Innovating banking for greater financial inclusion

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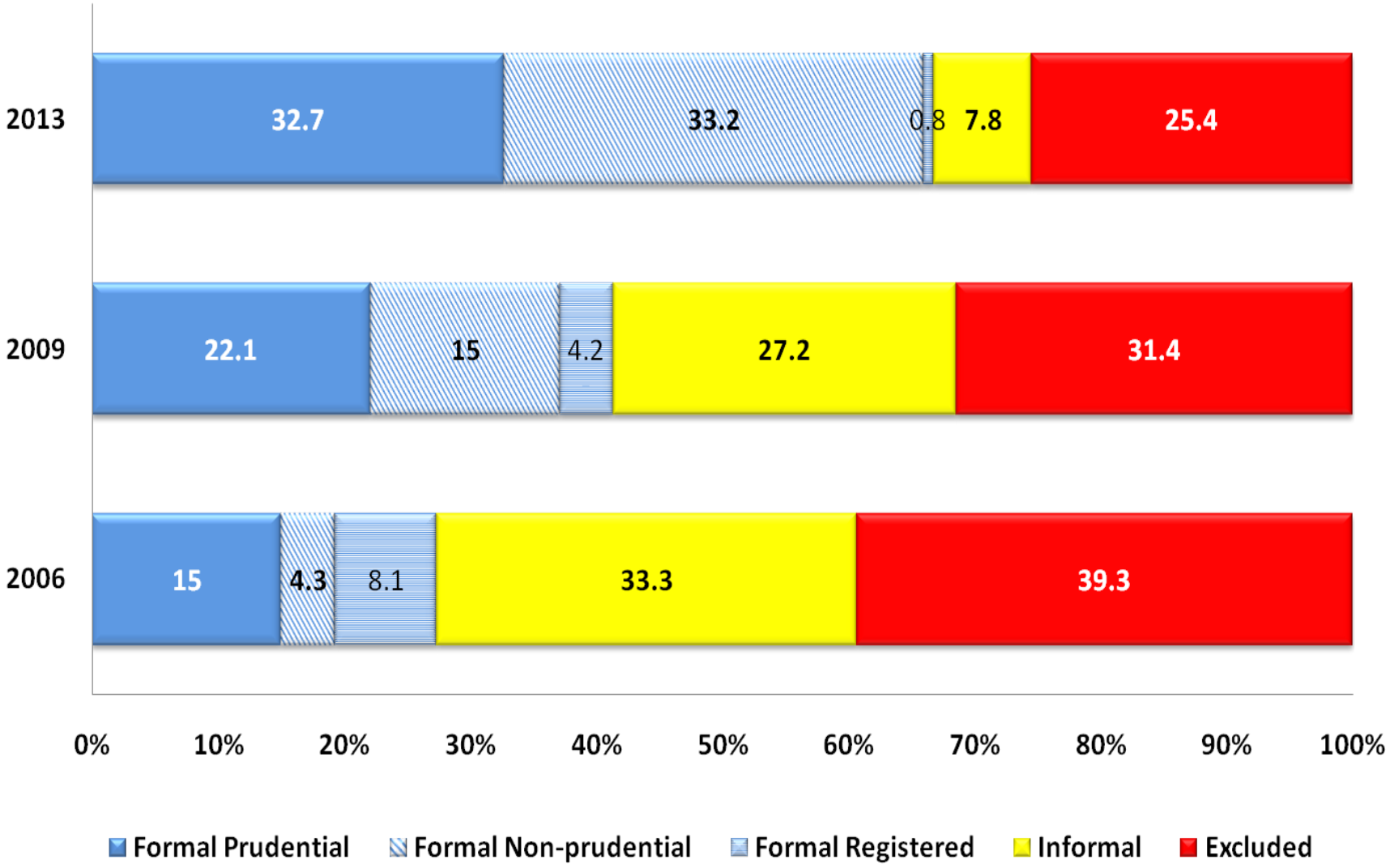
Kenya has come a long way



