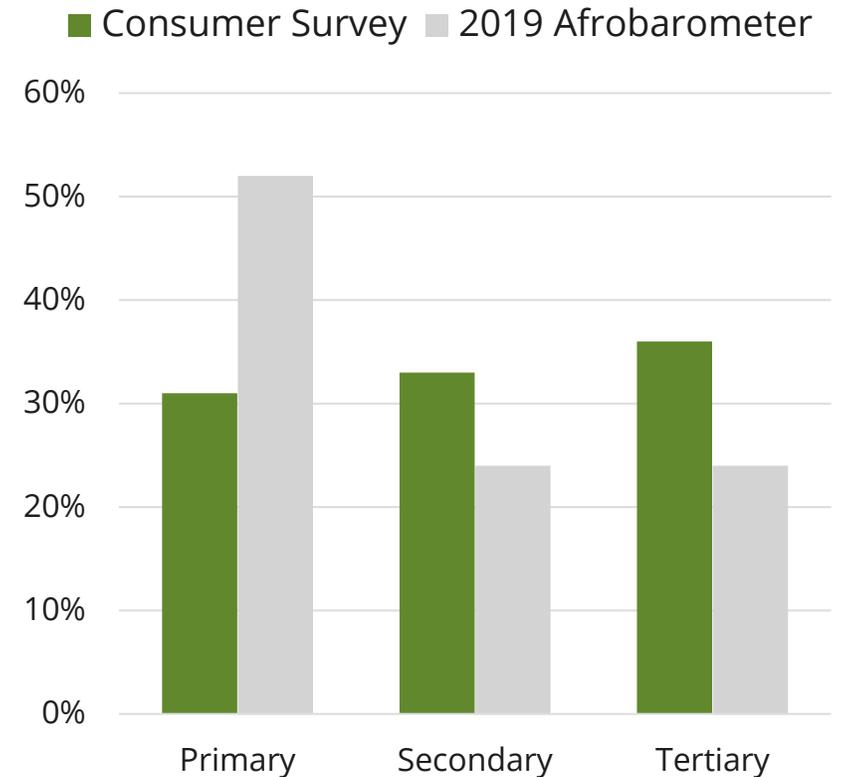
### Gender



### Age (n=793)



### Education (n=792)



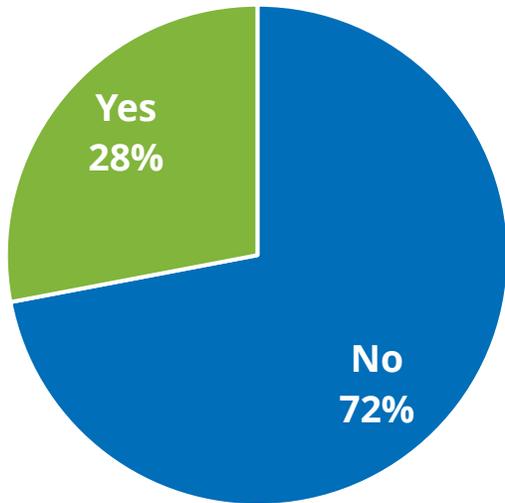
Afrobarometer is non-partisan, pan-African research institution conducting public attitude surveys on democracy, governance, the economy and society in 30+ countries repeated on a regular cycle.

Sources: Afrobarometer: <https://www.afrobarometer.org/data/kenya-round-8-data-2019>; Census: <https://www.knbs.or.ke/?p=5621>

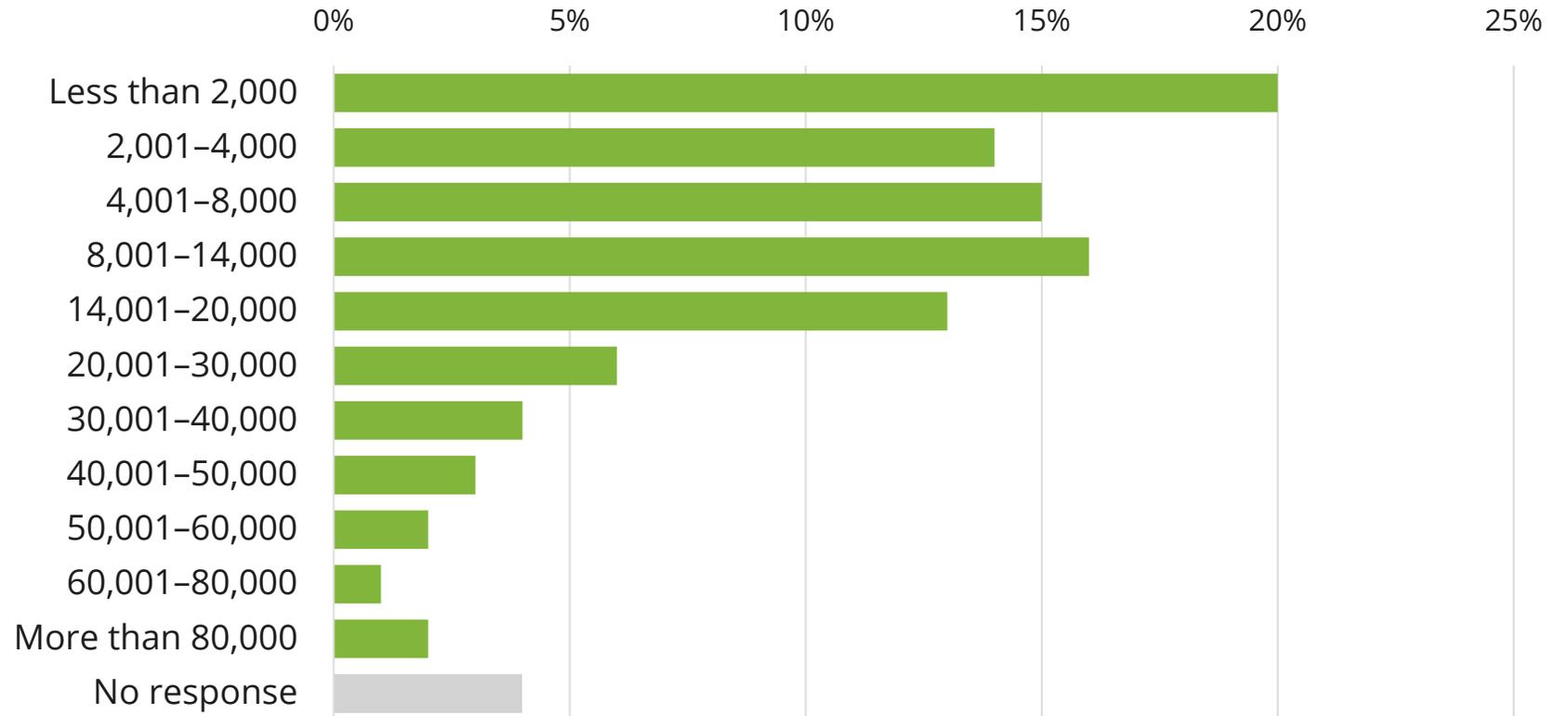


# Economic Background

**Household member with formal employment (n=791)**



**Monthly income (KES) (n=758)**

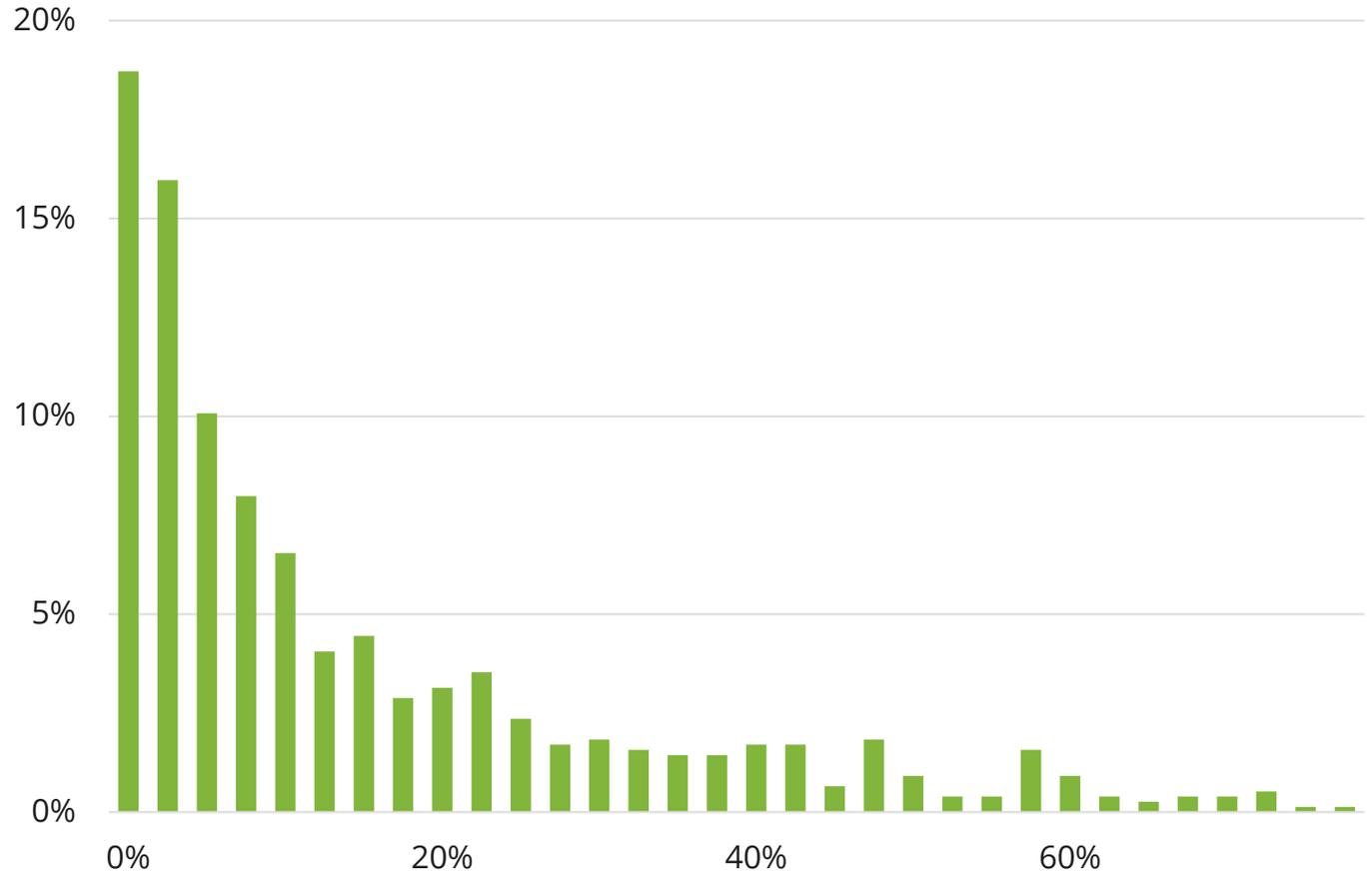


# Poverty Probability

**The Poverty Probability Index (PPI)** is a poverty measurement tool provided by Innovations for Poverty Action. The PPI uses machine learning techniques to estimate households' poverty likelihood based on 10 questions. Kenya's PPI is built from the 2015/2016 Kenya Integrated Household Budget Survey.

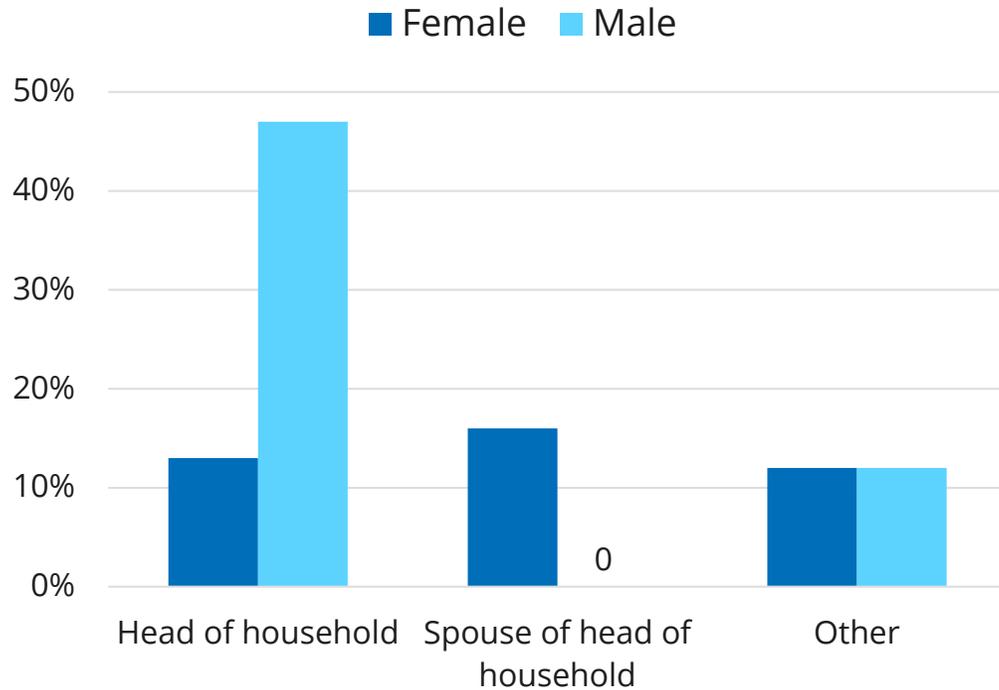
<https://www.povertyindex.org/about-ppi>

**PPI Poverty (n=764)**

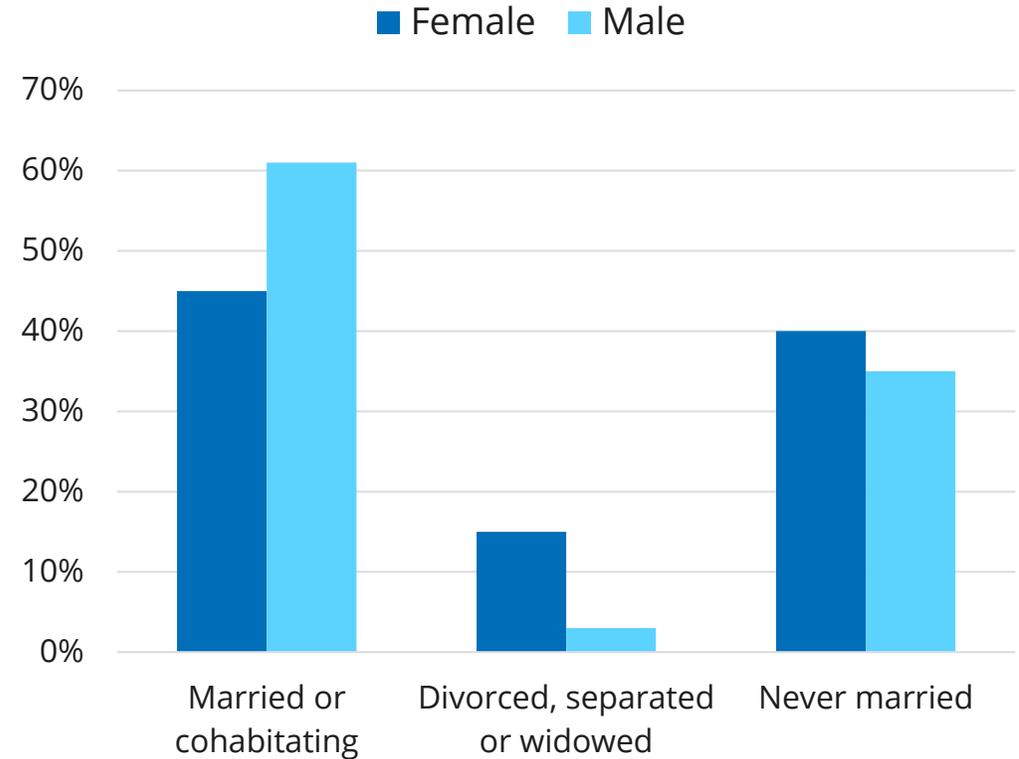


# Household Composition

### Relationship to head of household (n=789)



### Marital status (n=789)



# Access and usage of digital financial services

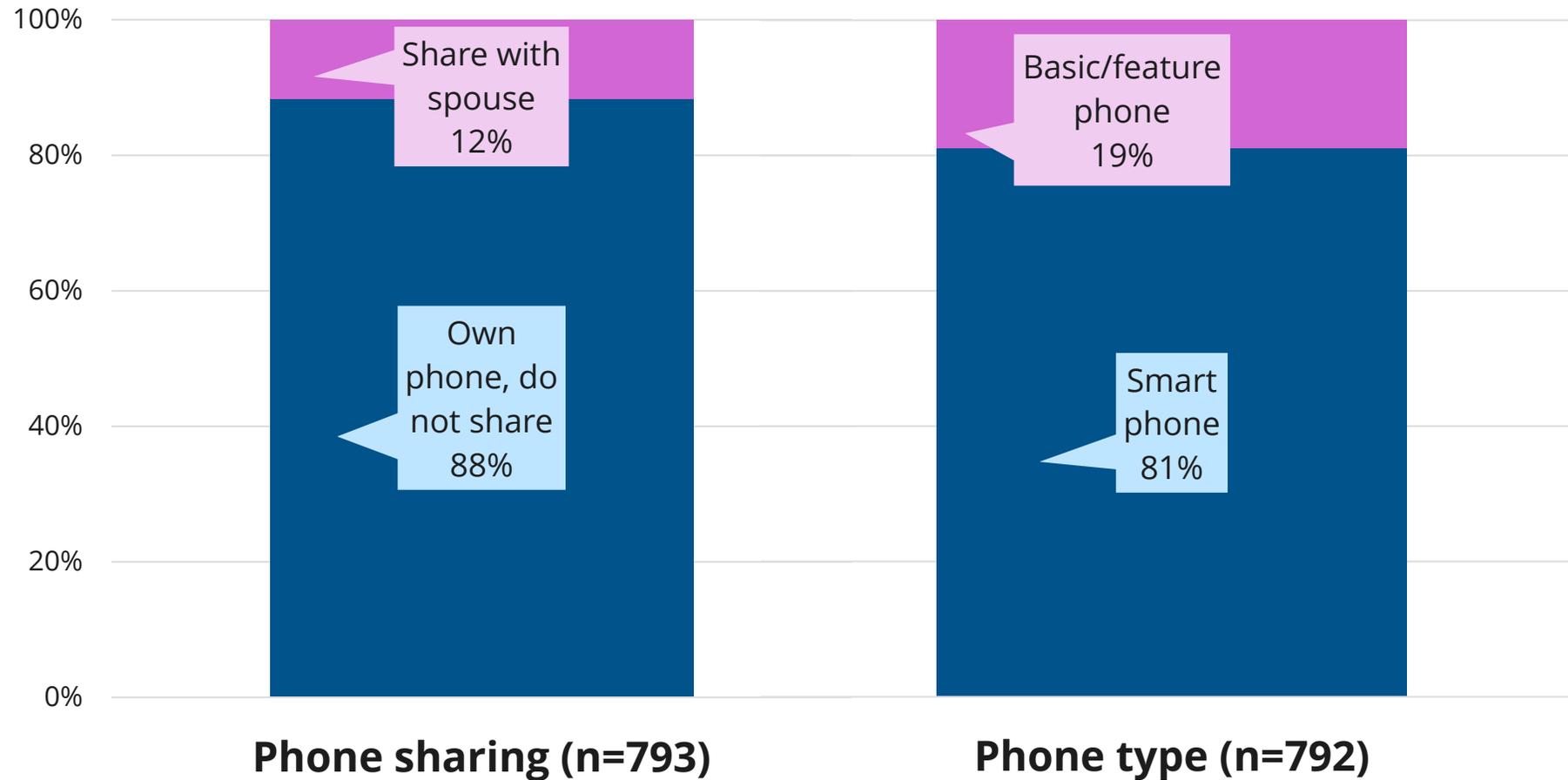
Kenya is a global leader in DFS usage with 79% of adults using mobile money in 2019 and has seen a sharp increase in digital credit in recent years. (Source: Kenya FinAccess Survey, 2019)

Survey respondents' reported usage patterns demonstrate that access has been concentrated almost exclusively on the M-Pesa platform in mobile money, and that this impacts their choice of digital credit providers.

