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FSD News

EDITORIAL

Few in Kenya can be unaware of the extraordinary progress which has been made on increasing financial inclusion over the last five years. Although the development of mobile banking has probably received the greatest media attention it is important not to lose sight of the other important developments. Banks have expanded their retail operations at an exceptional pace, targeting the frontier markets while the micro-finance sector has come of age with the transformation of the first two institutions into deposit takers with national networks. Increasing numbers of institutions are looking to go beyond the rhetoric and provide financial services geared to the needs of small and medium enterprises with growth potential. Rather less talked about perhaps are changes in the informal financial sector, still the primary source of services for many Kenyans. More sophisticated community driven institutions are starting to appear increasing flexibility and reliability. All of this seems very positive. But it does beg the question, is it actually making a difference?

There has been an upsurge of interest in the question of the impact of financial inclusion worldwide but the debates have too often been characterised more by opinions and rhetoric than facts and analysis. Efforts by global programmes such as the Financial Access Initiative (FAI) are helping to redress the balance. FSD and its partners think the time is right for a renewed level of effort to address this subject in Kenya and muster more evidence in understanding how financial inclusion is impacting on the lives of Kenyans.

FSD has therefore established a new knowledge theme and recently welcomed Amrik Heyer to the team to lead this initiative. Working in close partnership with Kenyan and international researchers, the industry and policymakers we hope to tackle some of the key research questions relating to financial inclusion in Kenya. Looking for evidence of how recent developments have impacted on poverty is clearly an important question in its own right. But more significantly we want to use the results to find better ways to reach more people with products and services which will result in real Improvements in livelihoods.

David Ferrand
Director

NEWS AND VIEWS

Insurance sector engaged to embrace financial education: Mr Sammy Makove, the CEO of the Insurance Regulatory Agency (IRA) during a Q&A session at an insurance sector financial education breakfast held on the 20th of September 2010 and hosted by the Governor of the Central Bank of Kenya, Prof Njuguna Ndung'u.

Tackling the growth challenge of MFIs

FSD worked with Unitus on a micro-finance growth programme which aimed to expand inclusion by stimulating sustained rapid growth of high potential micro-finance institutions (MFIs). This 14-month programme worked with 11 early growth innovative, smaller MFIs in Kenya and Tanzania, addressing rural and underserved areas.

The FSD/Unitus Growth Centre was designed to help the institutions to overcome barriers to growth by strengthening strategy, leadership and key operational areas. The programme involved resource network to help CEOs work through obstacles and share successes.

Positive personal transformation has been observed as the managers developed into strategic leaders, gaining confidence and clarity on their roles which will undoubtedly have a long-term impact on them. Although some progress has been made, the aggressive growth indicators established at the outset are yet to be realised. Initial expectations on the speed of change proved optimistic but we will continue to track performance of participants to see the longer term impact.

Deepening protection against drought

FSD, the World Bank and the Rockefeller Foundation have been working together to test the viability of index-based weather insurance products in the Kenyan market since 2008. A number of products were introduced in October 2010 to join the existing livestock and maize products developed in the previous season. This included wheat, banana and coffee. There are plans to roll out tea, sorghum, sugarcane and barley in 2011.

The banana contract joins just a few other attempts to index the crop across the world. In case of poor rainfall, banana farmers usually stand to lose around KShs 100,000 per acre leading to difficulties in repaying associated credit. Success will support adoption of better banana technology and leverage increased access of credit. The products were pioneered in Murang'a under Equity Bank and Juhudi Kilimo pilot programmes and insured by APA and CIC insurance companies respectively with reinsurance from Swiss Re.

The pilot programme is covering a growing number of regions; Machakos, Murang'a, Meru, Embu, Nakuru and Narok. More regions are under consideration for 2011. The current season products scope was also expanded to cover loss of income, the March season only covered the cost of production.

FSD appointments

Amrik Heyer has recently joined FSD Kenya as the Senior Research Specialist heading FSD's Knowledge theme. She has a background in anthropology and institutional analysis. Prior to joining FSD, Amrik worked extensively on innovations in financial markets targeting low income users. You can contact her on *amrik@fsdkenya.org.*

FSD Kenya
Financial Sector Deepening

ENHANCING CONSUMER PROTECTION AND FINANCIAL EDUCATION LEVELS IN KENYA

Nick Koome of the Retirements Benefits Authority (RBA) makes a presentation at a financial education strategy retreat organised by the Financial Education and Consumer Protection Partnership (FEPP) from the 21-23 October 2010 in Naivasha.