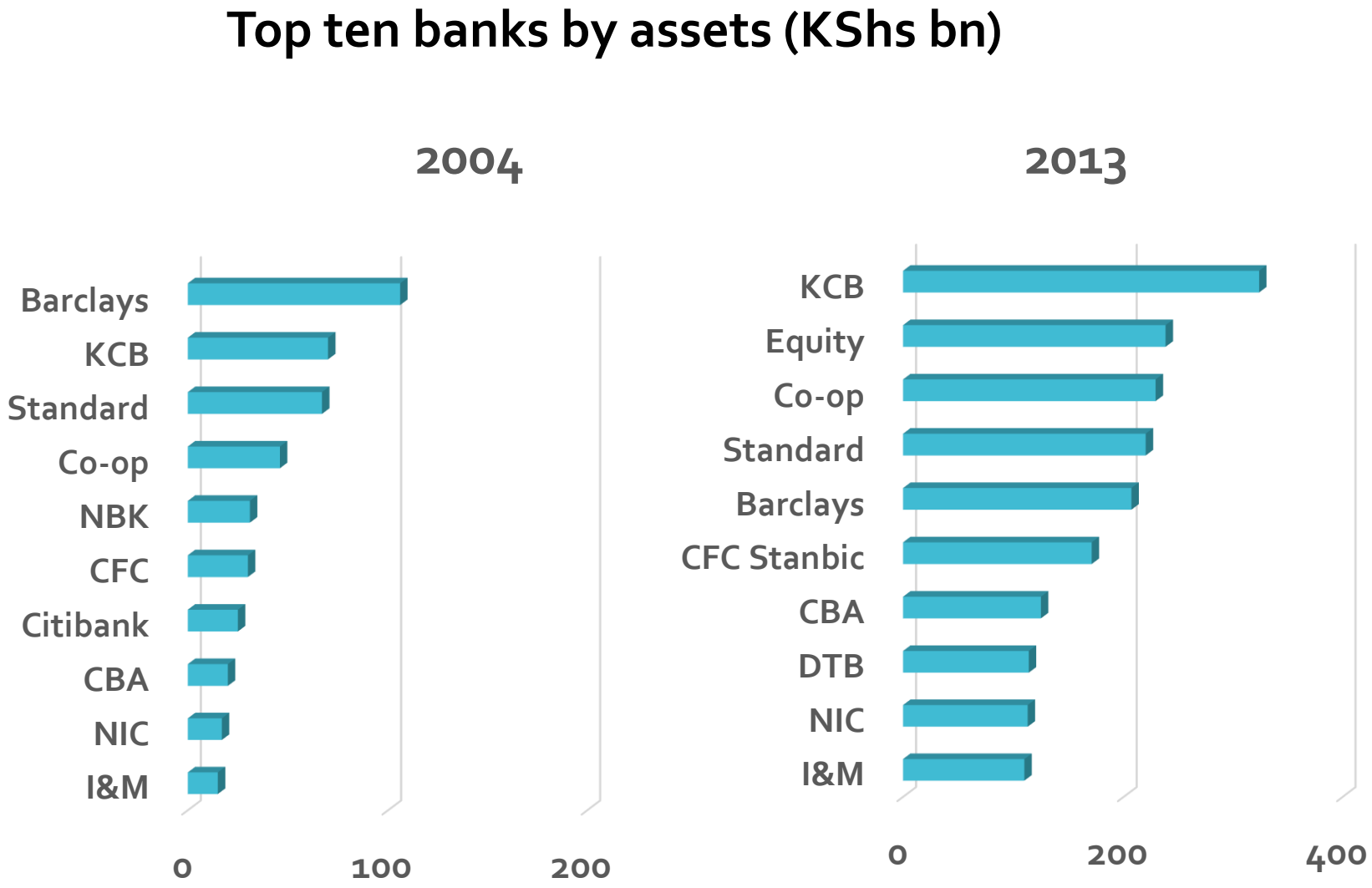
Didn't happen by accident

Technology changed the game…

…regulation enabled…

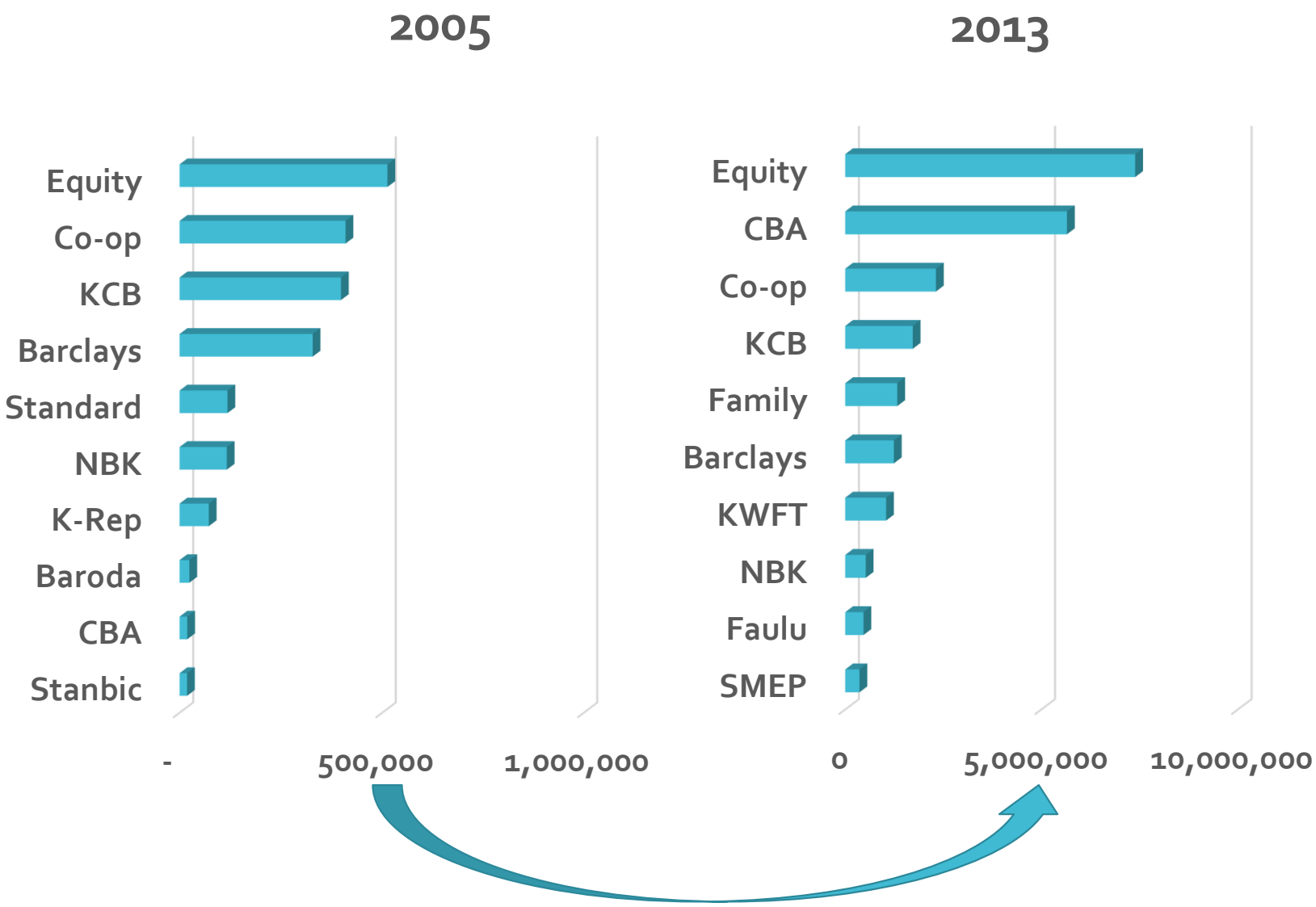
…and players innovated

Dynamism evident at all levels



But especially in relation to inclusion

Number of deposit accounts across top ten banks

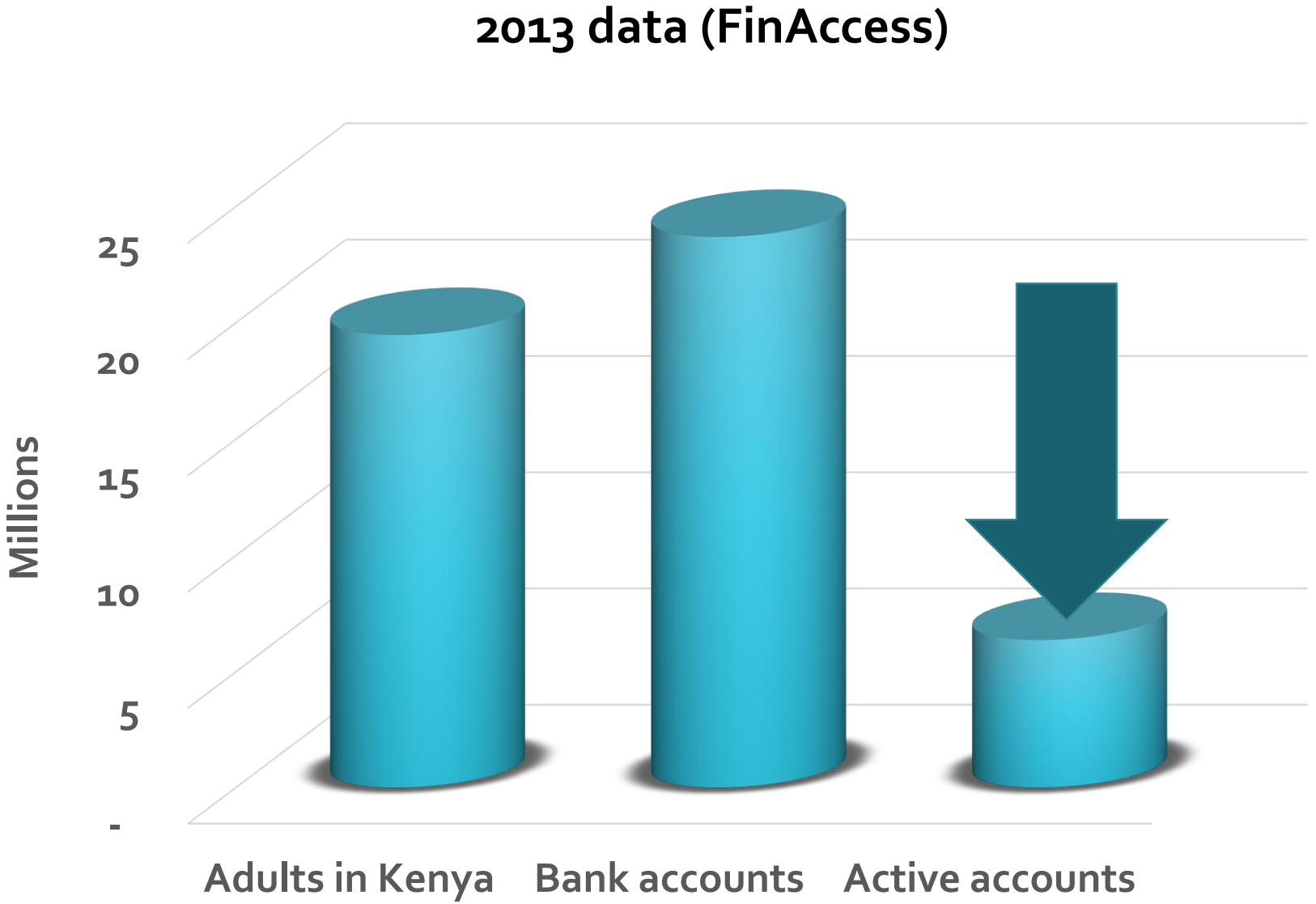


Immediate future looks positive