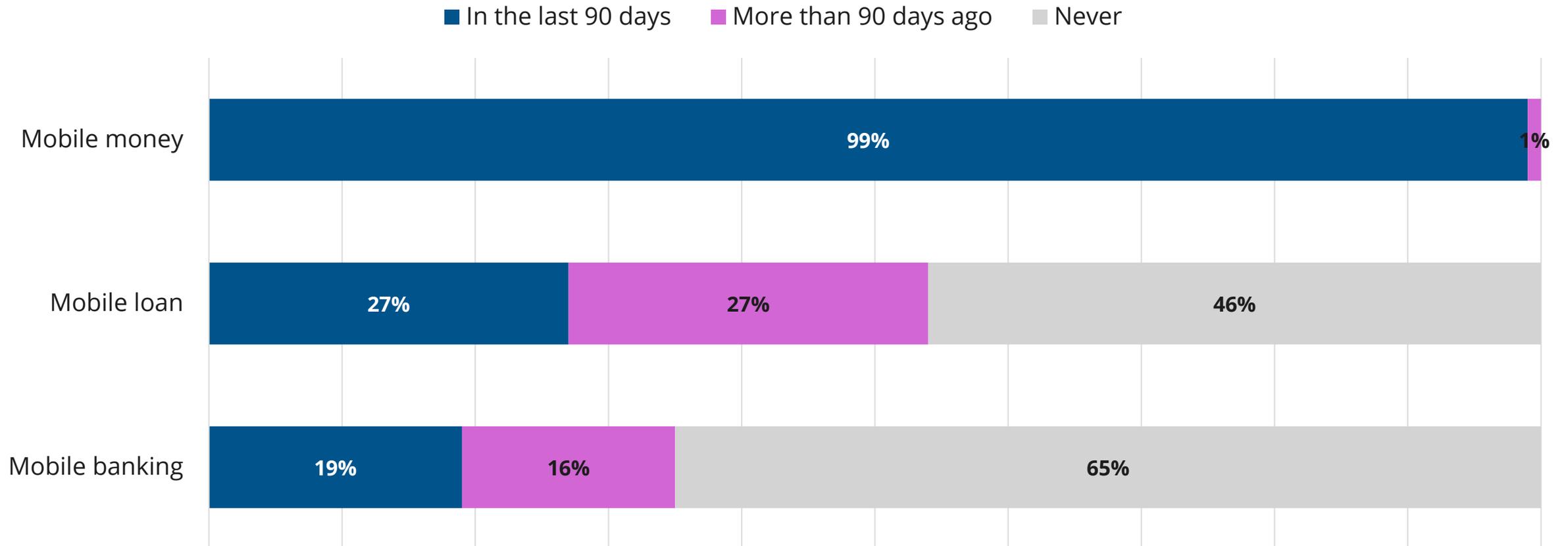
Most use of digital loans is concentrated in hands of a small set of lenders, despite an estimated 100+ digital lenders active in Kenya prior to the COVID-19 pandemic.



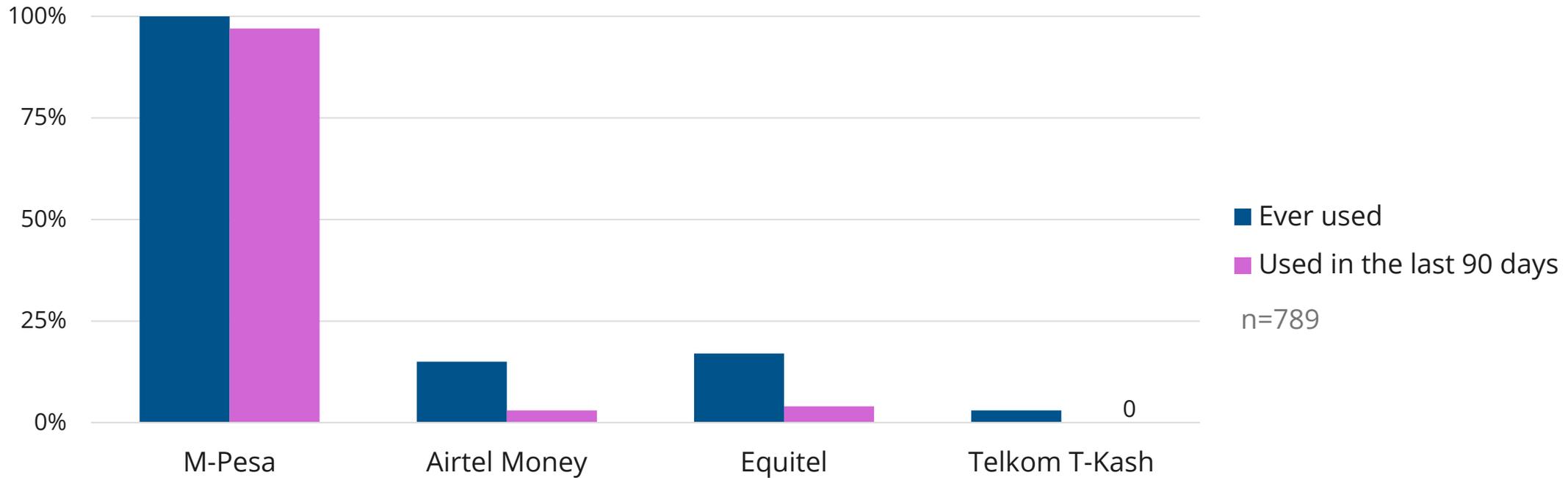
# Phone ownership



# Digital Financial Service Usage, by Service Type

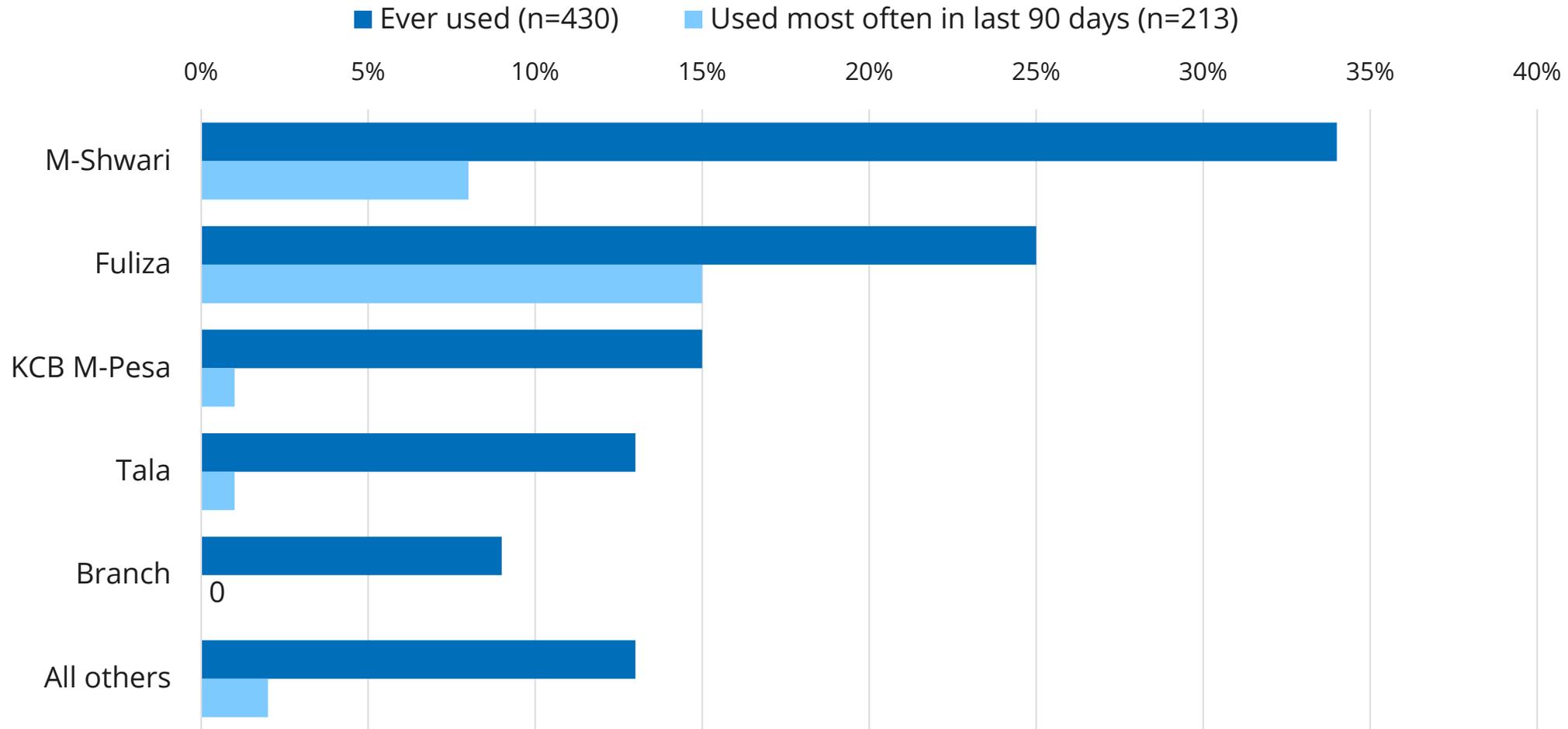


# Mobile Money Providers



**Nearly all survey respondents using mobile money do so via M-Pesa. While users have accessed competitors very few have done so recently. M-Pesa faces little competition in practice.**

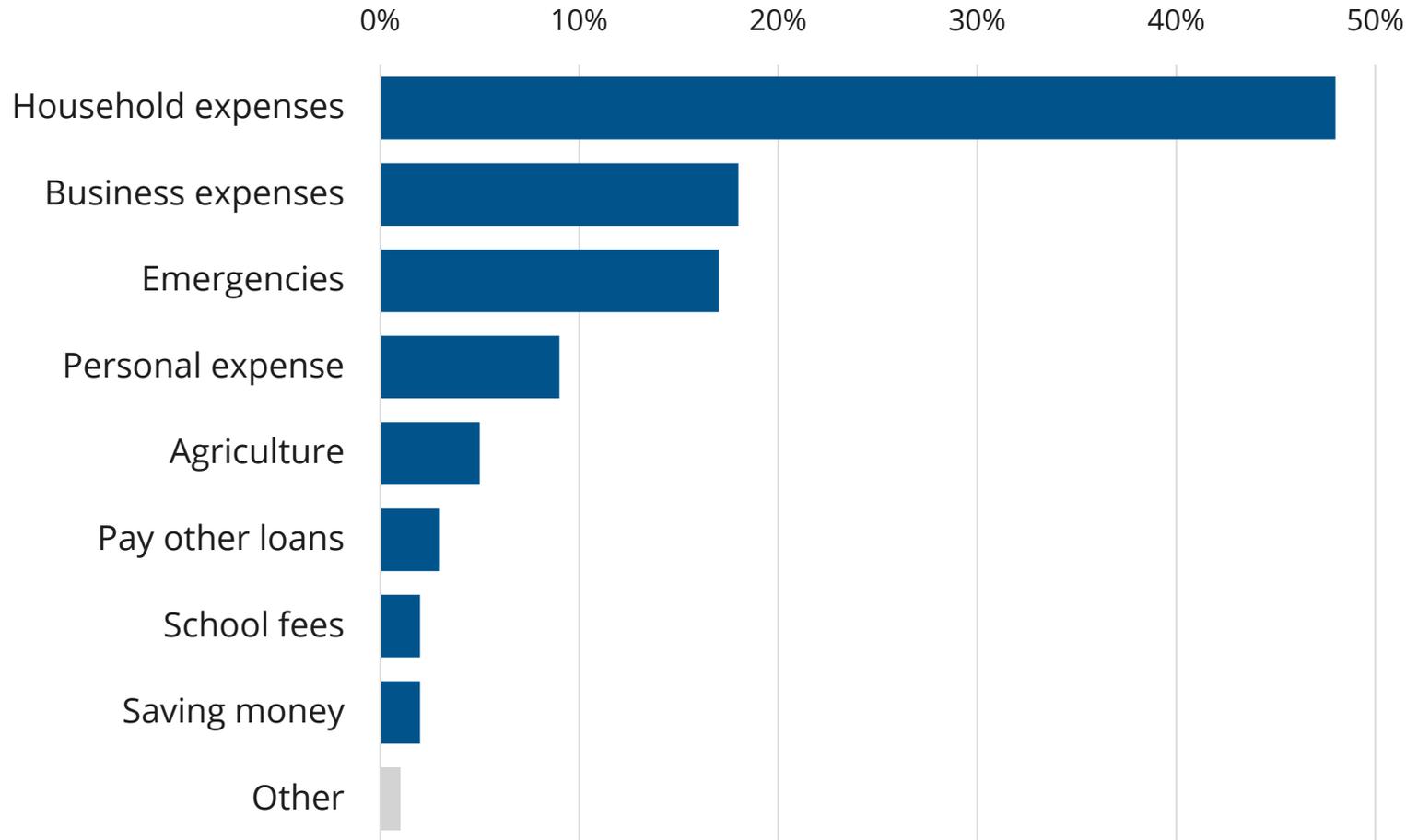
# Mobile Loan Providers



**Top 3 loan products all linked with M-Pesa**



# Mobile Loan Uses



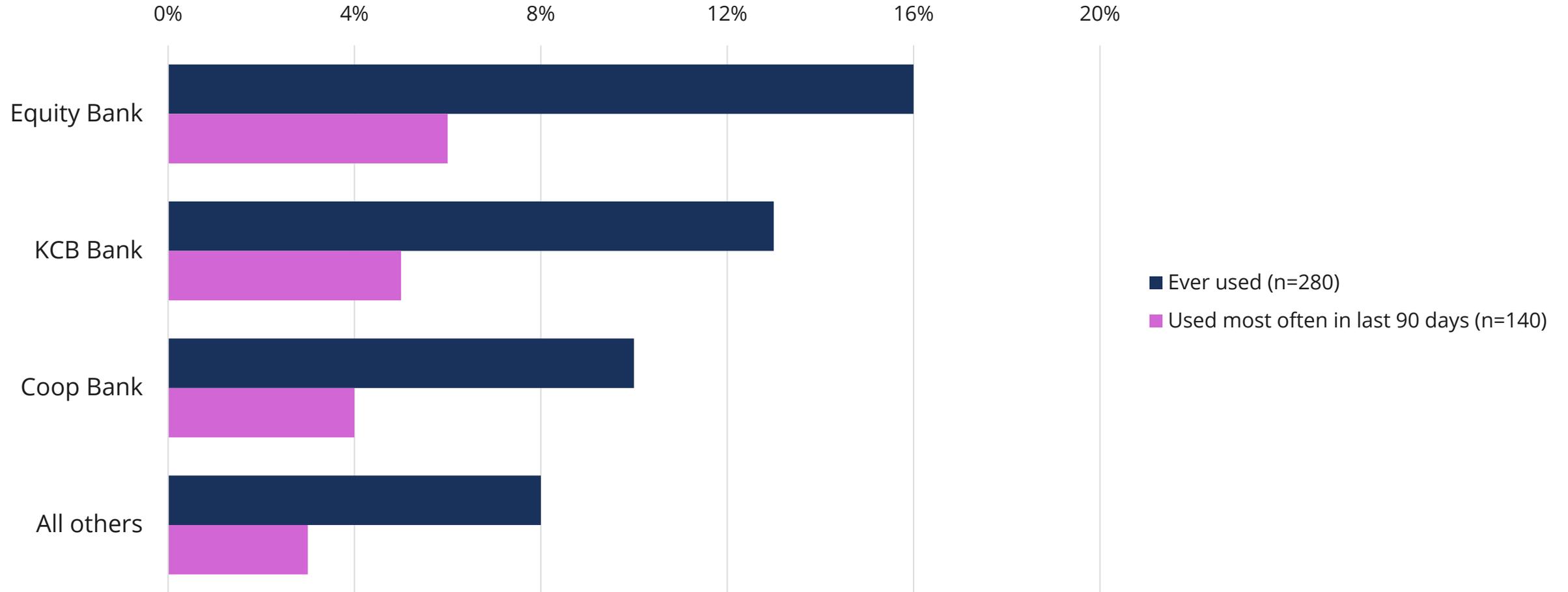
**57%**  
Percentage of respondents who use mobile loans for household or personal expenses

**23%**  
use mobile loans for business or agriculture expenses

**17%**  
use mobile loans for emergencies

# Mobile Banking Providers

Usage statistics by mobile banking provider, percent of all respondents



# Challenges experienced using DFS

The survey asked consumers about a set of common DFS challenges, to understand how many consumers may experience these issues across two periods:

- Any challenges experienced since January 2020
- The most significant challenge ever experienced—to not miss any issues which may have caused substantial difficulty or harm in the past.

Men, wealthier, and more educated consumers report higher rates of incidences—is this due to deeper usage, more awareness of challenges, or other reasons?



# Challenges experienced using DFS: Key takeaways

Phishing scams were the most common challenge faced—but most consumers do not report having fallen victim to these attempts.

Poor customer care and unexpected charges are areas where providers could improve consumer experience through simple adjustments to transparency and redress.

Many consumers send money to the wrong person—despite innovations by providers to help reduce this error like Safaricom’s “Haikikisha” solution.