Financial education and consumer protection issues are drawing global attention as critical cogs in achieving financial inclusion. The G20 leaders, committed to improving access to financial services for the poor, have since September 2009 (Pittsburgh) to November 2010 (Seoul), been evaluating the nine principles for financial inclusion established by the Financial Inclusion Expert Group (FIEG). These principles were identified as the drivers for scaling up access to financial services for the poor Small and Medium Enterprises.

Key among the nine are: the principle on consumer protection that encourages a comprehensive approach to consumer protection and recognises the roles of government, providers and consumers; and the principle on consumer empowerment that recommends the development of financial literacy and capability programs.

In line with these global trends, the Financial Education and Consumer Protection Partnership (FEPP) has undertaken a comprehensive study to understand the consumer protection issues that face Kenyan consumers, particularly the poor. The diagnostic study commissioned by the Ministry of Finance and supported by FSD Kenya and Consultative Group to Assist the Poor (CGAP), recommends an incremental approach to the development of a consumer protection regime that leverages the existing capacity of established regulatory entities, and mitigates the high risk of regulatory dysfunction that can often occur when a new regulatory agency is mandated to enforce a new code of law. The report highlights that the financial regulators are already legally mandated to safeguard the interest of consumers in their respective sectors.

The regulators are positioned to cover 40% of the adult Kenyan population. According to the FinAccess 2009 study, this includes clients of banks, deposit-taking micro-finance institutions, mobile financial service providers, insurance companies, pension plans, investment brokers and advisors, SACCOs and foreign exchange bureaus. Significantly, some of the regulators have already established regulations that can be adapted by their counterparts to create a harmonised regime related to the following core areas:

- Minimum disclosure standards and requirements on pricing and plain language in contracts. The Central Bank of Kenya is well advanced in its review of interest rate disclosure guidelines, and the Insurance Regulatory Authority (IRA) is engaged with the insurance industry in the development of standardised, plain language policy wording for various insurance products.
- Minimum requirements for provider-level dispute resolution mechanisms. The Credit Reference Bureau regulations are a good example of clear guidelines.
- Independent recourse mechanisms. The IRA and Capital Markets Authority (CMA) are mandated to, and in practice do, provide recourse to consumers unable to resolve their grievances through the provider dispute channels. However, other regulators may choose to delegate this function to a future entity with a market-wide recourse mandate.
- Regulations that clarify provider liability and responsibility for oversight for third-party agents who play a role in the delivery of services. The recent Agent Banking Guidelines in this respect serve as a model for other sectors, such as the insurance sector and mobile financial service providers.
- Public reporting of provider performance in basic areas. The regulators can ensure public disclosure of a list of all providers that are subject to prudential and consumer protection regulations; a description of the regulations and specifically, the obligations of the providers; and a periodic report on the performance of individual providers against the transparency and internal dispute mechanism regulations.

The report notes that the mobile financial service sector deserves particular attention. Over ten million Kenyans, or 54% of the adult population, are using these services. While the CBK has guided the industry well in its early phase, formalisation of a sector regulation would be timely and a prudent strategy to control risks to consumers while ensuring a solid foundation for this rapidly expanding industry.

Financial education is an important component to support these incremental consumer protection strategies. For the 27% of the population that use the services of unregulated financial service providers, improved financial capability will be their most effective protection, even under the best of regulatory regimes. Effectiveness of collaboration across the public and private sectors is crucial to the successful implementation of these strategies.

The FEPP has already brought together the key sector players and provides a strong forum through which to develop and implement a comprehensive national strategy. Appreciating that building the nation's financial capabilities is a long-term process, the FEPP has established four core working groups charged with responsibilities for (i) consumer education; (ii)consumer protection, (iii)FEPP policy; and (iv) research, monitoring and evaluation.

EVENTS CALENDAR

30 Nov - 1 Dec	**Social transfer payments and financial inclusion: A two day training seminar for policy makers,** Mombasa - Kenya. To enrol: Visit - *http://www.epri.org.za/courseKenya2010.htm*
2 - 3 March 2011	**AITEC Banking & Mobile Money COMESA,** Nairobi - Kenya For information, email: *info@aitecafrica.com* Website: *www.aitecafrica.com*