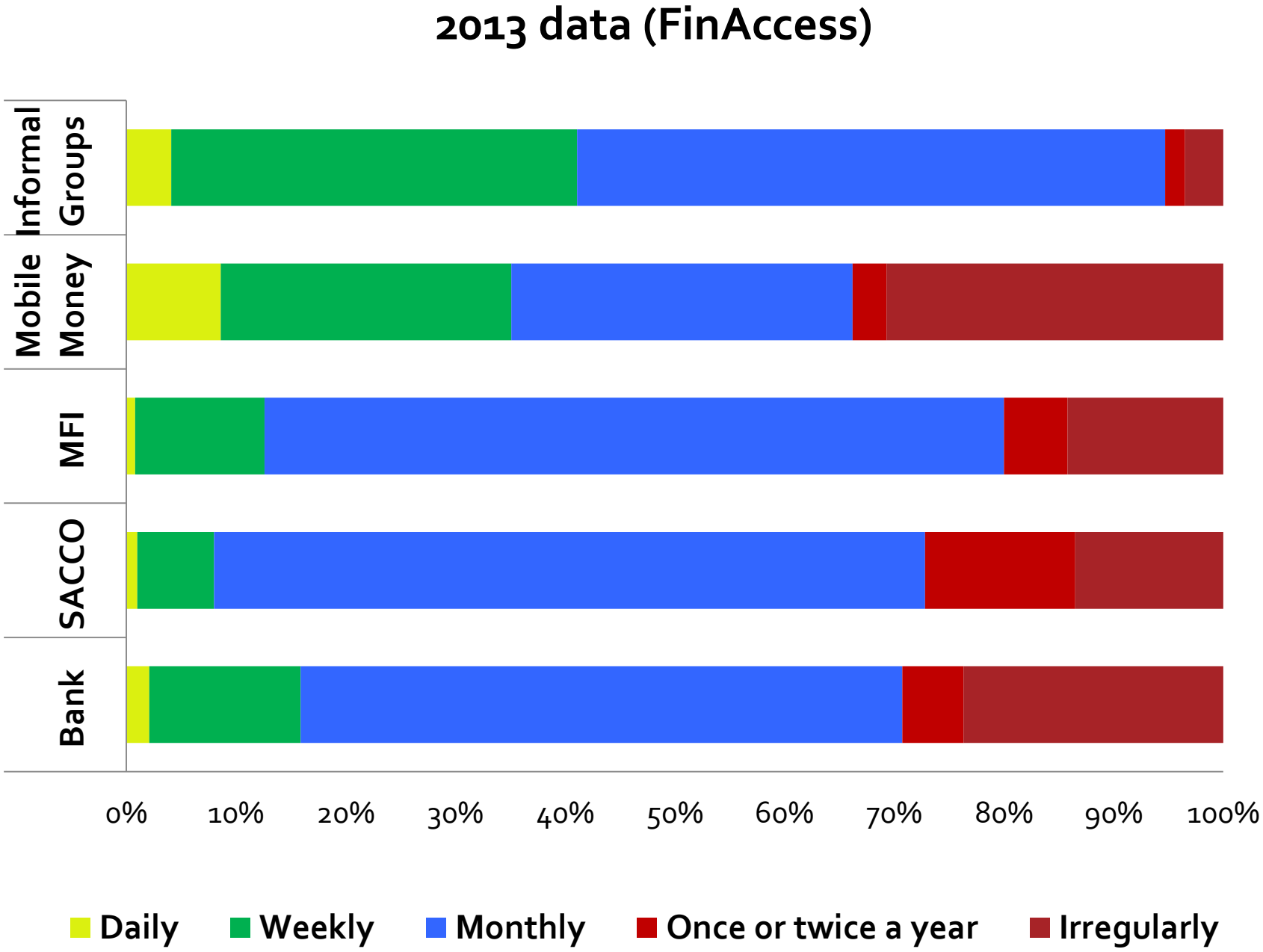
- Global Findex shows formal exclusion already down to 25% (2014)
- 800,000 accounts to be opened for the poorest
- FinAccess 2015 could show only 20% exclusion in Kenya?
- Italy currently shows 13% and the US 6%

But…

…many new bank accounts are not used…



… and active accounts are only used monthly on average



Why?