Digital loans raise several concerns:

- Majority of borrowers report reducing consumption to service debt
- 77% have not paid a loan back on time at some point
- Limited evidence of comparing costs of different loan providers



# Which challenges are most common for consumers

Percent of respondents with mobile loan experience, reporting consumer protection challenges:

While individually challenging, this may suggest a well-functioning credit market →

Phishing by phone or SMS 56%

Incorrectly sent money 35%

Denied access to a new loan 23%

Poor quality of customer care 17%

Could not reach customer care 17%

28% of respondents report at least one customer care issue

Difficulty using shortcode menu or app 15%

Unexpected or unclear charges 11%

Opportunities to improve user interface and comprehension through consumer testing

Money was missing or taken without your permission 5%

Agent charged you extra to complete a transaction 3%

Someone took out a loan in your name 3%

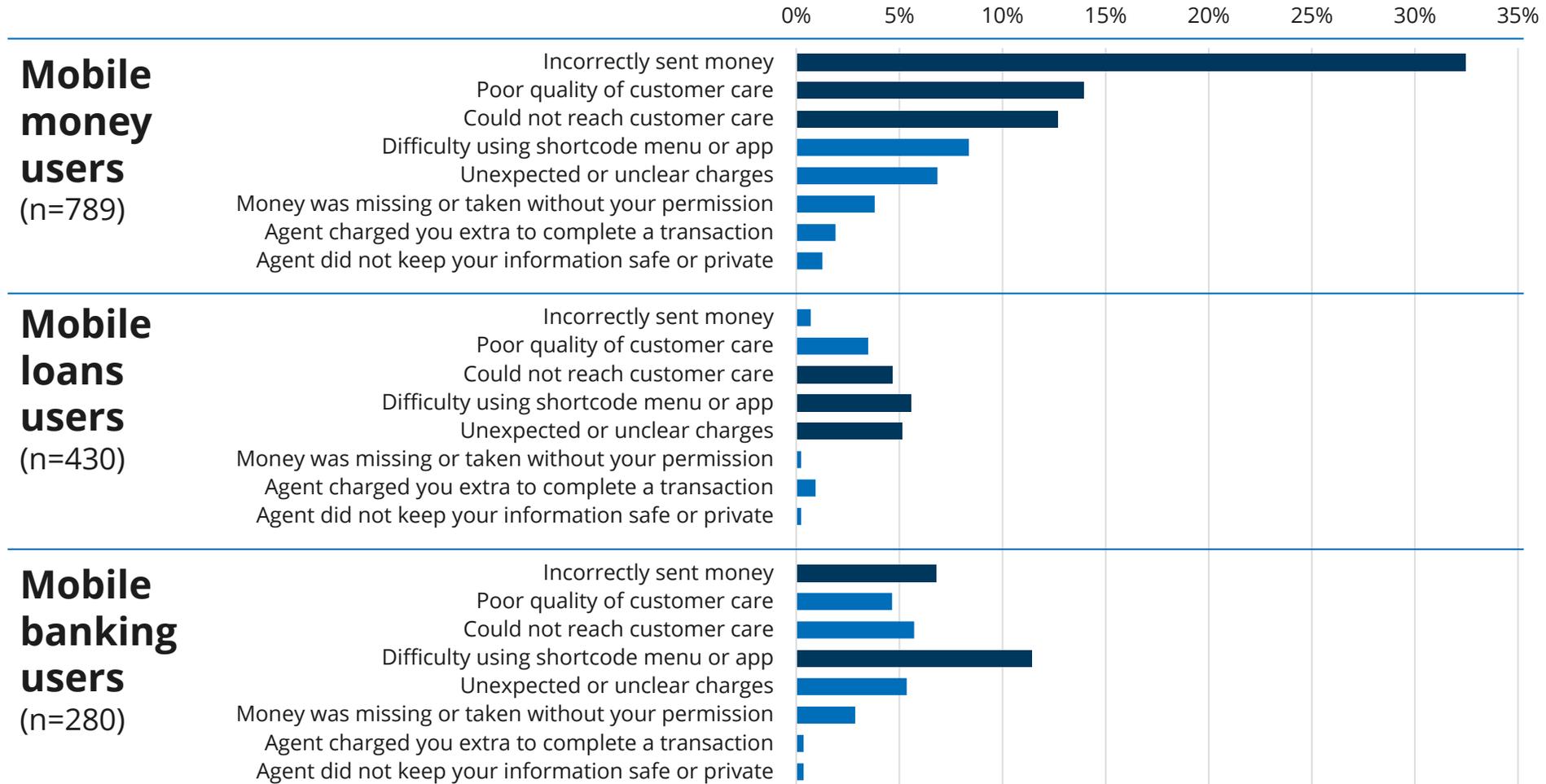
Agent did not keep your information safe or private 2%



# Challenges experienced using DFS

## By service type

Respondents are most likely to experience challenges with mobile money, apart from difficulty using shortcode menus or apps, which is the most common issue for mobile banking and mobile loan users.



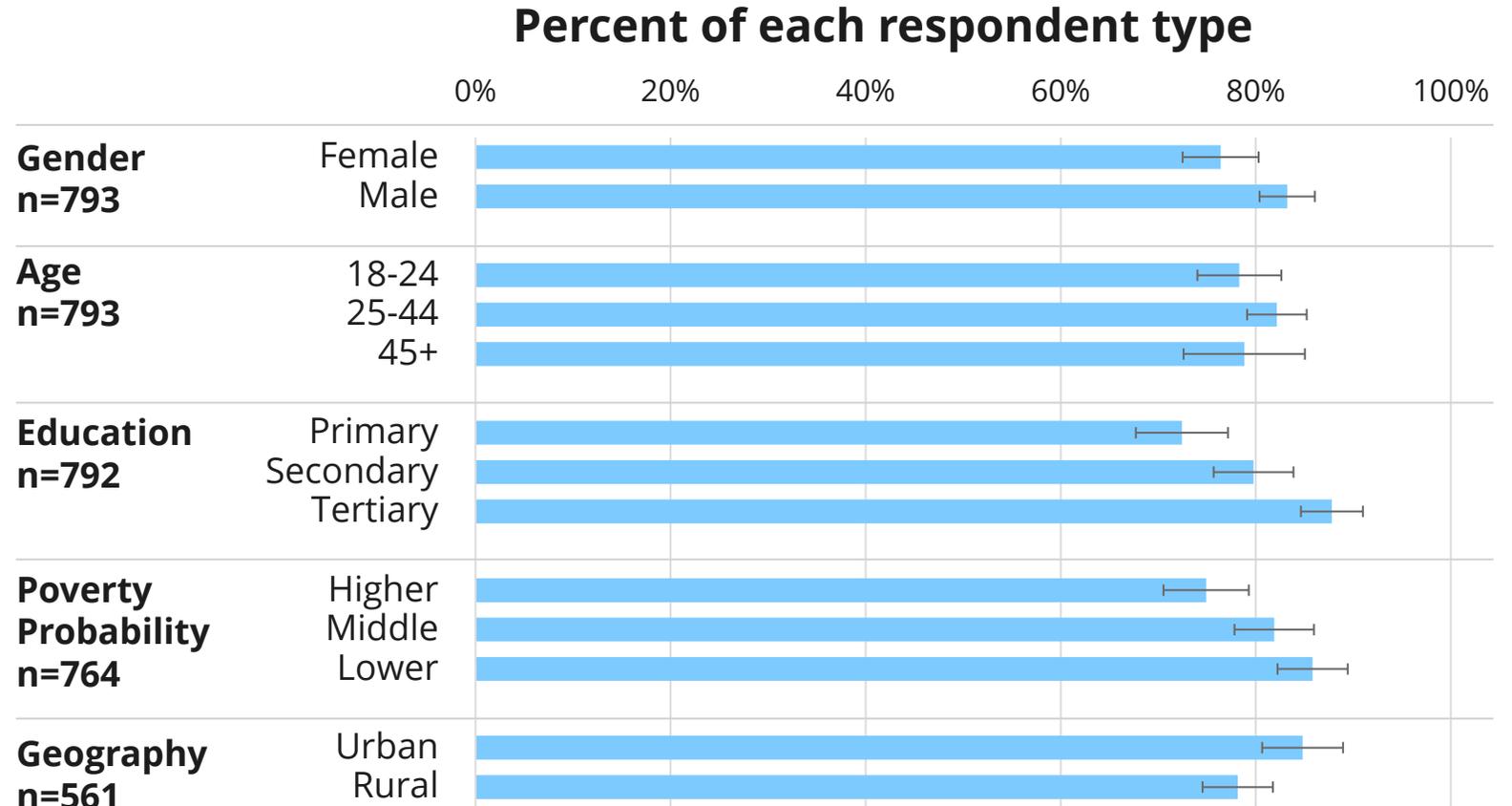
# Challenges experienced using DFS

## By consumer segment

Male, better educated, better off, and more urban respondents report more challenges at a statistically significant level.

While these segments may be more likely to experience challenges, differences could also be partially driven by higher DFS usage\*, higher awareness of these issues occurring, or greater willingness to report these issues to surveyors. Unpacking the causes for these differences could be an area for further future research.

\*Survey restricted to DFS users, but there may be differences in DFS usage intensity (e.g., transactions per month) by consumer segment

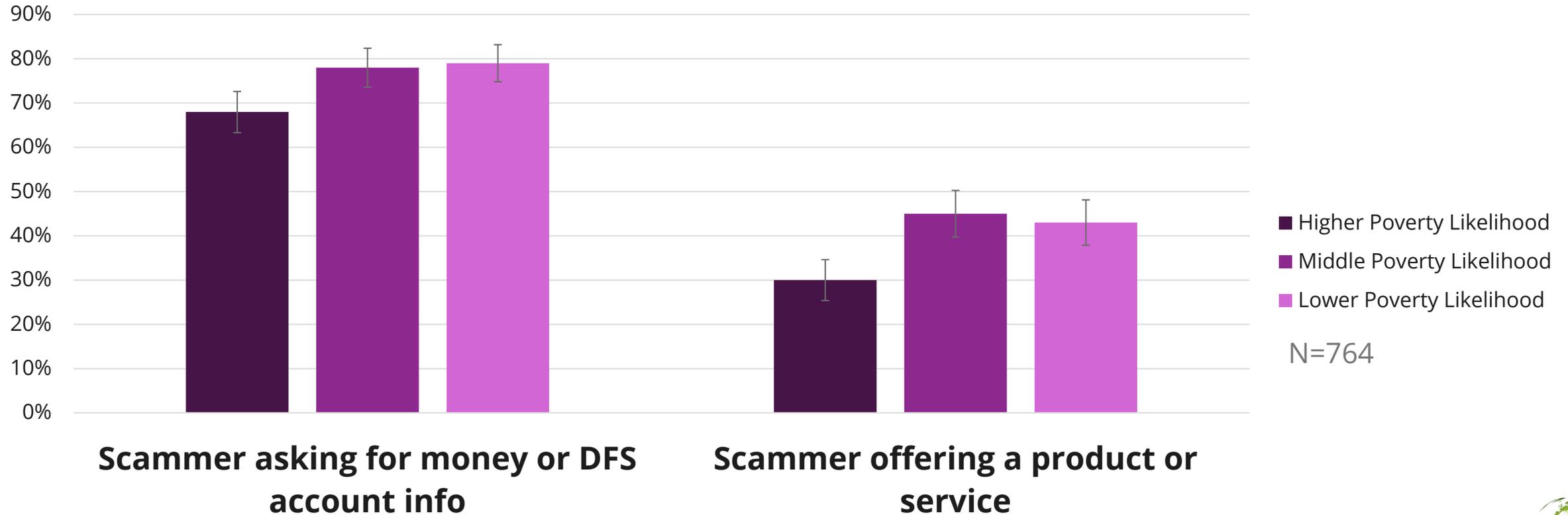


90% confidence intervals

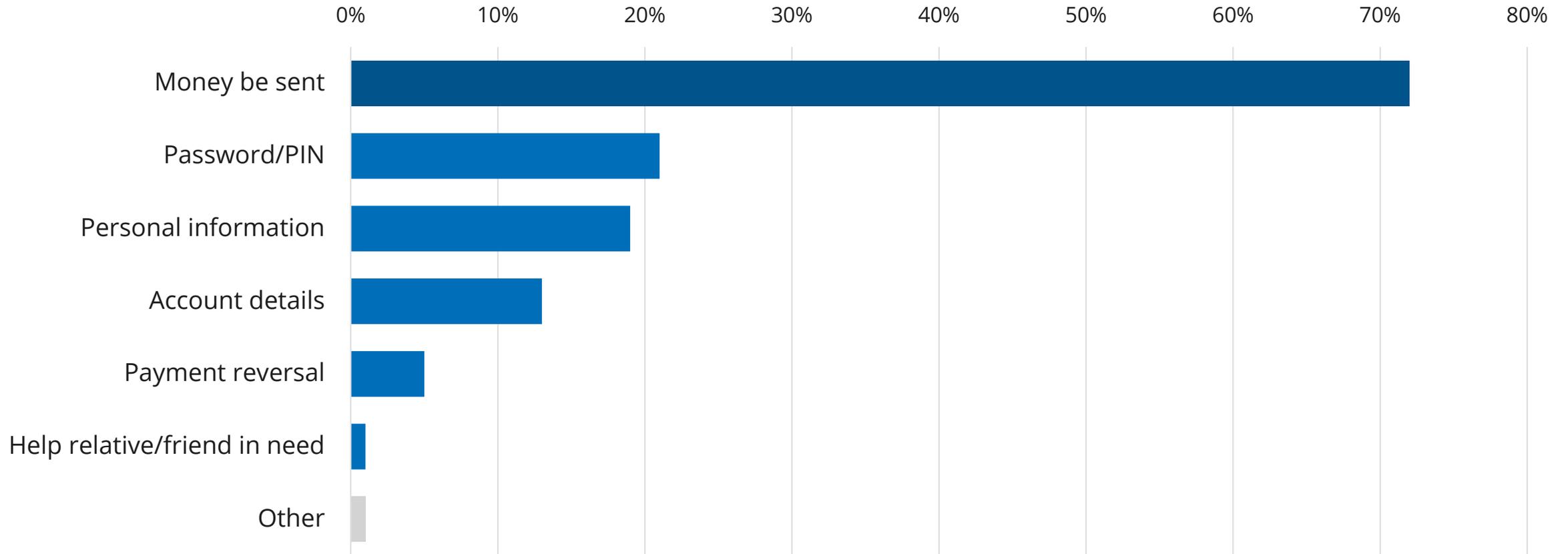


# Scammers are more likely to ask for money or information than offer a product or service

Percent of respondents who have ever reported calls or SMSs from unknown parties and what the scammer asked them to do...

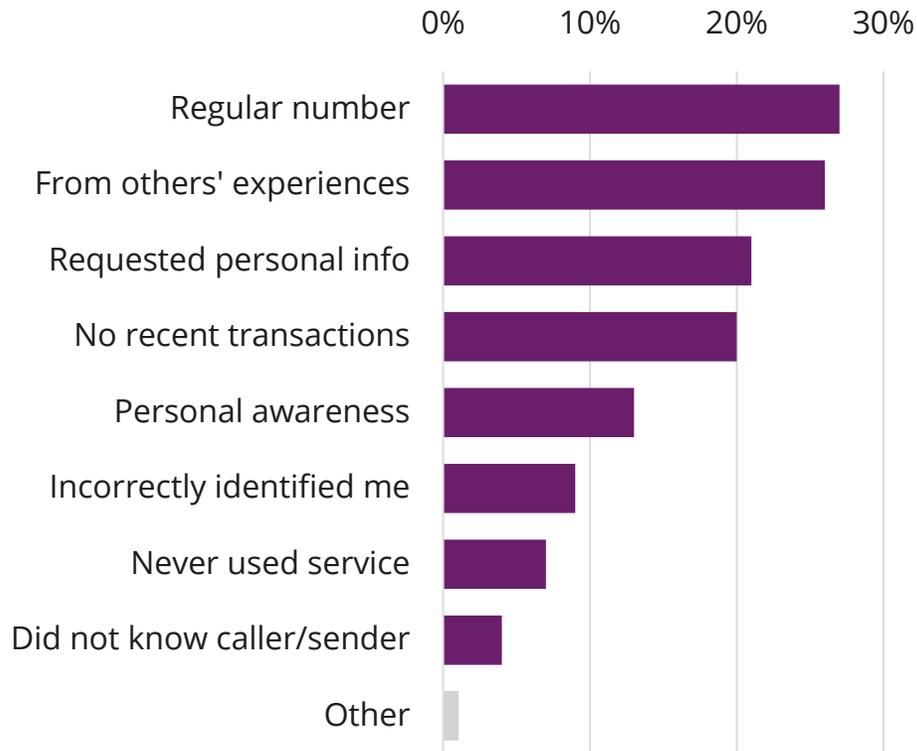


# What do scammers seek when they contact DFS users?

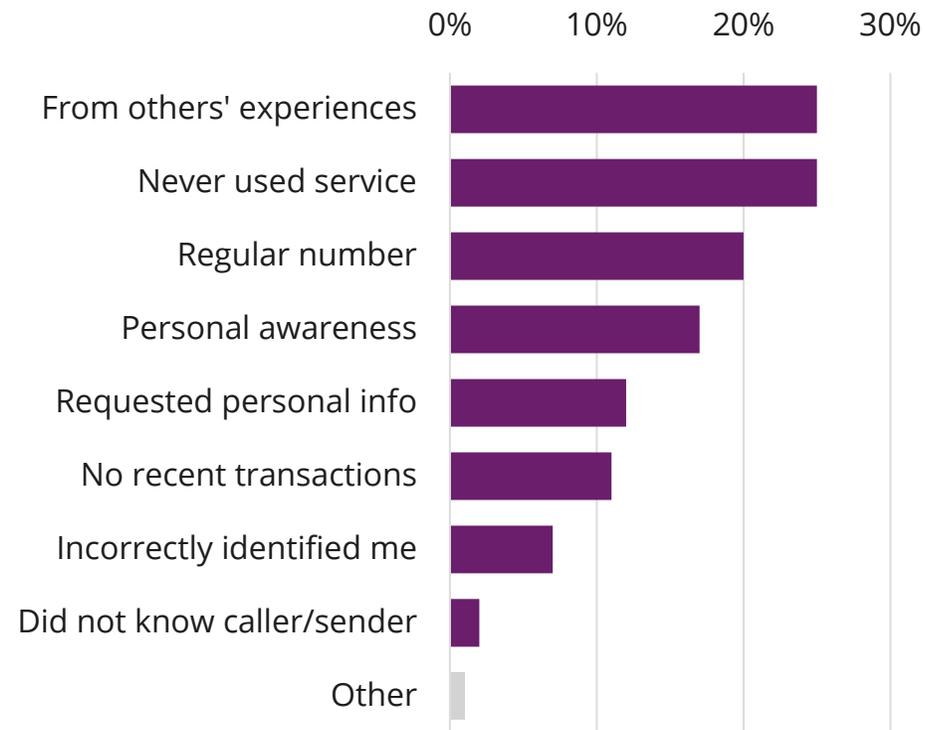


# Scam attempts: How consumers identify scams

How the scam was identified when it involved a request for money or account information (n=420)



How the scam was identified when it involved offering a product or service (n =420)



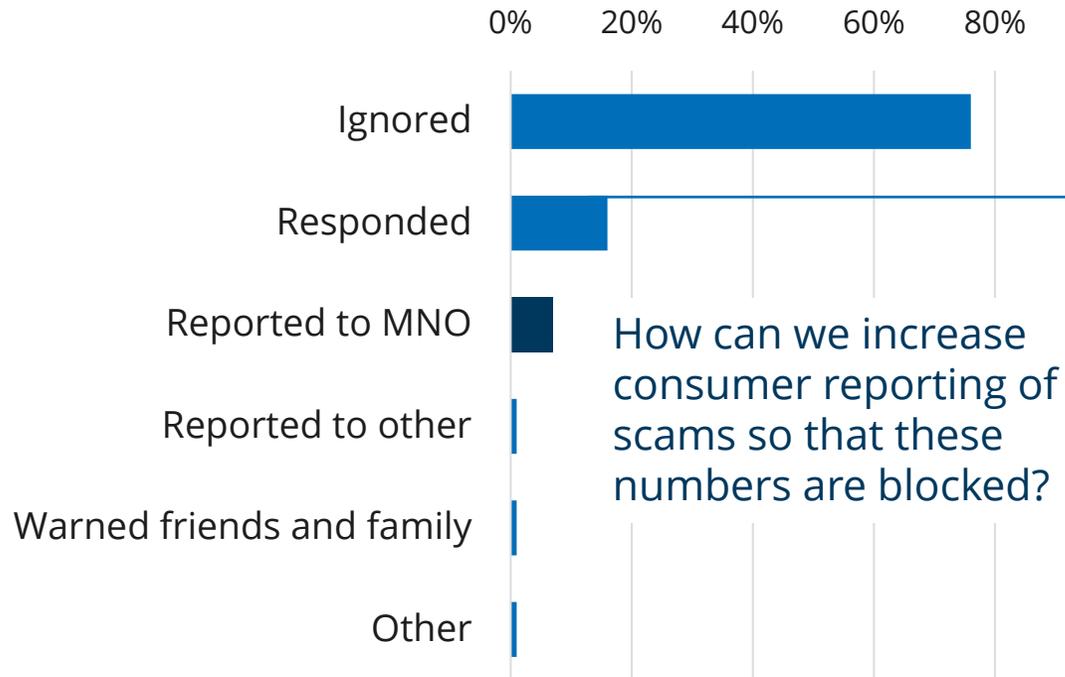
Calls from regular numbers and warnings from peers are key to consumers avoiding scams.

These indicators of a scam could be shared with the broader population—remember, our respondents are the ones who realized this was a scam, others may not know what to look for.

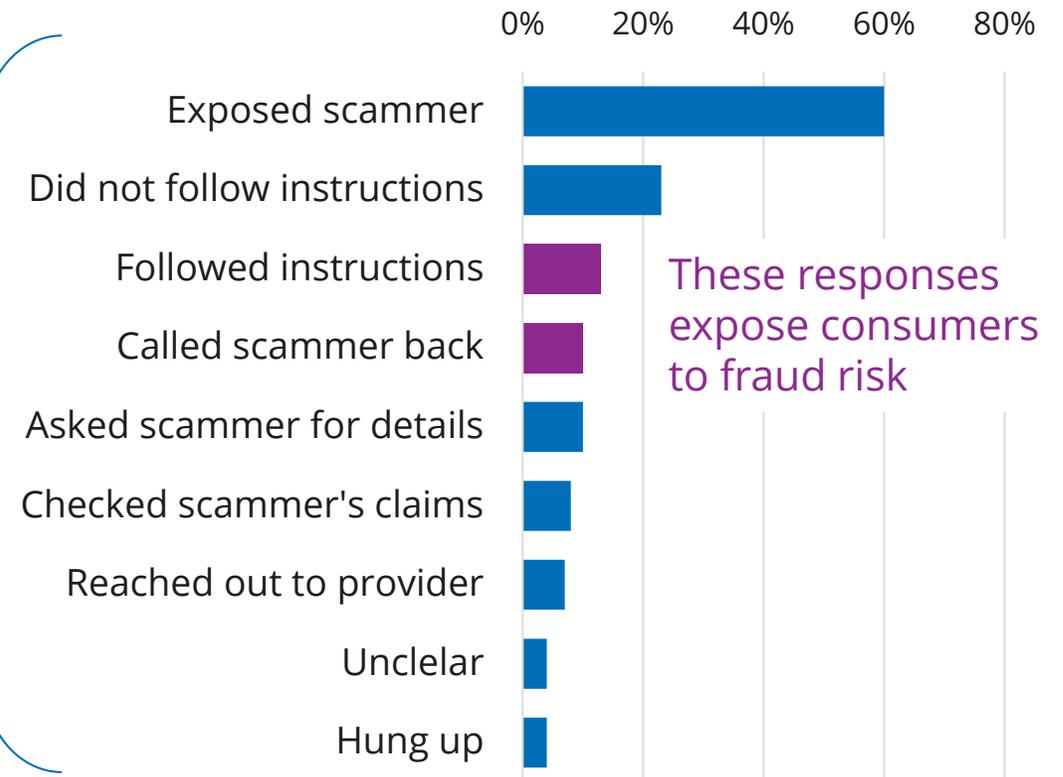


# Scam attempts: How consumers respond

### Consumers' action after scam (n=649)

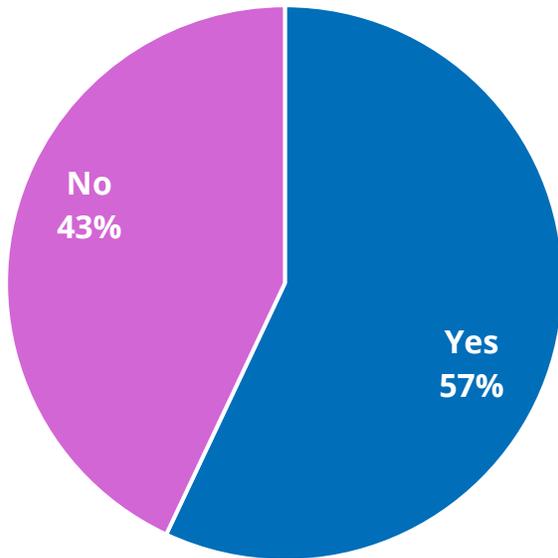


### Consumers' action if they responded to the scam (n=131)

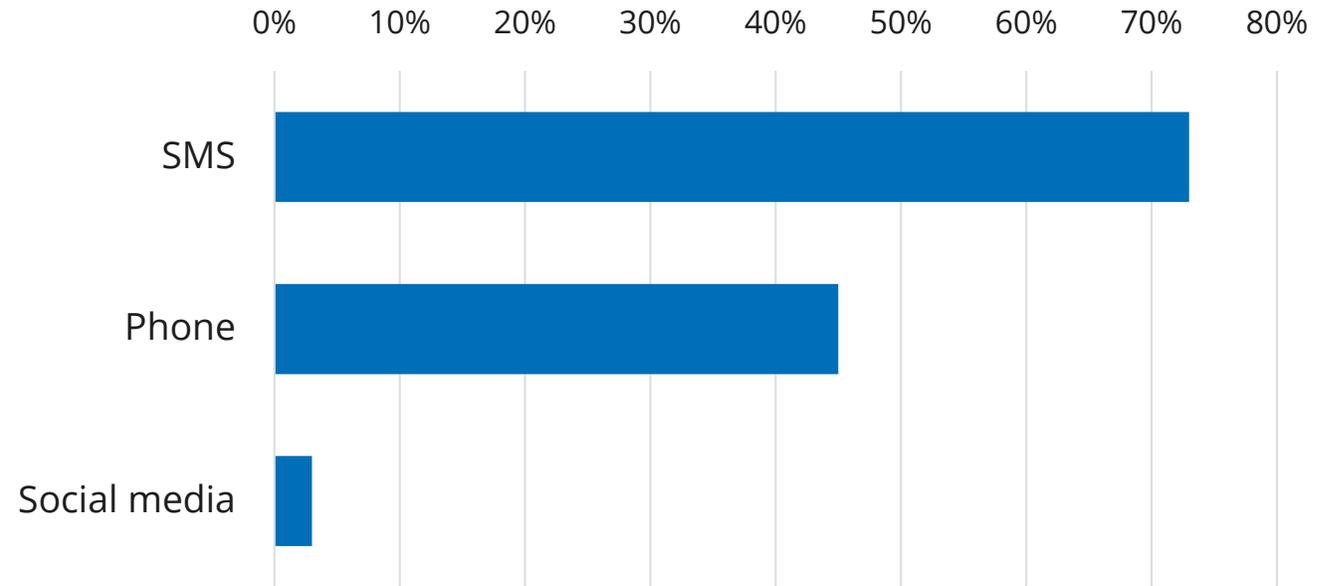


# Scams are quite common during the pandemic

Percentage of respondents who experienced attempted scams or fraud since COVID-19 began (n=792)

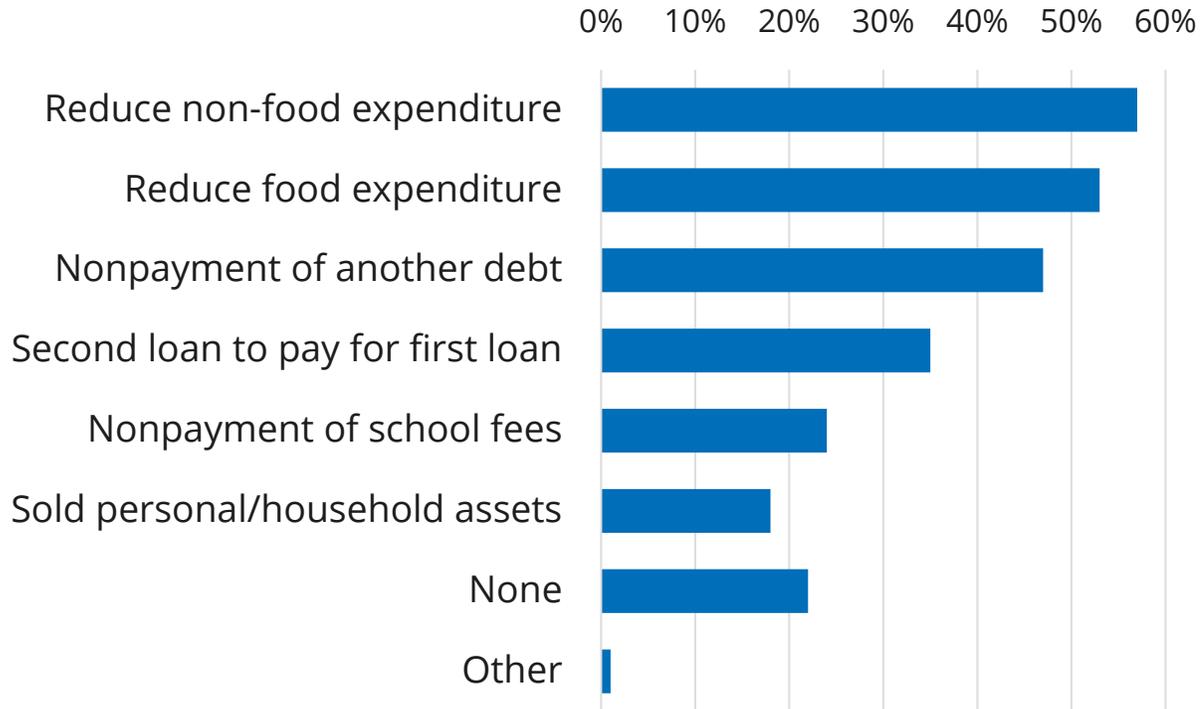


Mode of scams (n=449)

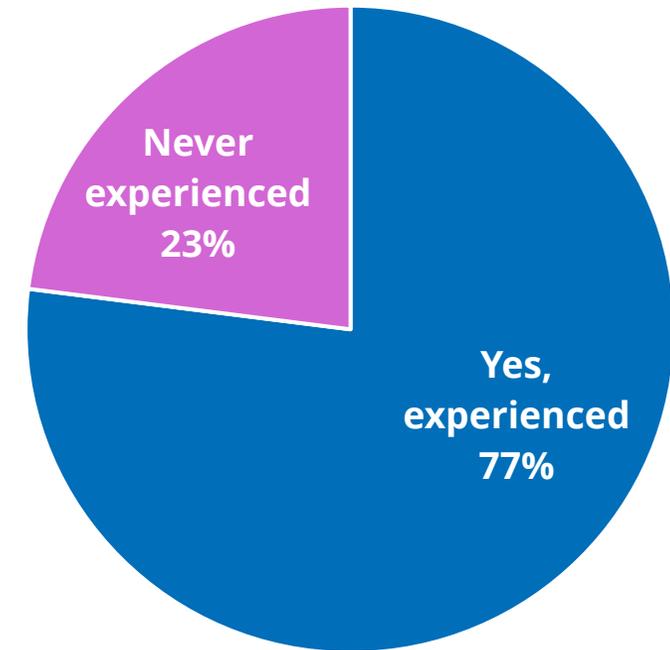


# Mobile loan users exhibit concerning signs of stress

**Percentage of mobile loan users who reported making sacrifices to repay mobile loan (n=430)**



**Mobile loan users who reported ever experiencing the inability to repay a mobile loan on time (n=430)**



# Financial loss: Where and how it occurs

## Where money was lost (n=297)

**93%** Mobile money

**6%** Mobile banking

**2%** Mobile loans

## How money was lost (n=297)

**91%** Sent to the wrong number

Very few respondents gave another cause for how money was lost

**38% of respondents reported losing money on a DFS service in the past 90 days**

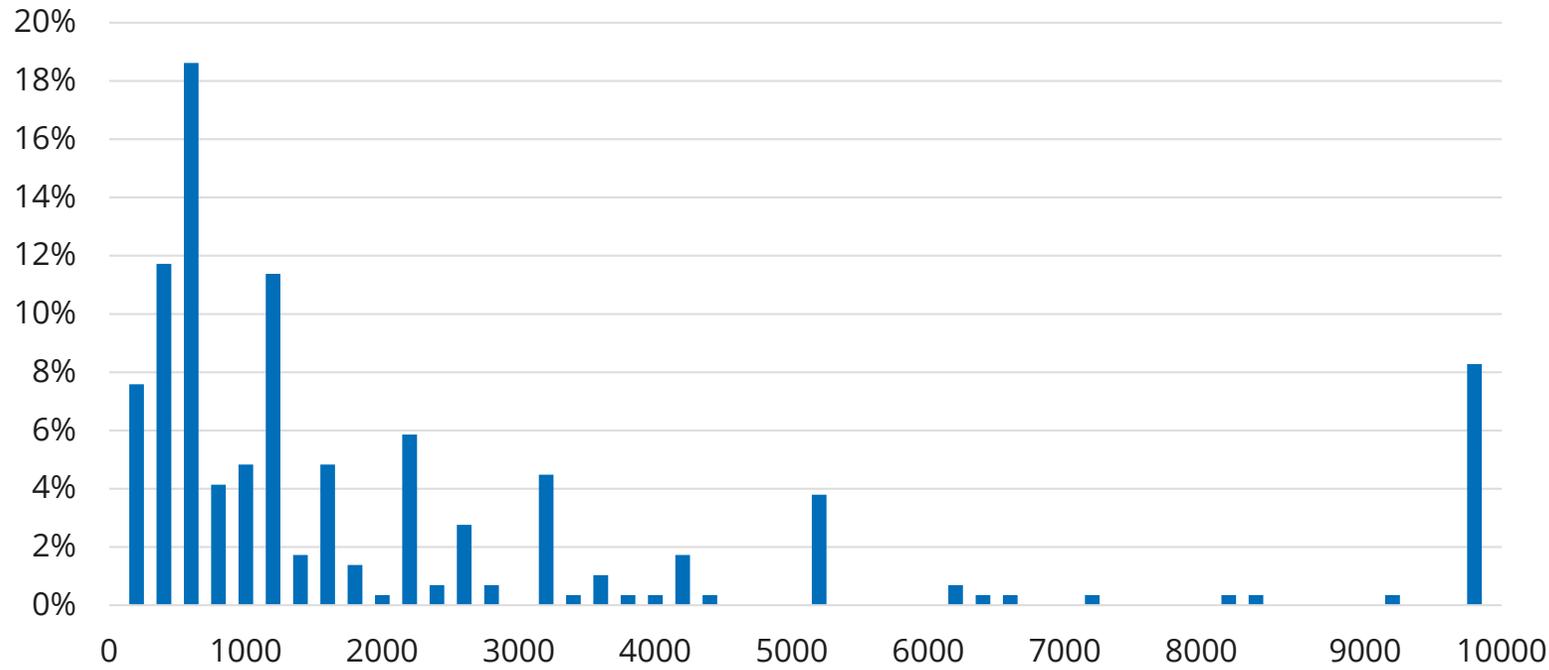
By far the most common cause of lost money while using DFS is sending money to the wrong person while using mobile money. Addressing sender errors will require different interventions than when money is lost due to fees or fraud.



# Financial loss: What it costs consumers

Financial losses are significant, more than a typical daily wage, though a majority (64%) of consumers who lost money reached a resolution they were satisfied with. Consumers do seem to be learning lessons, but a sizable minority continue to struggle.

**Amount of money lost in last incident (KES) (n=290)**

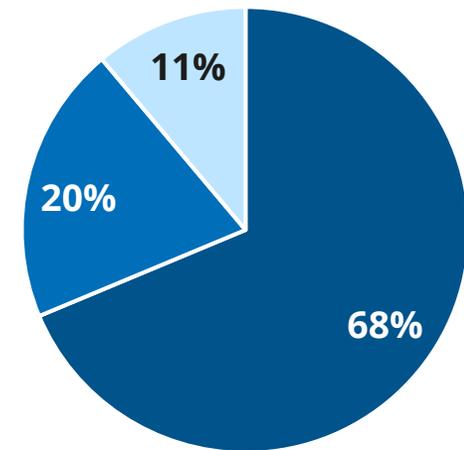


Median: 1000

Mean: 3331

**Frequency with which money was lost via phone (n=293)**

Once   Twice   Three or more



# Consumers often blame themselves for the largest challenges they experienced in DFS

When probed about any challenges faced prior to 2020, only 54% cited any incidence, and most cited similar issues to 2020.\*

**Largest challenge ever experienced (n=425)**

**40%** Incorrectly sent money

**22%** Denied access to a new loan

**11%** Missing money

**Person or entity consumer blamed for challenges experienced (n=407)**

**49%** Myself

**19%** Mobile money provider

**11%** Mobile money agent

**61 percent of respondents took some action to try to resolve their largest challenge.**

\*Note: Largest challenge question did not include phishing as an option.



# Financial Stress

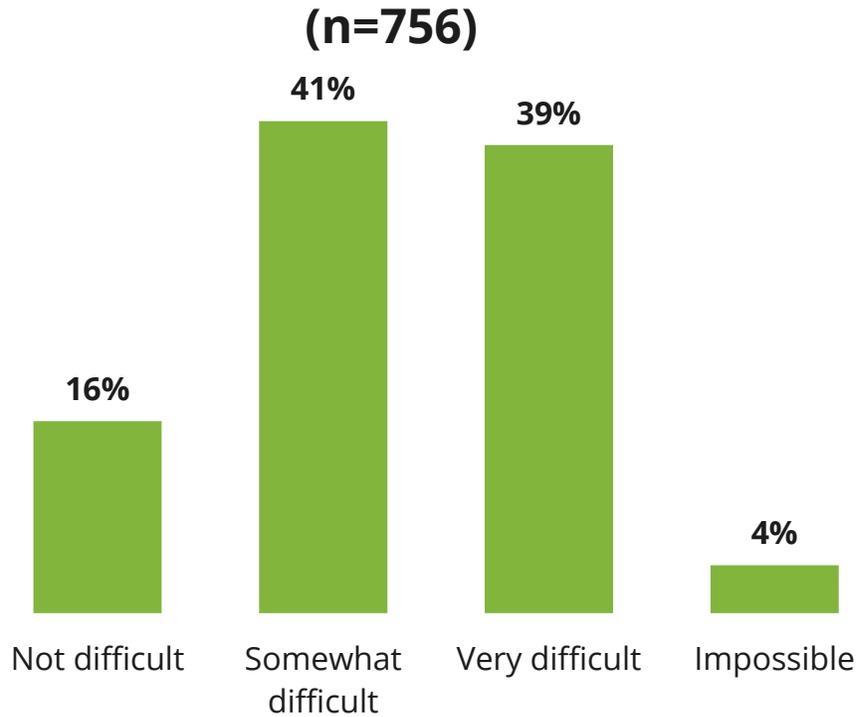
- This survey took place several months into the COVID-19 pandemic.
- To understand the context of COVID-19 we asked a series of questions on financial well-being and financial stress.
- There is clear evidence of household financial stress and risks like loan default