Financial diaries offers some insights into the lives of the poor

Insufficient income

Income *and* expenditure is volatile

Money should be working

Managing liquidity a daily struggle

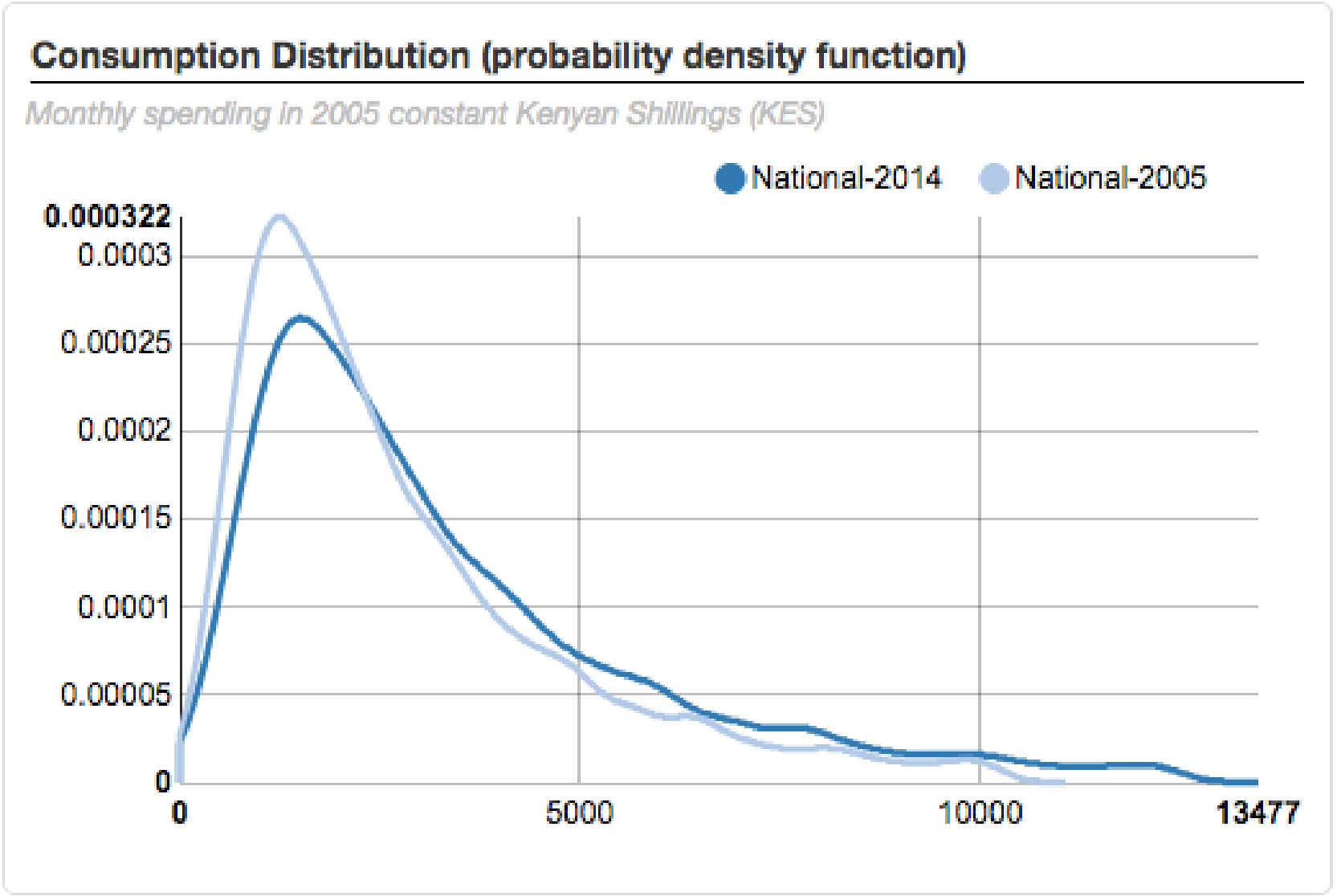
Active money managers, using formal *and* informal tools

How do we tackle this?