# Financial stress during COVID-19

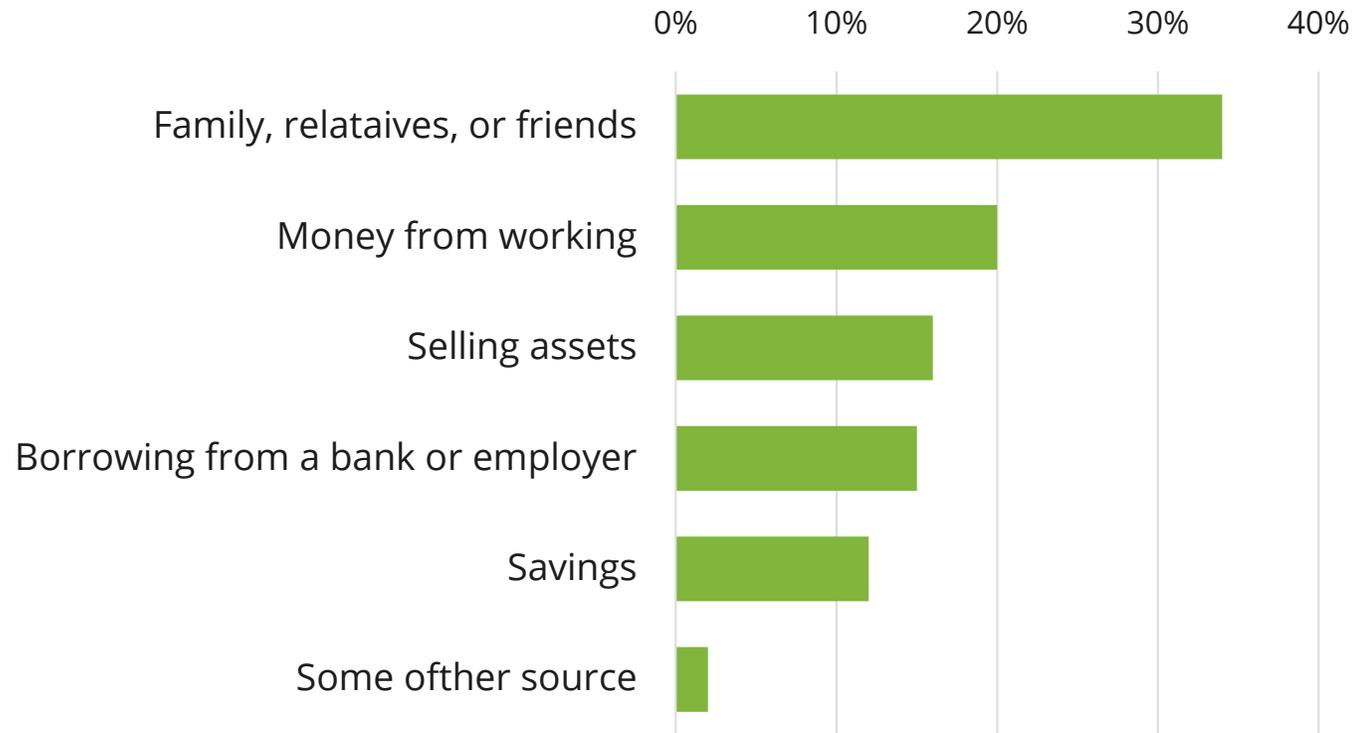
Few Kenyans have access to formal safety nets—and so rely on social networks and work

**Respondents rate difficulty of coming up with emergency money (n=756)**



**KES 10,000 (~1/20<sup>th</sup> GNI) in 30 days**

**Source of emergency funding (n=743)**



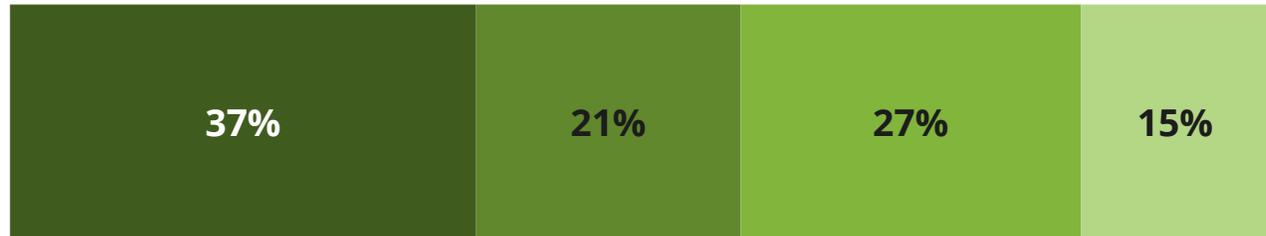
# Many Kenyans don't feel prepared for an emergency

■ Strongly disagree   ■ Somewhat disagree   ■ Somewhat agree   ■ Strongly agree

Sufficient emergency funds (n=793)

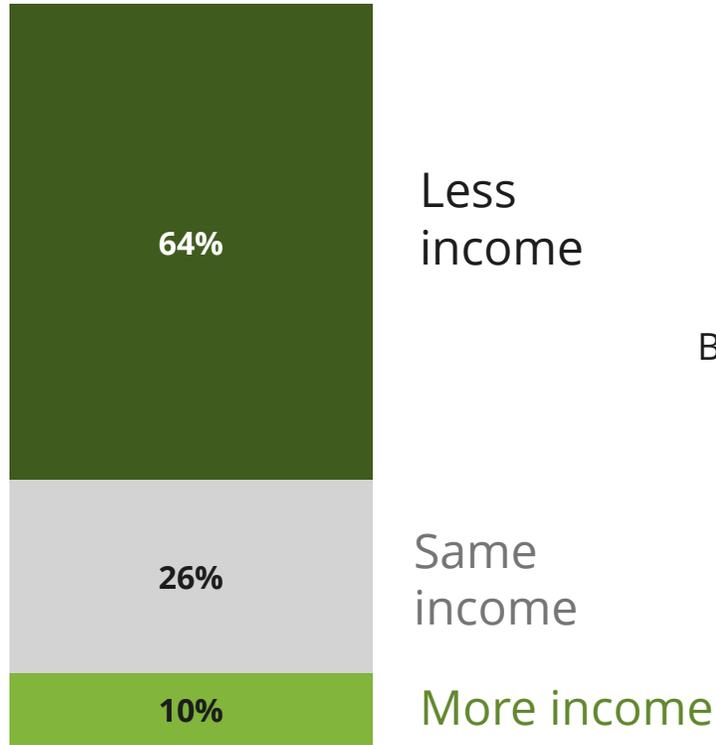


Enough money for living expenses (n=791)

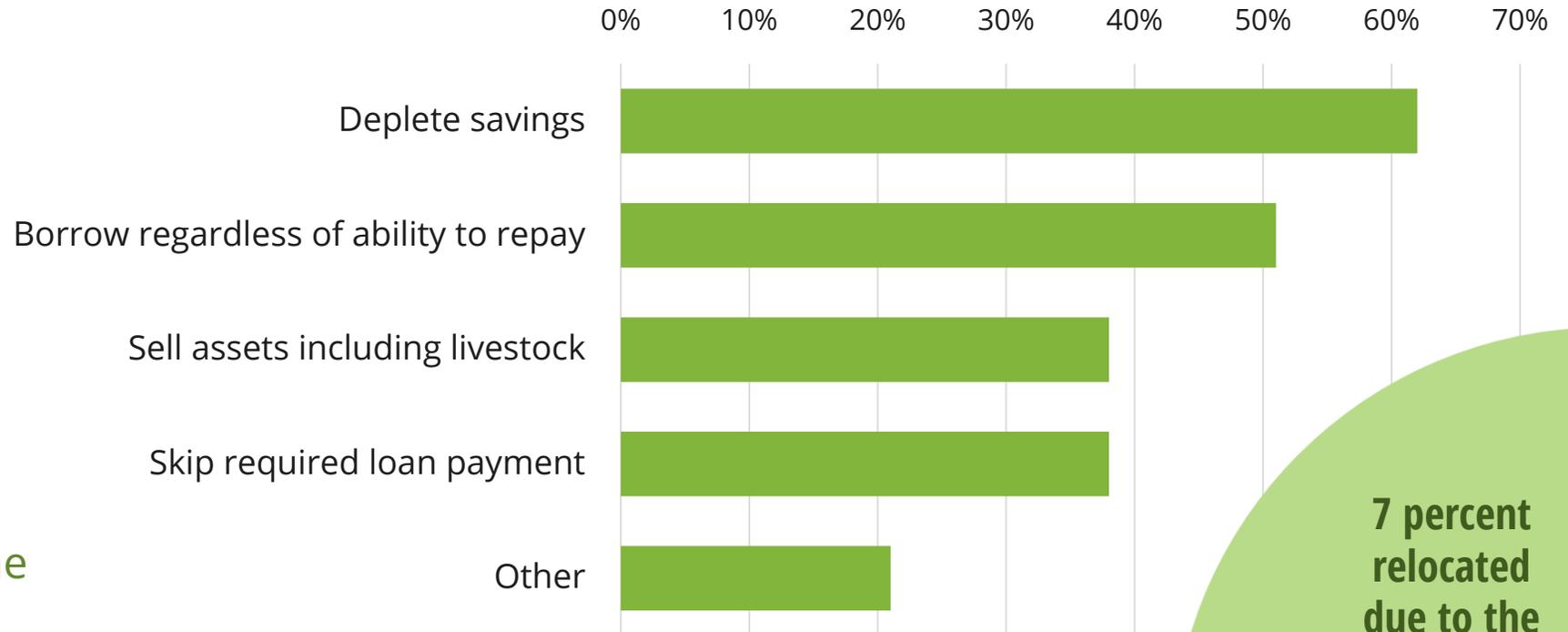


# Pandemic had a profound impact on income

Change in income since start of pandemic (n=788)



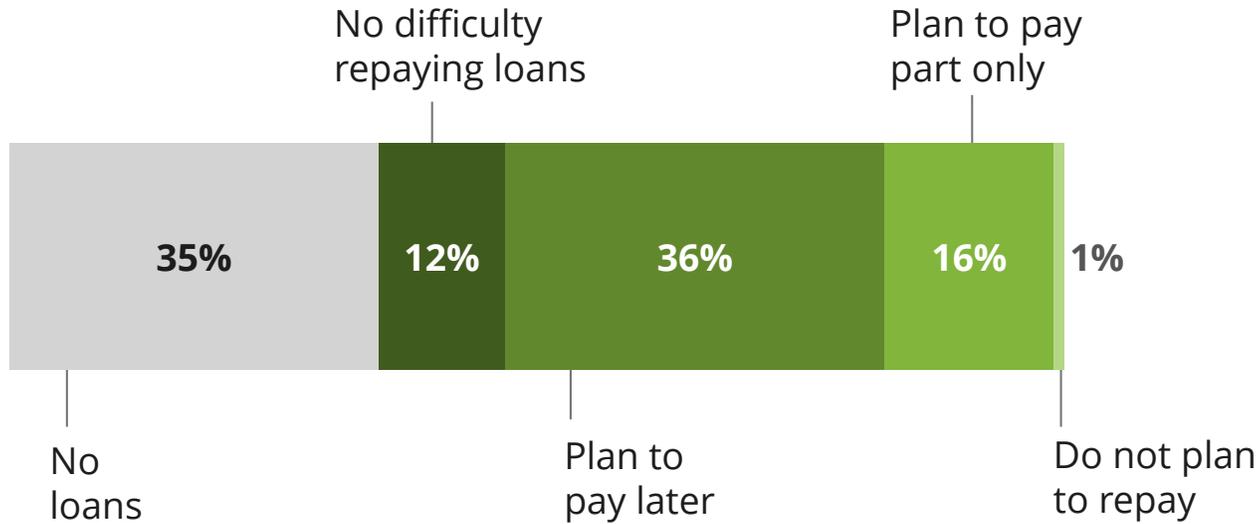
Actions taken to pay for food, healthcare, or other expenses (n=791)



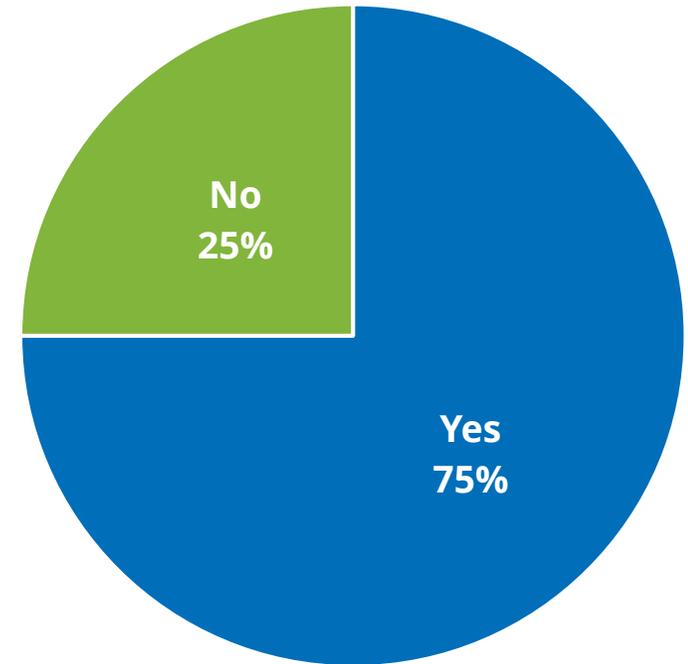
7 percent relocated due to the pandemic

# Loan repayment has suffered during the pandemic

Loan repayment since start of pandemic (n=792)



Anticipate not being able to make debt payments on time due to pandemic? (n=514)



# Consumer choice and decision-making

DFS market is heavily concentrated with small set of providers in Kenya

- Over 95% of mobile money consumers have used M-Pesa in the past 90 days, less than 5% have ever used any other provider
- NCBA's Fuliza and M-Shwari are the most utilized mobile loan products, and top 5 loan products account for large majority of all consumer borrowing activity



# Consumer choice and decision-making

Price appears to be of limited importance for choosing providers of DFS:

Network quality and provider reputation matter most for mobile money

Link to existing bank account matters most for mobile banking provider choice; reputation also important

Speed of disbursement and ease of repayment matter most in mobile loans

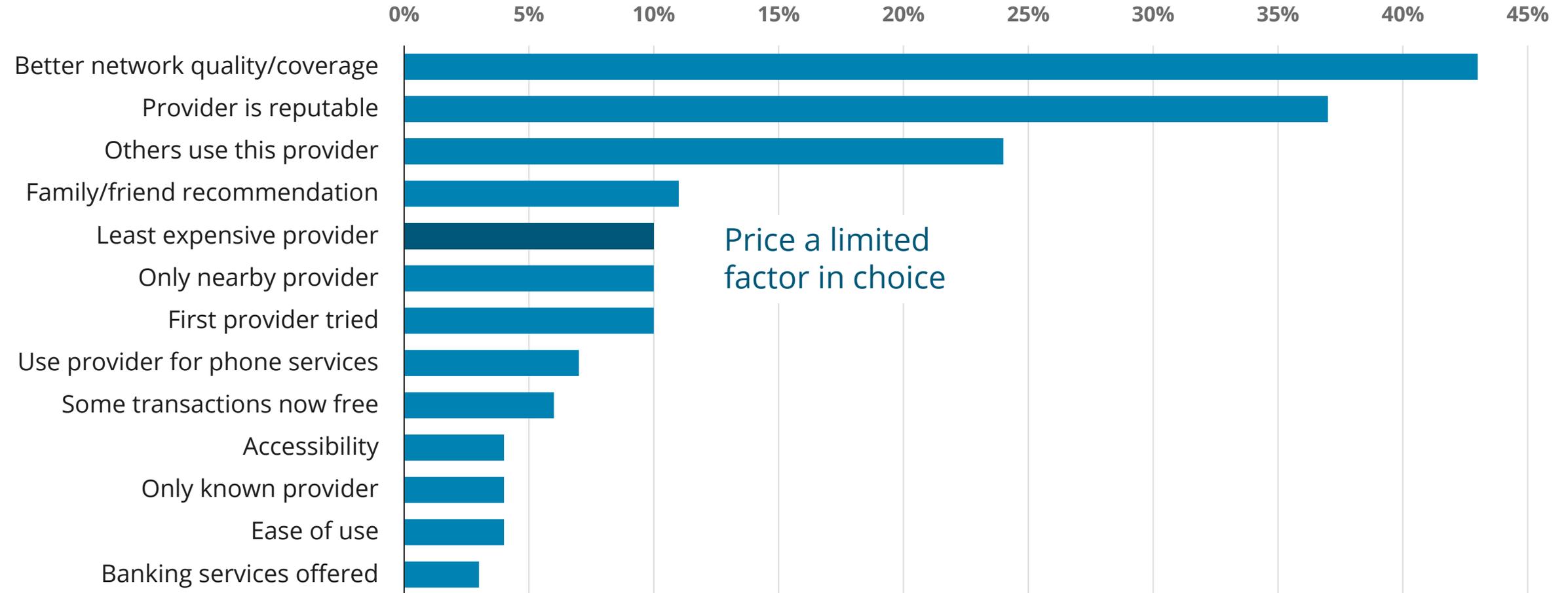
Will continued vertical integration of services on platforms impact consumer switching and price-based competition?

Are there policy solutions which could drive more robust competition in DFS in Kenya?



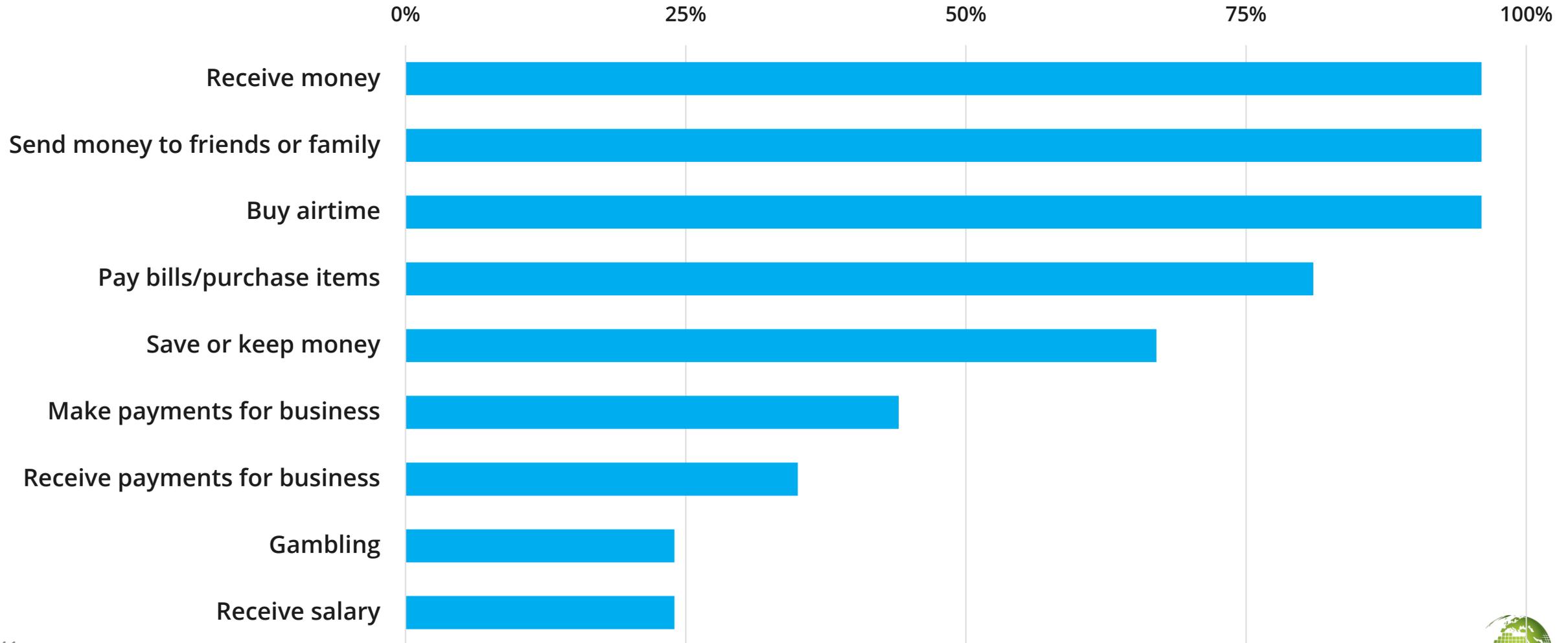
# Mobile Money

Reason for choosing mobile money provider (n=786)



# Mobile Money

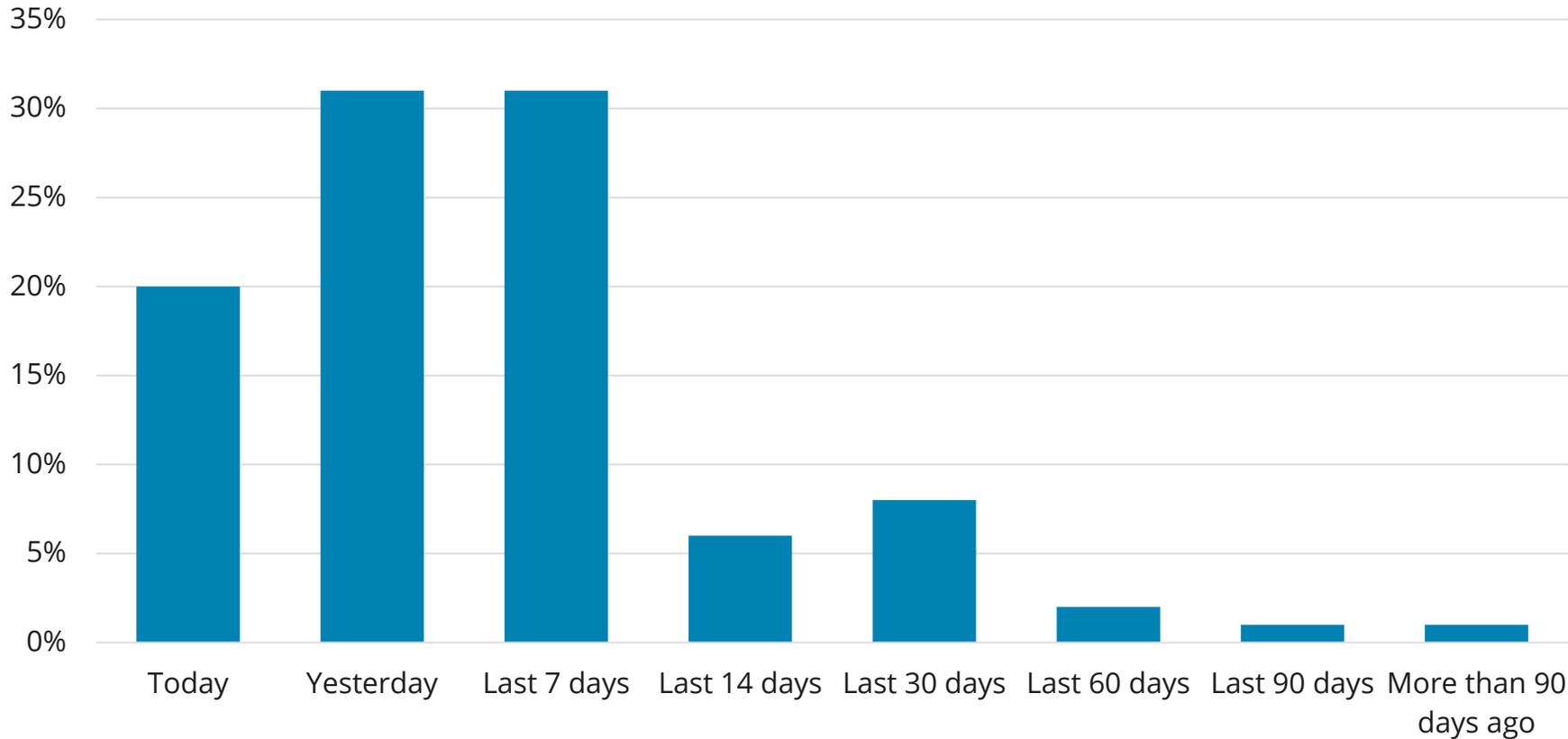
Uses for mobile money account (n=789)



# Mobile Money

Change in mobile money vs cash since pandemic started (n=782)

Date of last mobile money transaction (n=780)



**51%**

More mobile money use now

**23%**

No change

**25%**

More cash use now



# Mobile Banking

Reasons for using mobile banking provider (n=146)



Mobile banking security (n=146)

86%

Very secure

39%

Somewhat secure

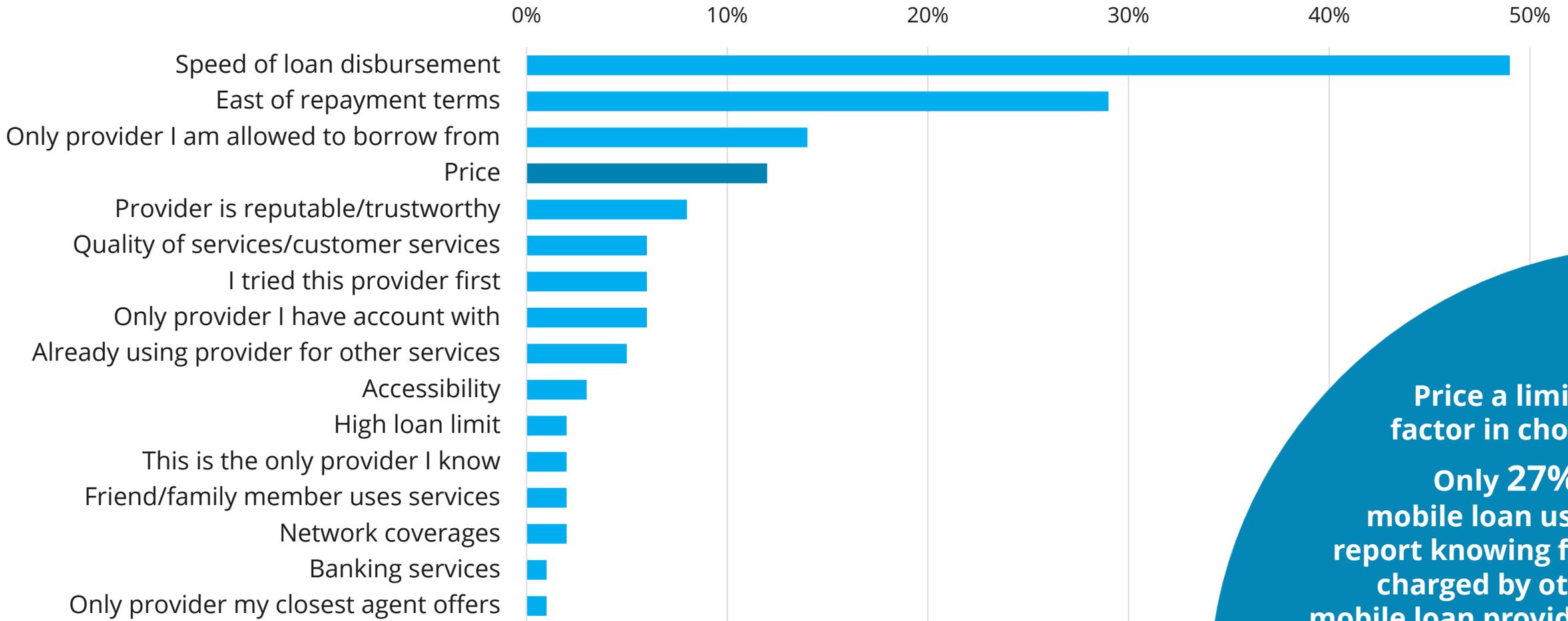
15%

Not very secure



# Mobile Loans

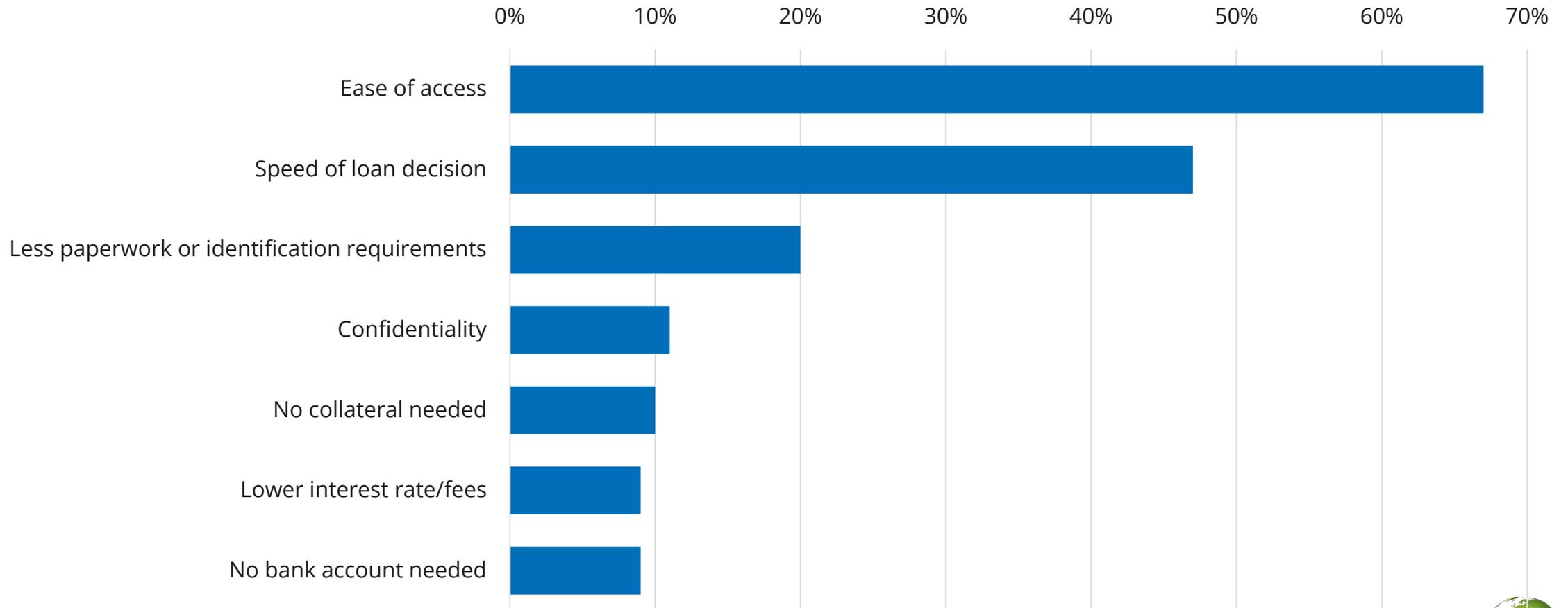
Reasons for using mobile loan provider instead of traditional loan (n=217)



**Price a limited factor in choice.**  
**Only 27% of mobile loan users report knowing fees charged by other mobile loan providers**

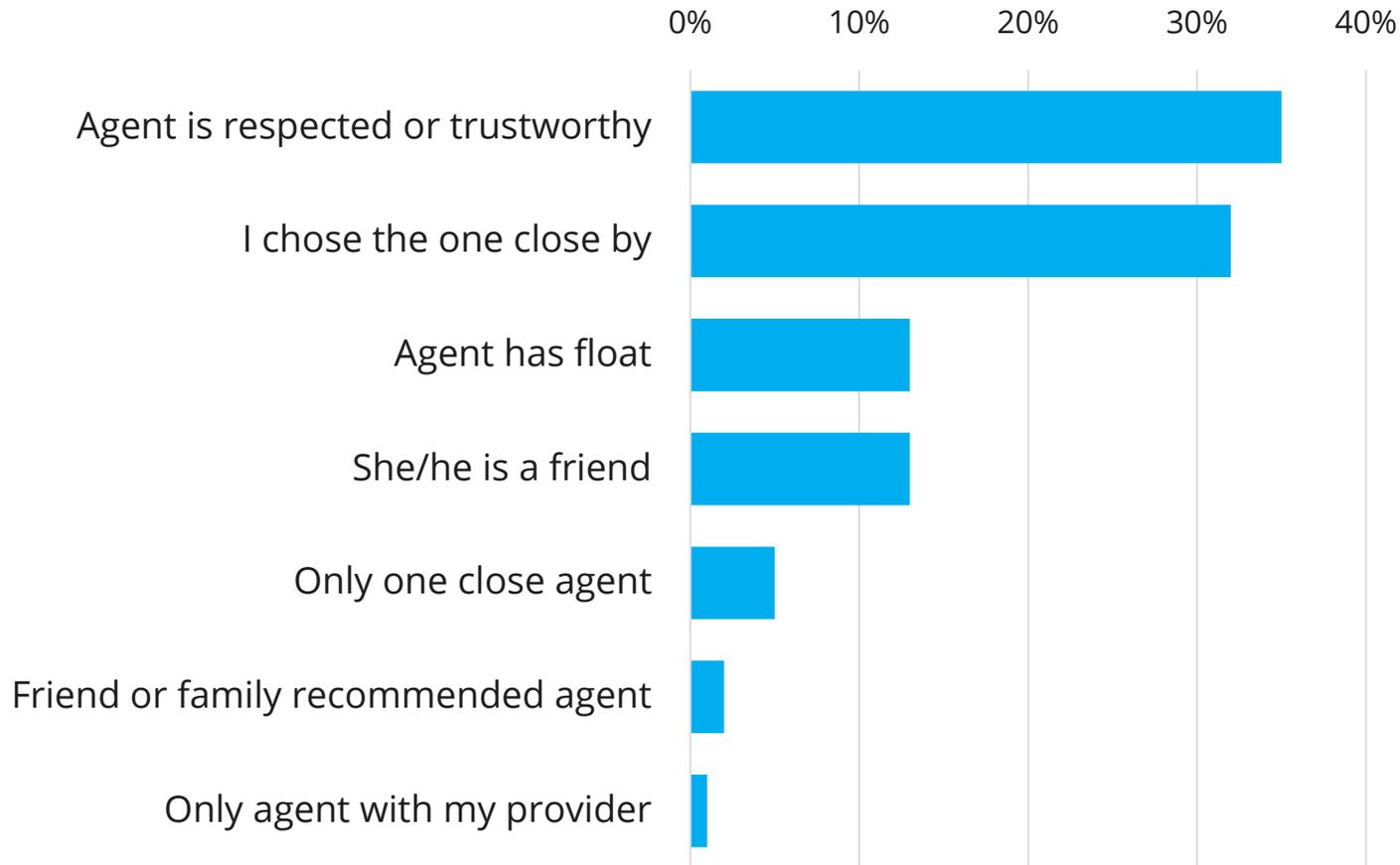
# Mobile Loans

Reasons for using mobile loans instead of traditional loan (n=217)

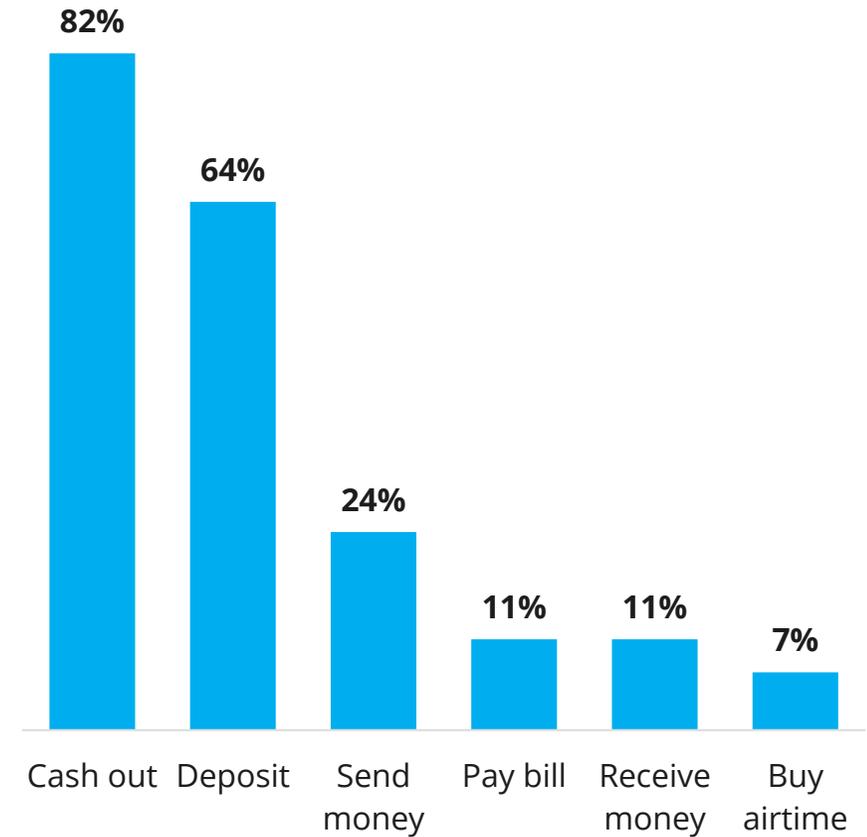


# Agents

### How agents are chosen (n=764)



### How agents are used (n=773)

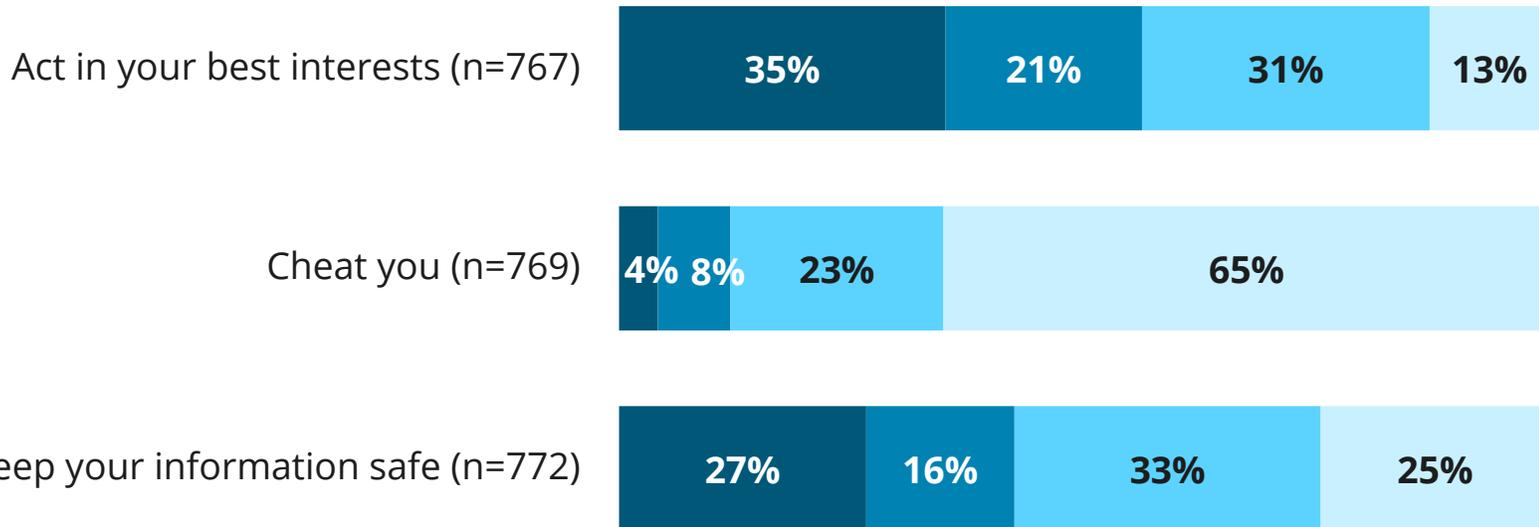


# Agents

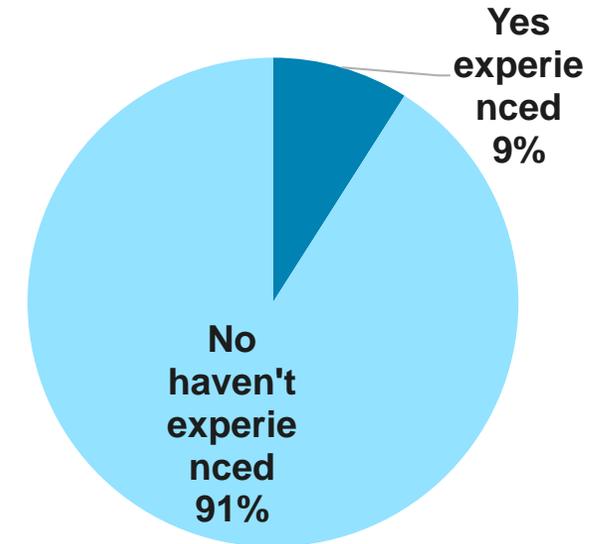
Consumers show a healthy amount of caution regarding their information compared to other perception questions on agents

## Respondents' perception of agents

■ Completely ■ Mostly ■ Somewhat ■ Not at all



## Respondents who experienced agents withdrawing cash for them without respondent being physically present (n=773)



**2 percent of DFS users have shared a PIN number or other account details with an agent (n=773)**



# Price awareness and transparency

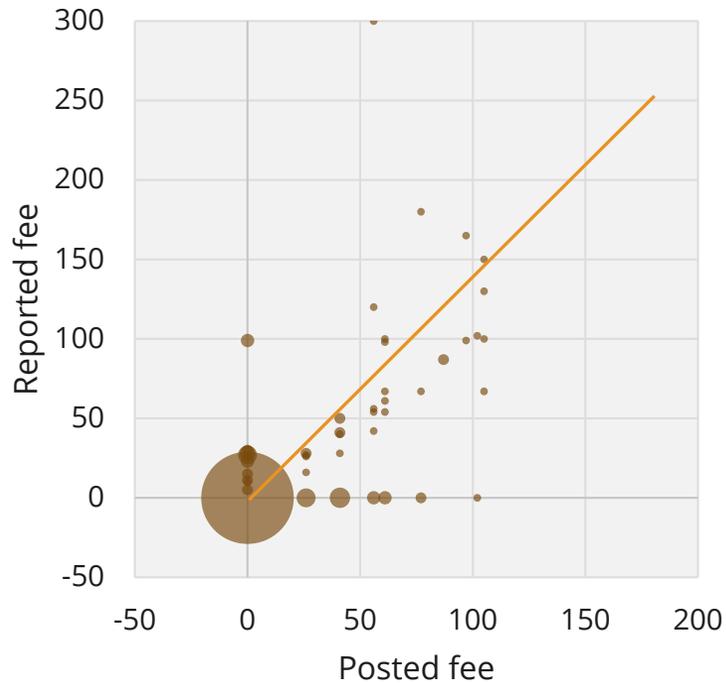
- Unexpected or unclear charges ranked low amongst DFS challenges experienced
- Consumer knowledge of costs of two of the most popular services: M-Pesa and M-Shwari, showed signs of price awareness
- Most consumers identify costs through post-transaction receipt—not pre-transaction disclosure. This may be an area for improvements in pricing transparency.