1. Financial tools need to be low cost to use
2. Solutions must be relevant to needs

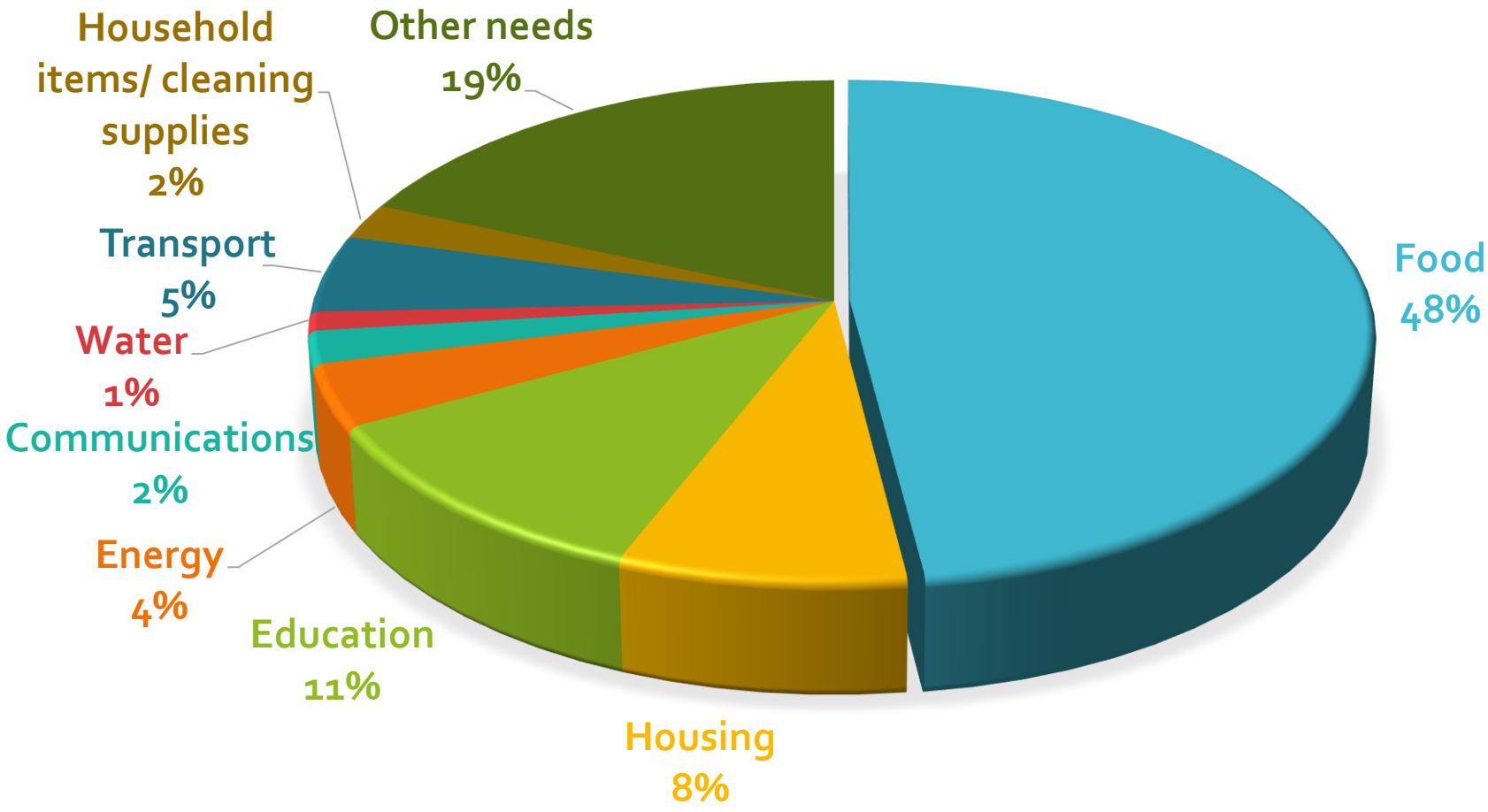
The cost challenge

The *average* Kenyan is living on a low income



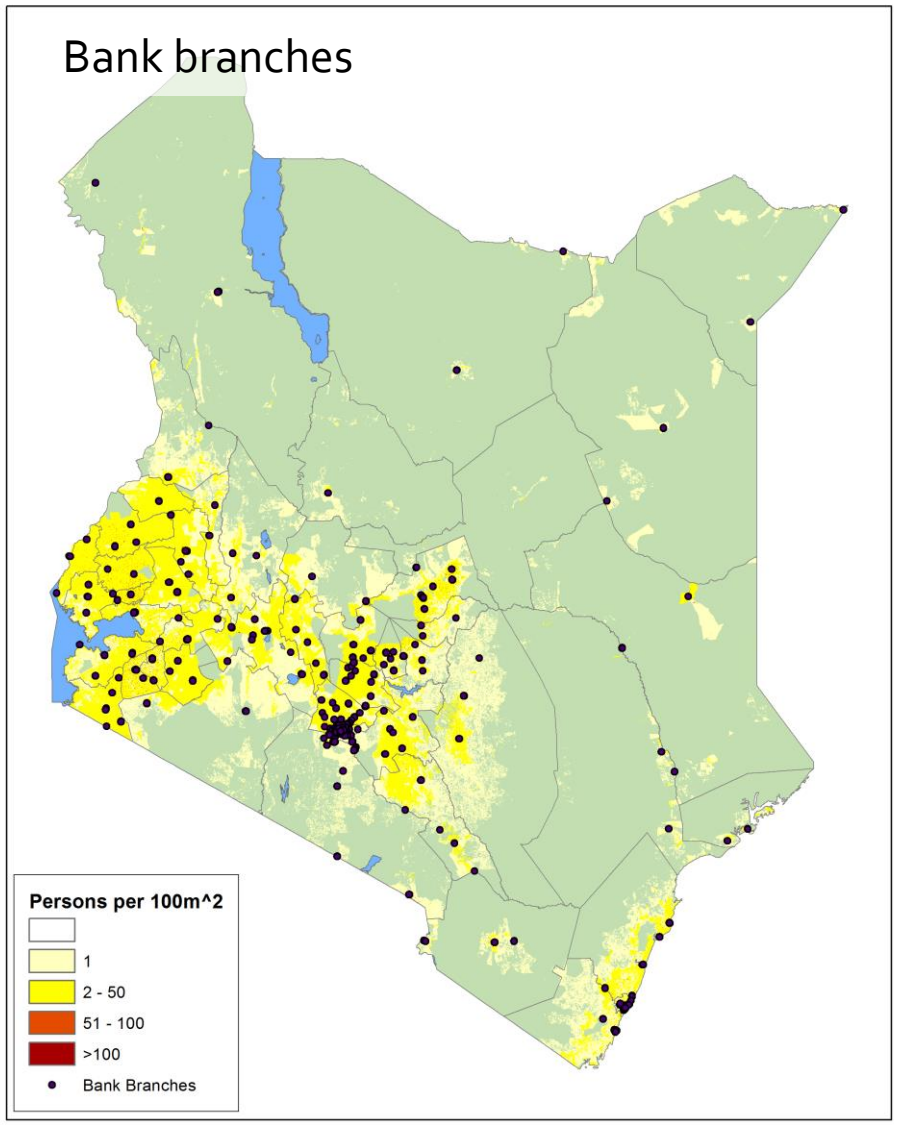
The cost challenge

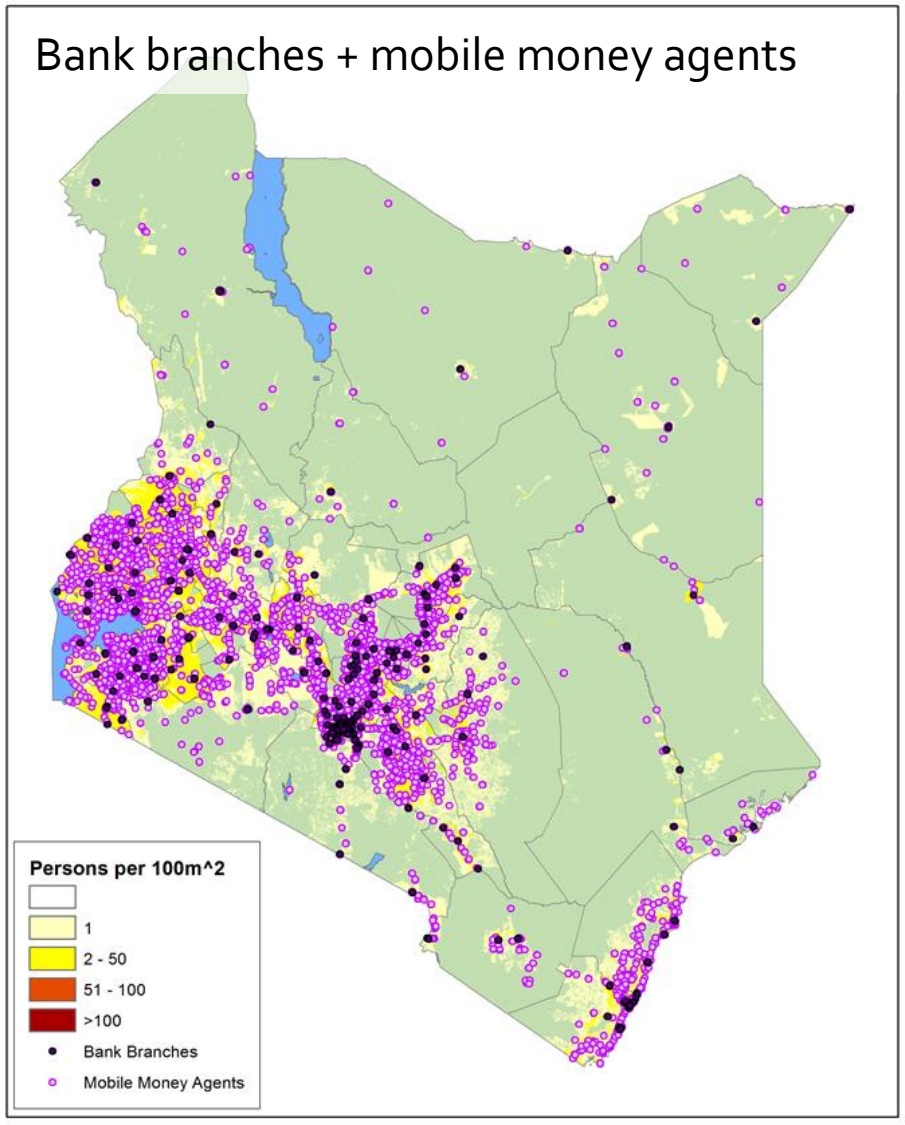
Budget breakdown of a typical low-income household