# Self-reported versus posted fees

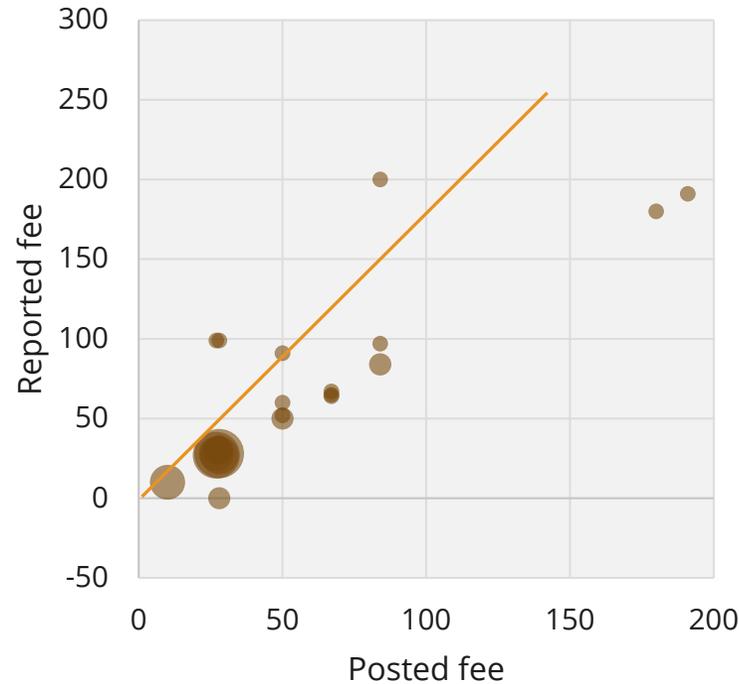
## Mobile Money (M-Pesa)

### Transfer fees (n=225)



Note: Excludes 14% of respondents who reported not knowing transfer fee

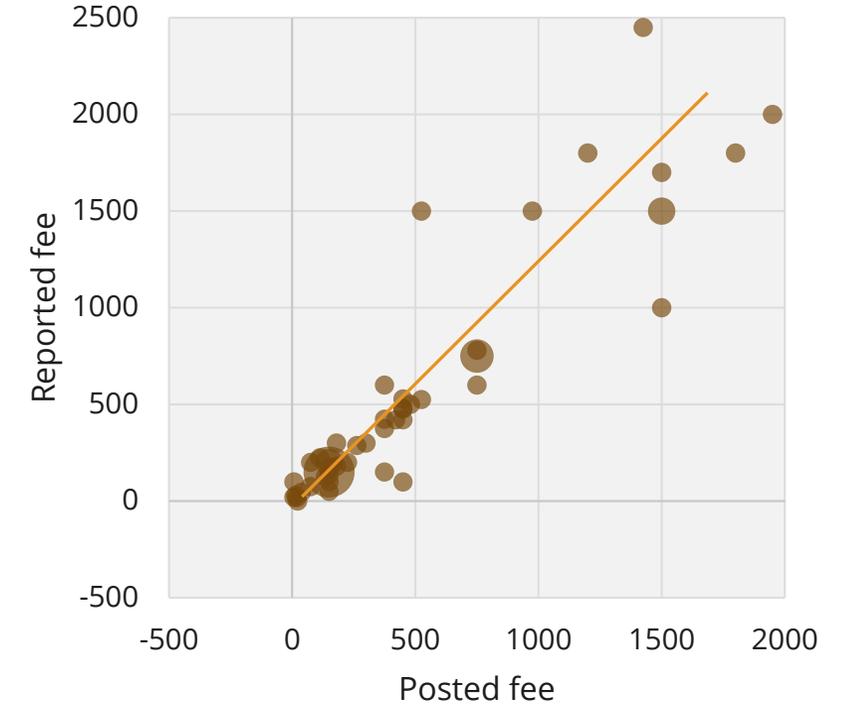
### Withdrawal fees (n=61)



Note: Excludes 7% of respondents who reported not knowing withdrawal fee

## Mobile Loans (M-Shwari)

### Loans (n=174)

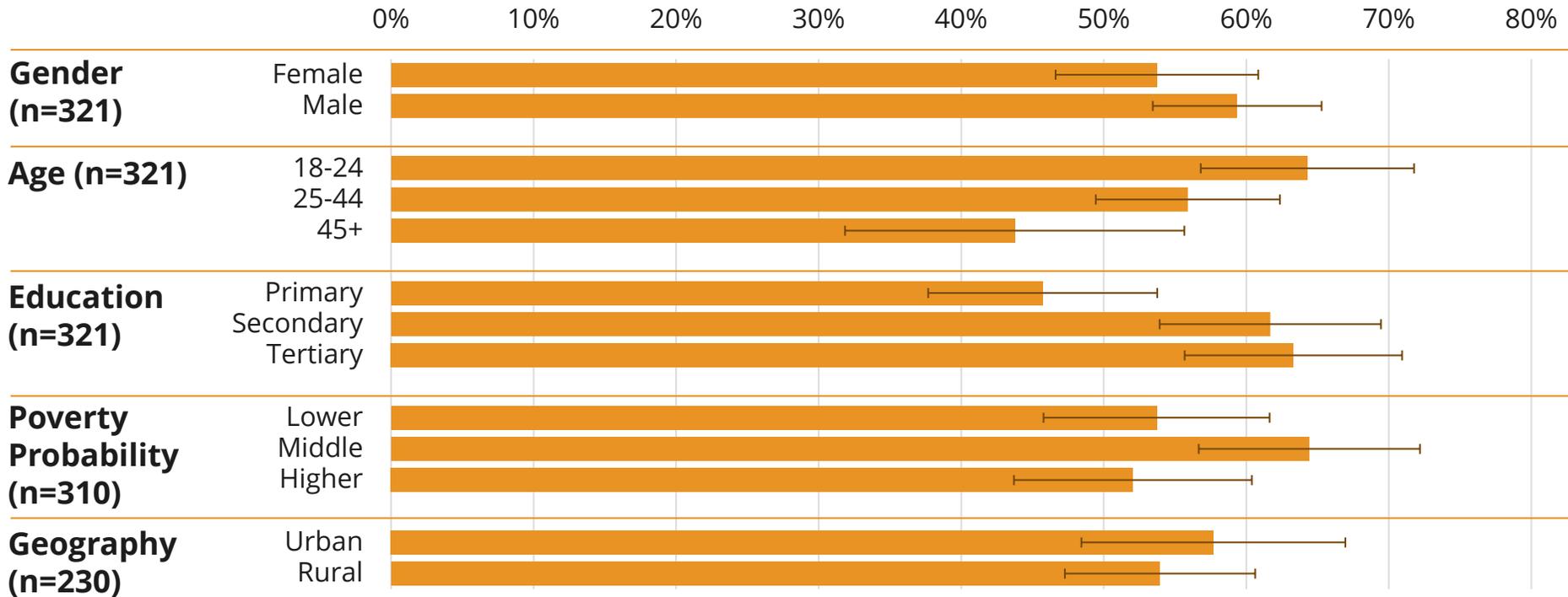


Note: Excludes 9% of respondents who reported not knowing M-Shwari fee



# Young, better educated respondents know mobile money fees best

Percent reporting correct mobile money transaction fee by transaction type and respondent characteristics



**40%**

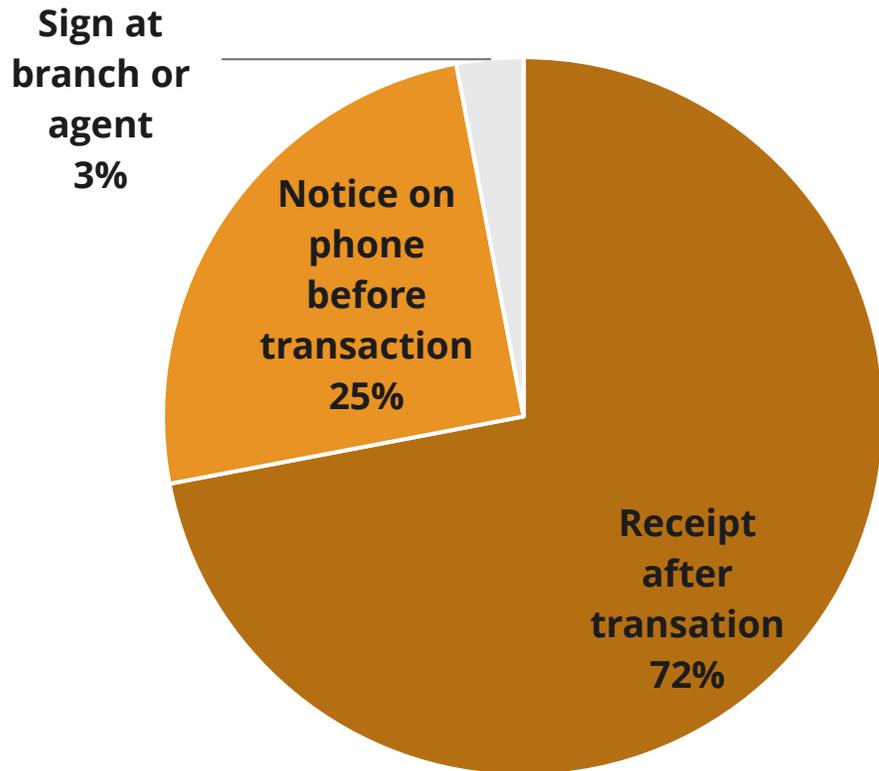
Percent of respondents reporting correct mobile loan fees (+/-5%) (n=174)

Note: Actual rate likely higher, as this analysis ignores the possibility of early repayment discounts or rollover fees. Small samples prevent segmentation analysis.

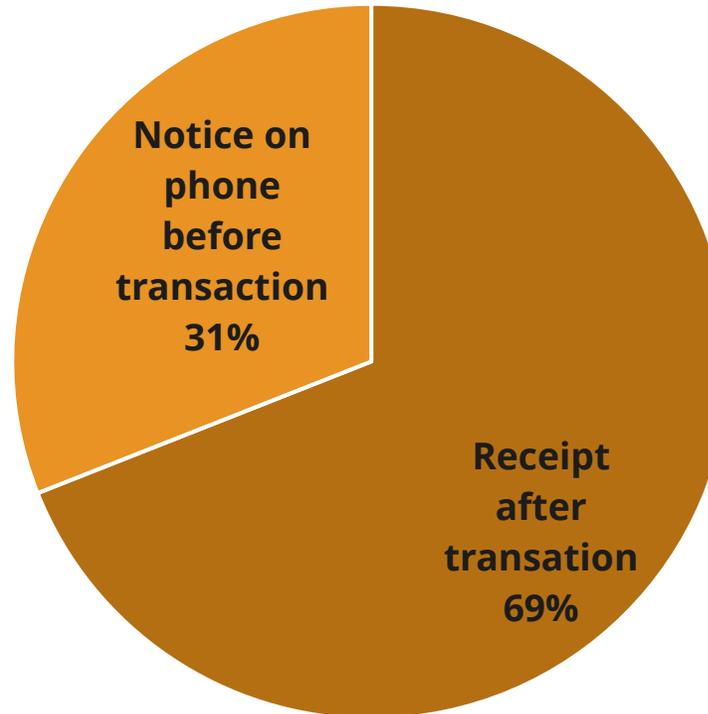


# How do consumers learn about fees they are charged?

Mobile money fees (n=589)



Mobile loan fees (n=162)



27%

The portion of mobile loan users who know of other loan providers' fees beyond those of the provider from which they borrow (n=216)



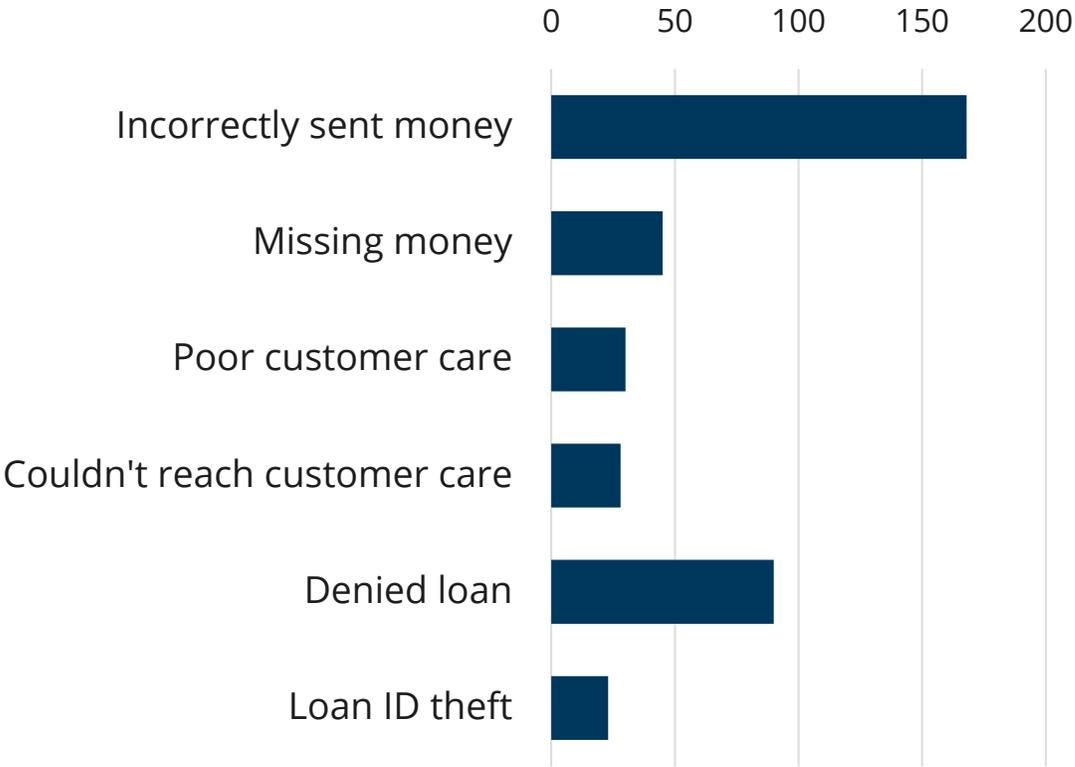
# Complaints handling and redress

- For those who had experienced key DFS challenges, they were asked about any actions taken to address these challenges
- Most consumers attempted to resolve their issue—although 39% took no action
- Customer care hotline is by far the most common channel used for redress by consumers
- 48% of consumers who tried to resolve their issue were successful
- Most consumers who did not resolve the issue did not change usage as a result

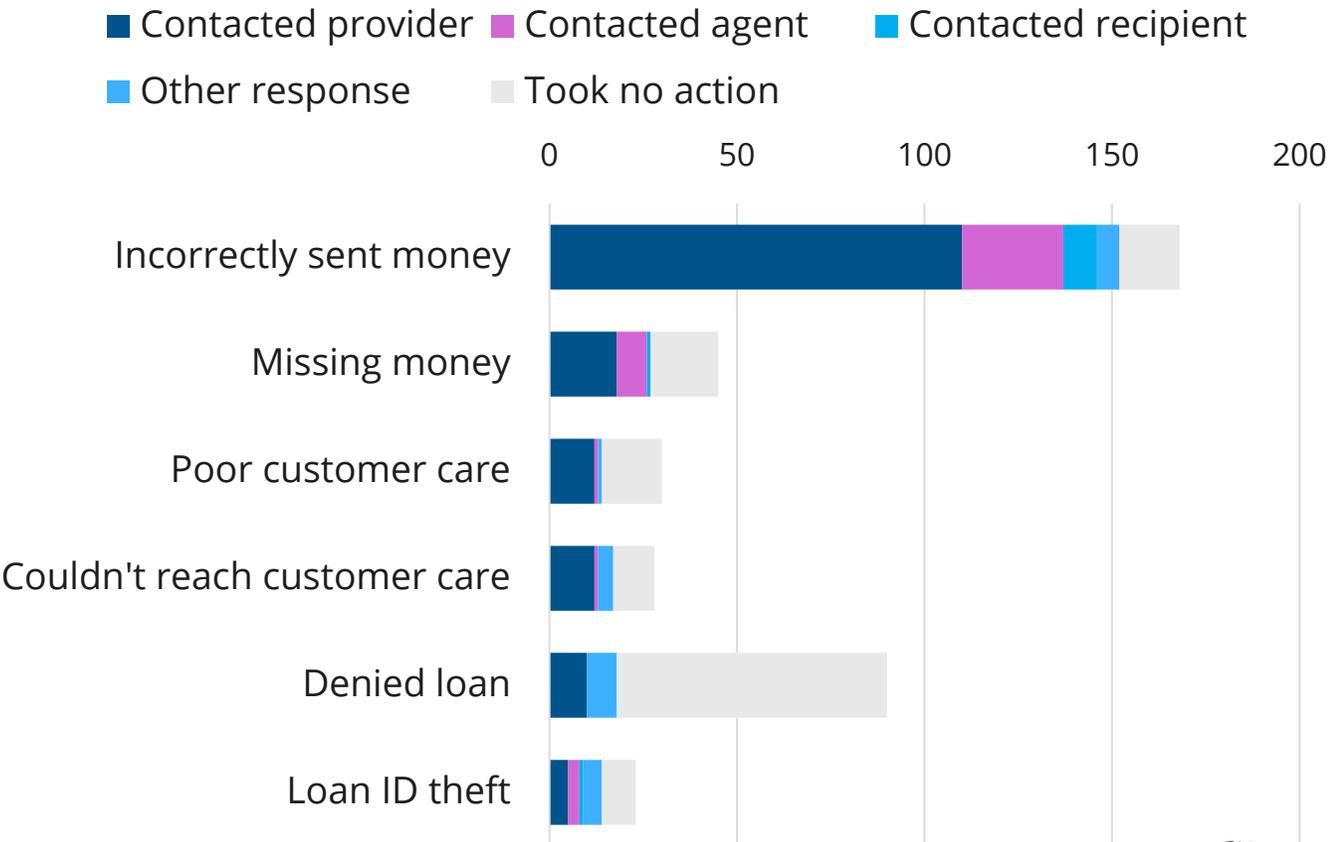


# How consumers use/don't use formal redress channels

Number of consumers experiencing each challenge



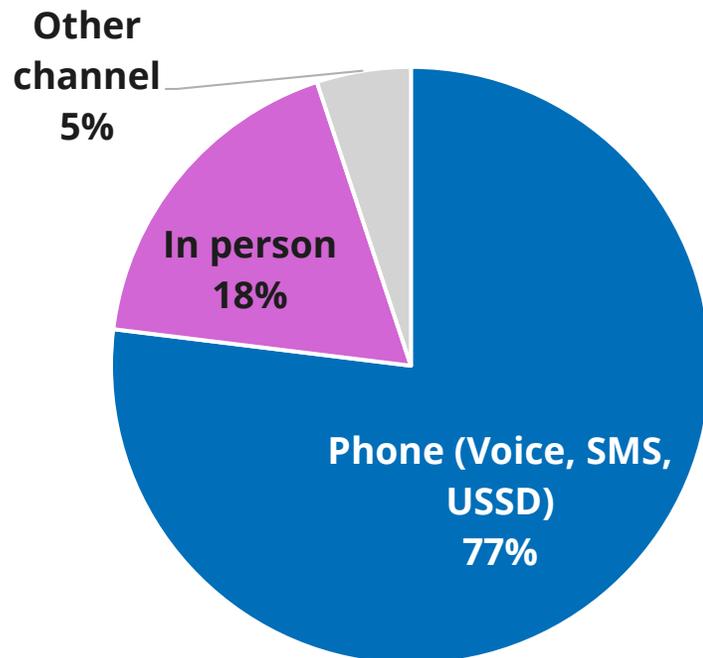
Type of action in response to challenge, by number of consumers



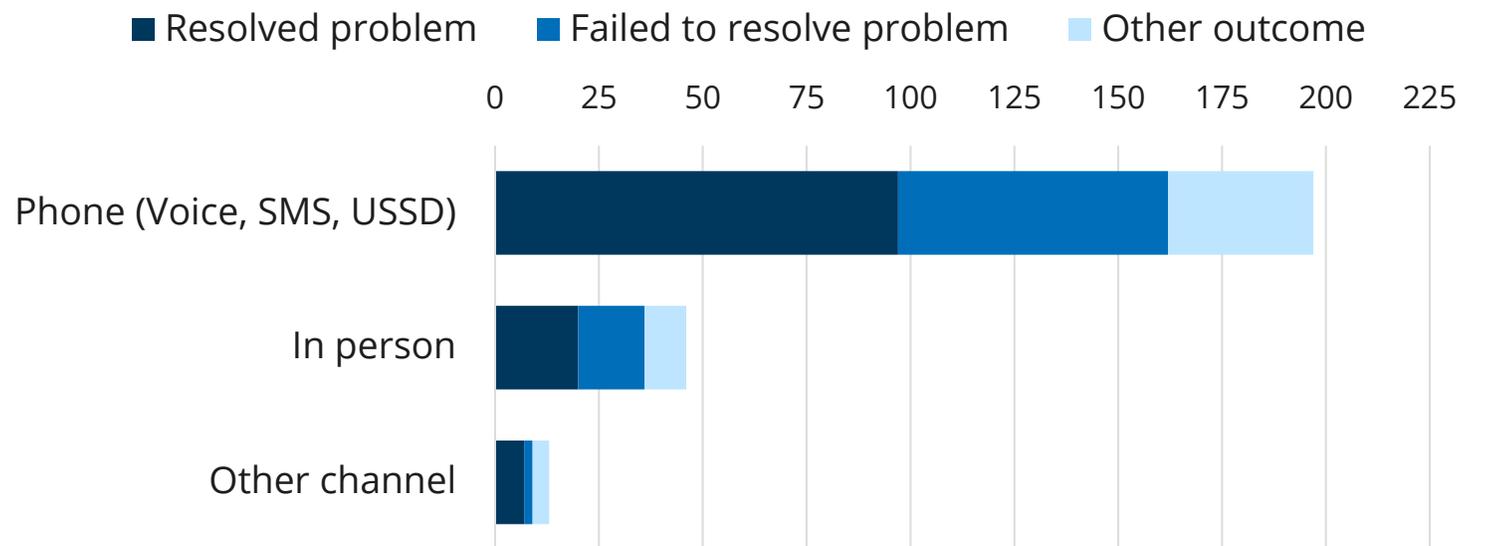
# When consumers took action, most issues were resolved

However, this varied significantly by channel used to present the challenge

### Type of channel used by those who took action (n=256)

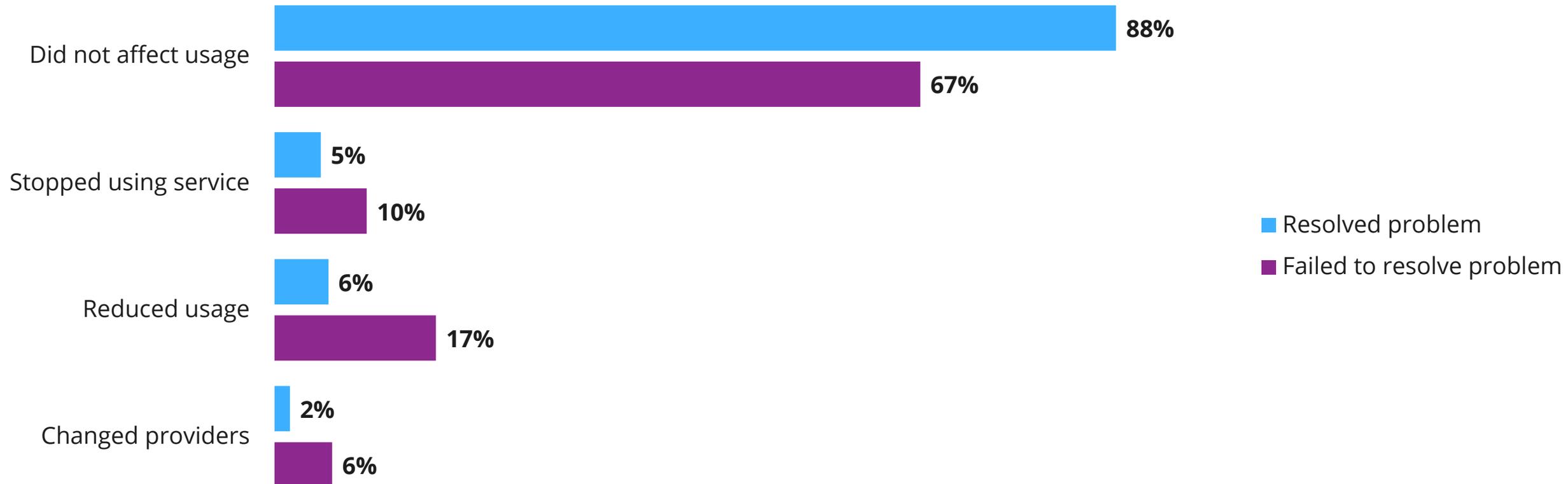


### Consumers reporting whether or not the issue was resolved, by channel



# 1/3 of consumers whose problems were not resolved changed their usage of that service

Consumers' behavior change as a result of problem resolution (n=207)



# When financial loss occurs, consumers are likely to use redress channels

Of respondents who experienced a problem involving a financial loss (n=297)

88%

reported taking some action to try to resolve the issue

86%

reported resolution took a day or less (n=243)

81%

Contacted provider via phone or SMS

77%

of those who tried to resolve their issue were successful

25%

reported having to spend additional money as part of the resolution process



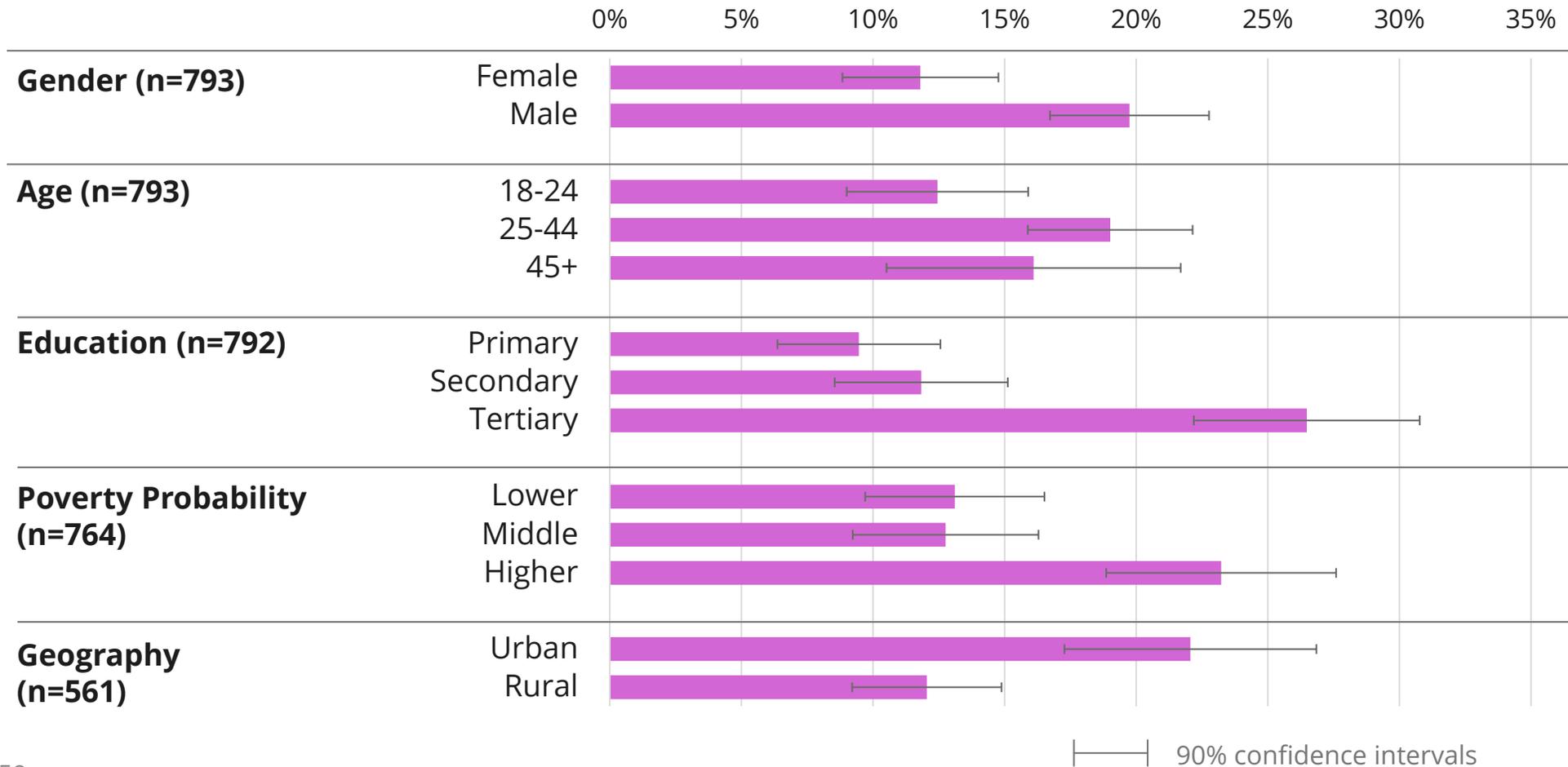
# Regulator engagement

The Competition Authority of Kenya has taken several actions regarding consumer protection in DFS in recent years, such as setting pricing transparency standards, rules regarding USSD channel costs, and addressing consumer complaints regarding digital loans.

Overall, 17 percent of all respondents had heard of the Competition Authority of Kenya prior to this survey, and 1 percent had contacted them.

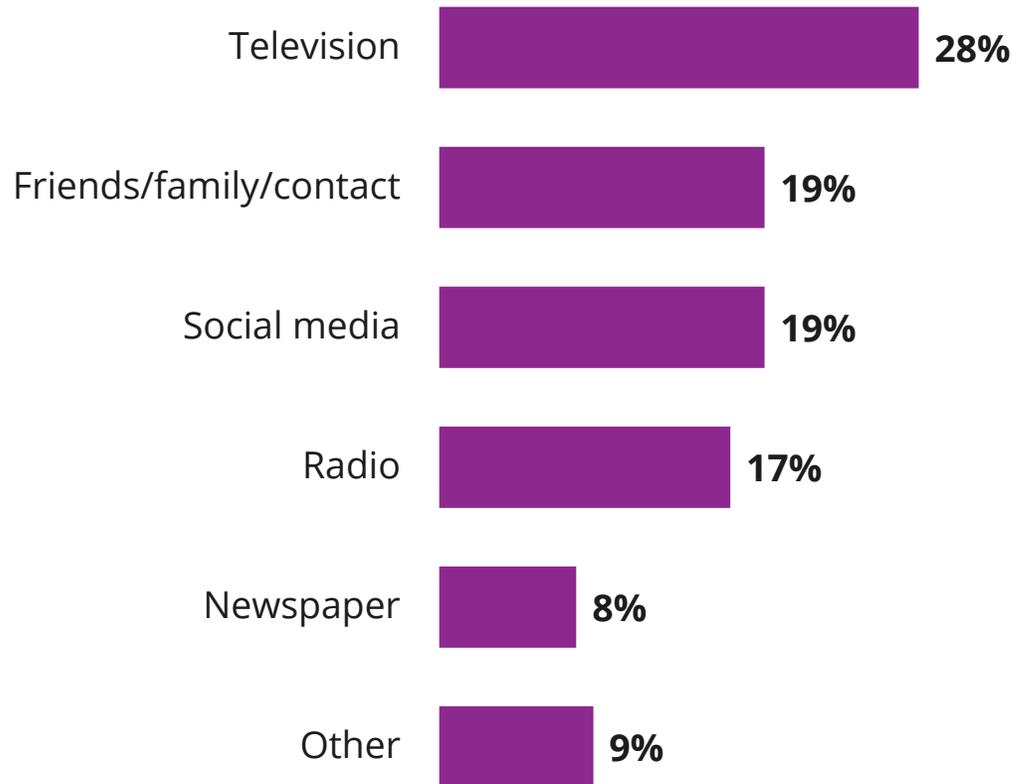


# Percent of respondents who had heard of CAK prior to survey

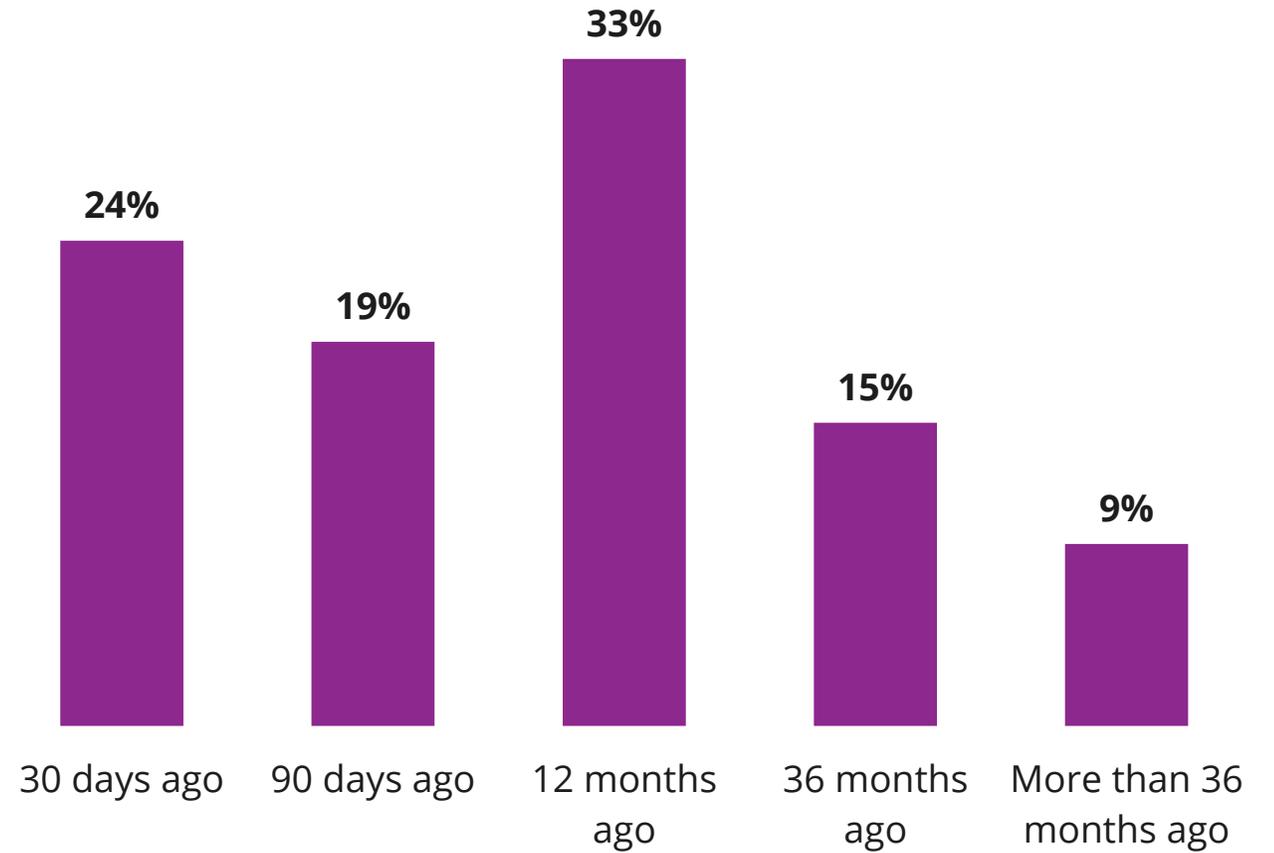


# Competition Authority of Kenya (CAK)

How heard of CAK (n=129)



When first heard of CAK (n=119)



# Policy takeaways from consumer survey

- Substantial difference in challenges reported by more educated and better off segments—raising questions why this discrepancy exists and calling for further research to explore causes of this difference in reporting of challenges by demographics.
- Attempted scams are common—although consumers are aware and cautious. These consumers' strategies for avoiding scams could form basis of consumer education campaigns for other consumers who may not be as aware or vigilant.
- Signs of debt stress with digital loan users, and COVID-19 pandemic appears to have exacerbated financial stress further for DFS users.
- Despite being an advanced DFS market, low levels of competition are seen in mobile money and digital loans. Most users are concentrated with M-Pesa and affiliated lenders. How can policy drive greater competition and choice in mobile money and digital loans?
- A comprehensive consumer protection framework covering all DFS providers is needed to promote common standards of transparency, pricing, and competition to ensure equal protection and enforcement across the DFS ecosystem.



Thank you



ipa  
INNOVATIONS FOR  
POVERTY ACTION