The cost challenge:

Reaching people



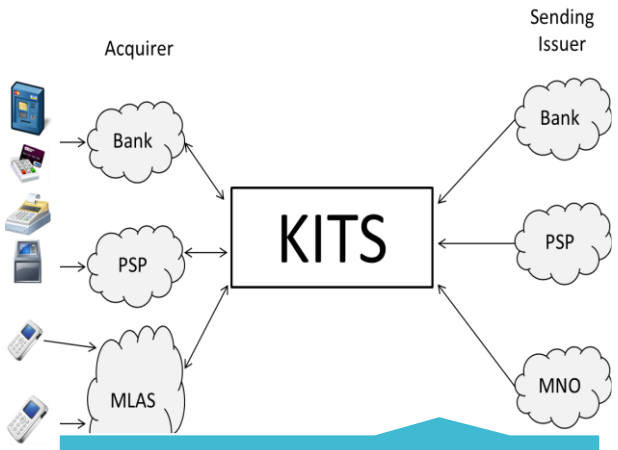


Over three quarters of the population within 5km of an access point

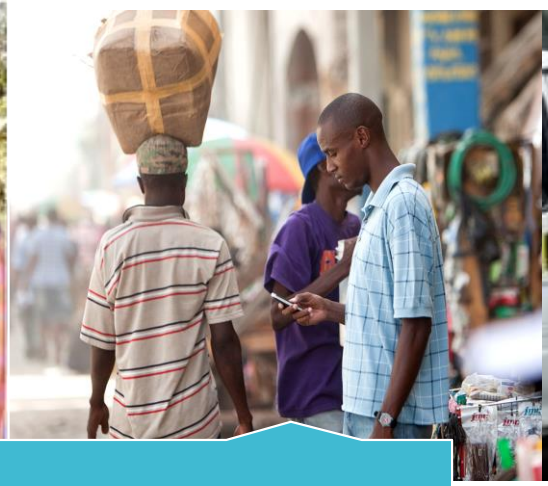
The cost challenge:

The role of ‘collabatition’

Credit information sharing



Payment system interoperability



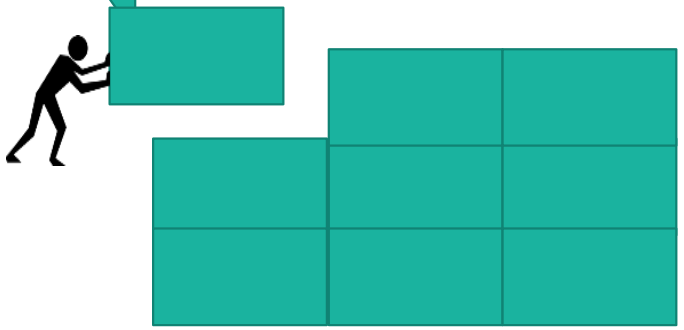
Cash-lite

The relevance challenge

The liquidity-illiquidity preference conundrum

Short-term liquidity

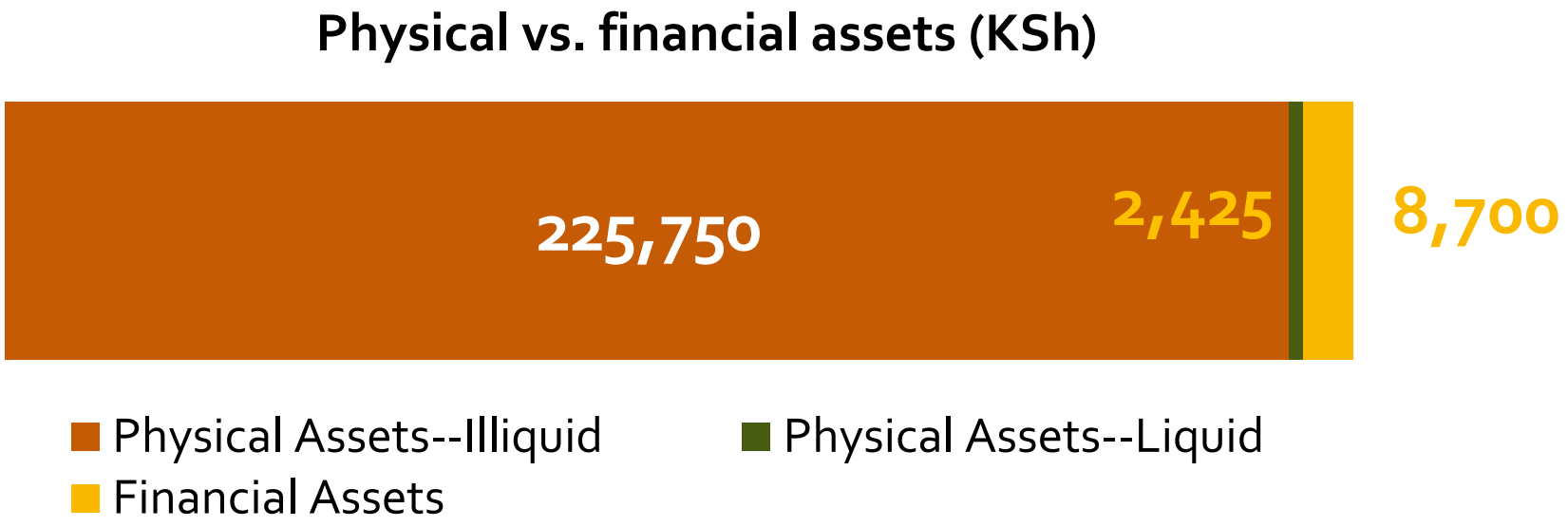
Longer-term investment

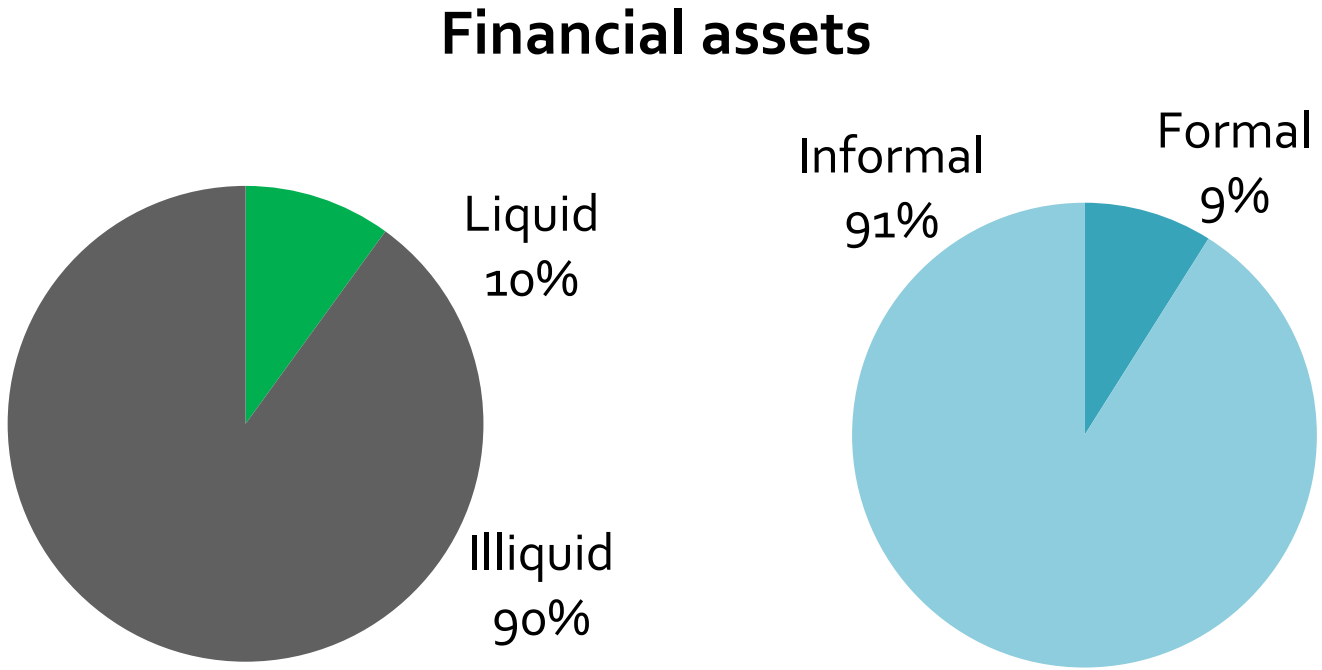


Stretch

GROW

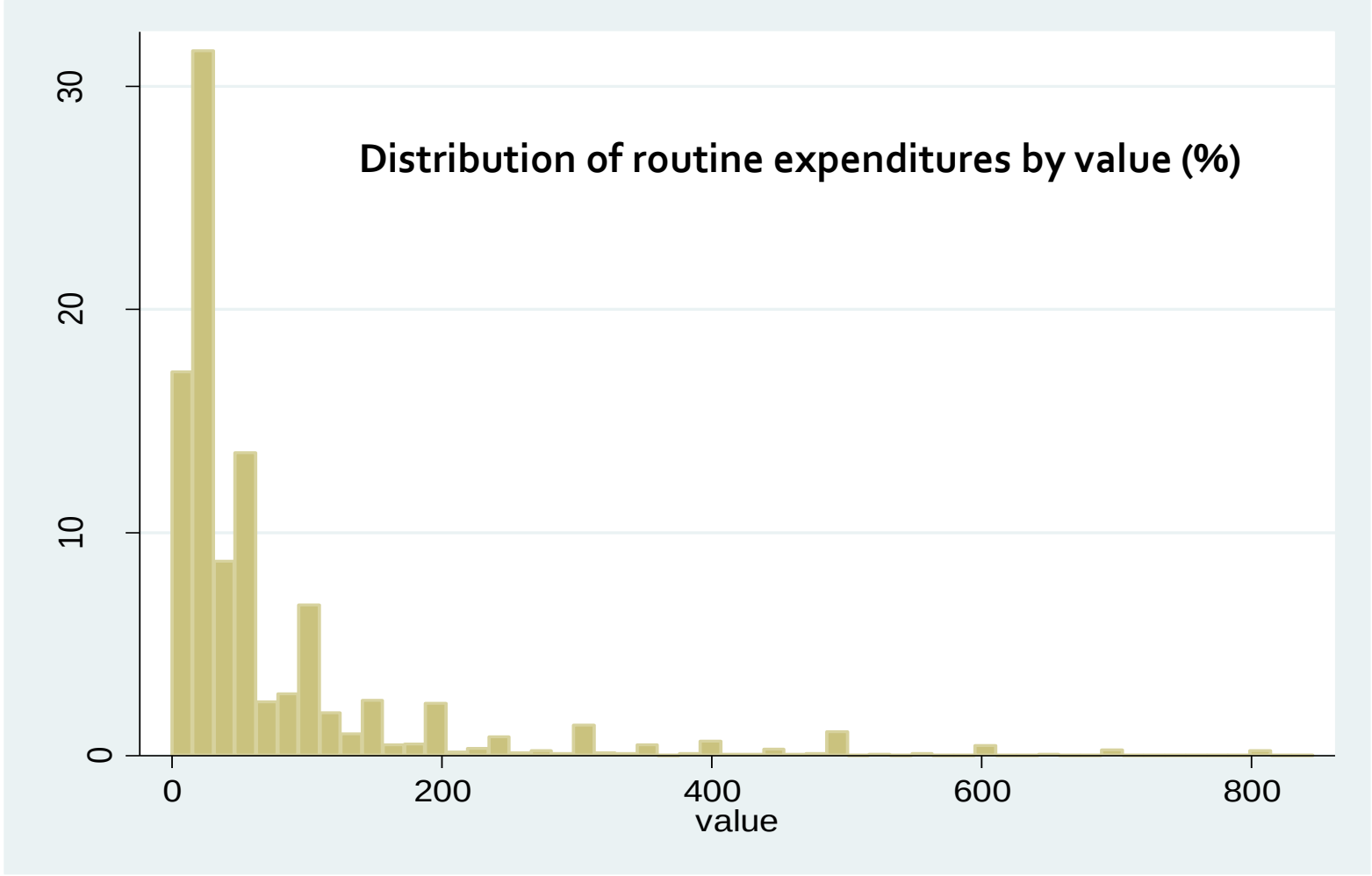
Financial assets are small, illiquid and informal





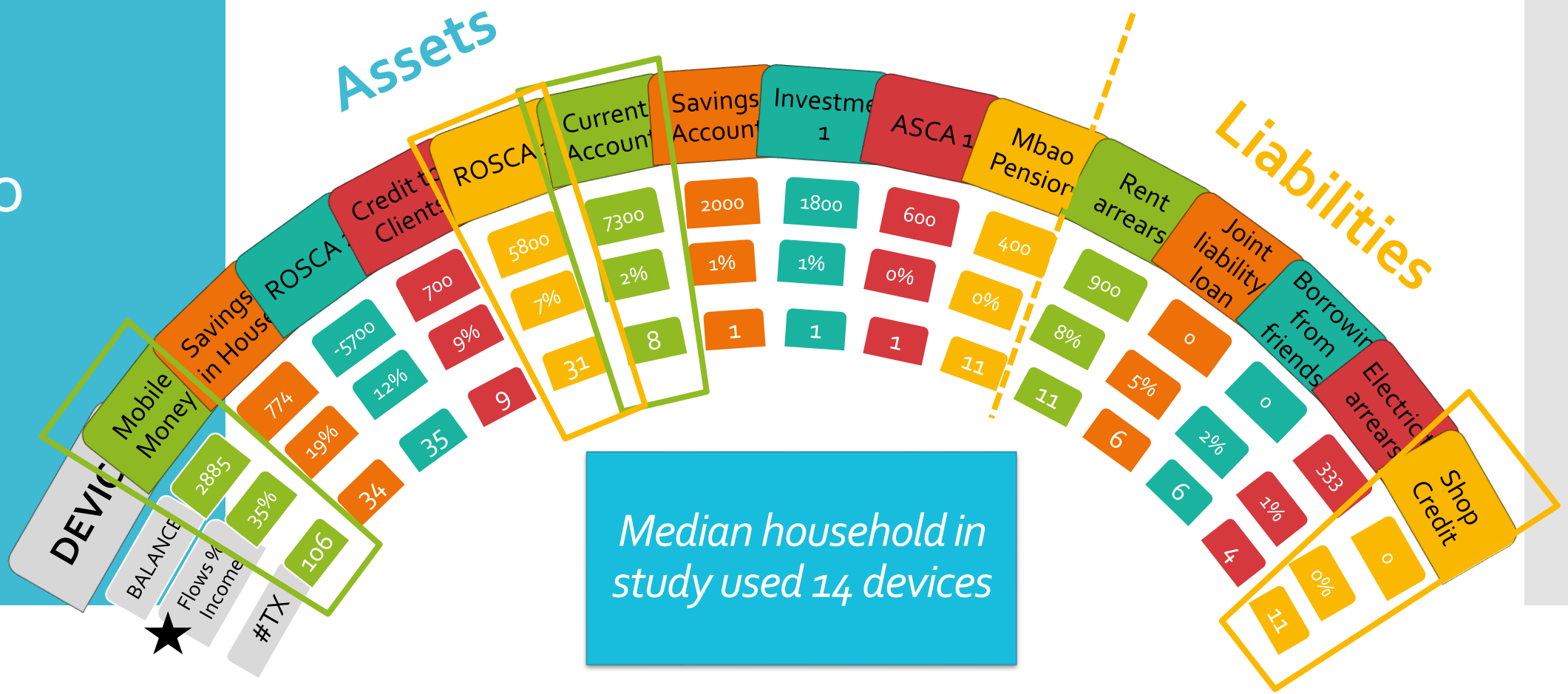
The relevance challenge

Most transactions are very small



What do people do now?

Low income are active money managers: using different tools for different jobs



Median household in study used 14 devices

A relevant financial tool?

M-Kopa

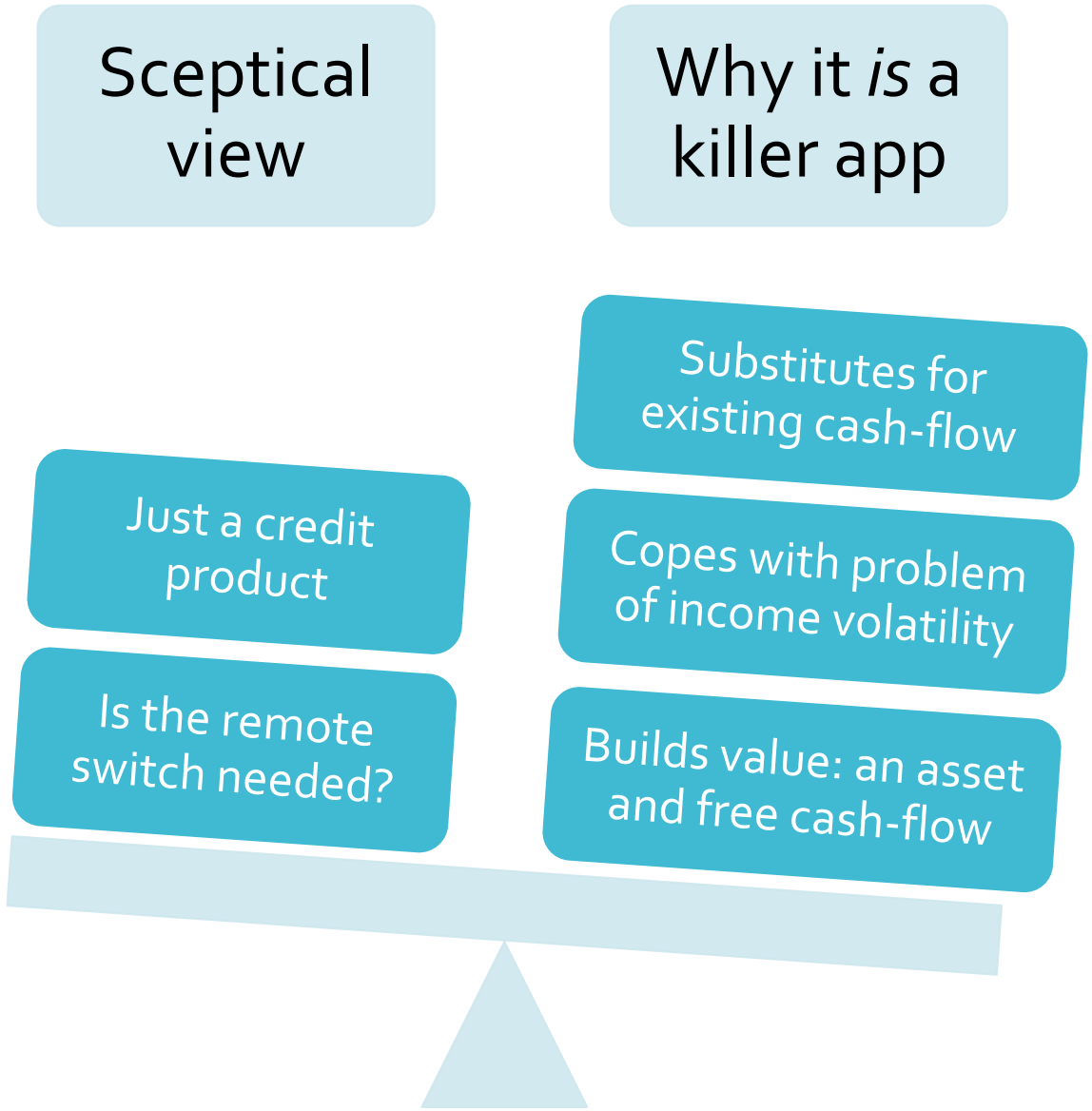
Kerosene lighting

- 5m homes off electricity grid
- Spend KShs 20,000 pa on kerosene
- Poor quality light
- Negative health implications

M-Kopa solar

- Solar light system
- Cost KShs 20,000
- Sold on credit
- Pay by mobile money
- Flexible pay when you can
- Remote switch-off using mobile
- Daily cost less than kerosene
- After a year own the asset

Is M-Kopa a ‘killer app’?



Where are the next killer apps?

New business strategies

- Start with value creation for the client
- Revenue model consistent with cash-flows
- Deep segmentation – one size does not fit all
- Link to the 'real economy'

Technology again the enabler

- Smart phones are coming
- Data analytics revolution: credit
- Value addition – combine finance with other services
- Semi-customised solutions

Informal solutions can point the way

- Leveraging social capital
- Using local know-how
- The human dimension

FSD Kenya
Financial Sector Deepening