



The Increasingly Crowded Savannah: Competition & consumer protection in Kenya's financial sector

The 2nd FSD Kenya Annual Lecture
on Financial Inclusion
Rafe Mazer (rmazer@worldbank.org)
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Where my journey begins



And where it has taken me



Test & Learn 2.0: Test

Test what works (and doesn't) in financial consumer protection



Test & Learn 2.0: Test with consumers

Antes de
abrir tu cuenta

Infórmate y compara



“Short & Simple” Format
5 products instead of 10,
3 key product terms

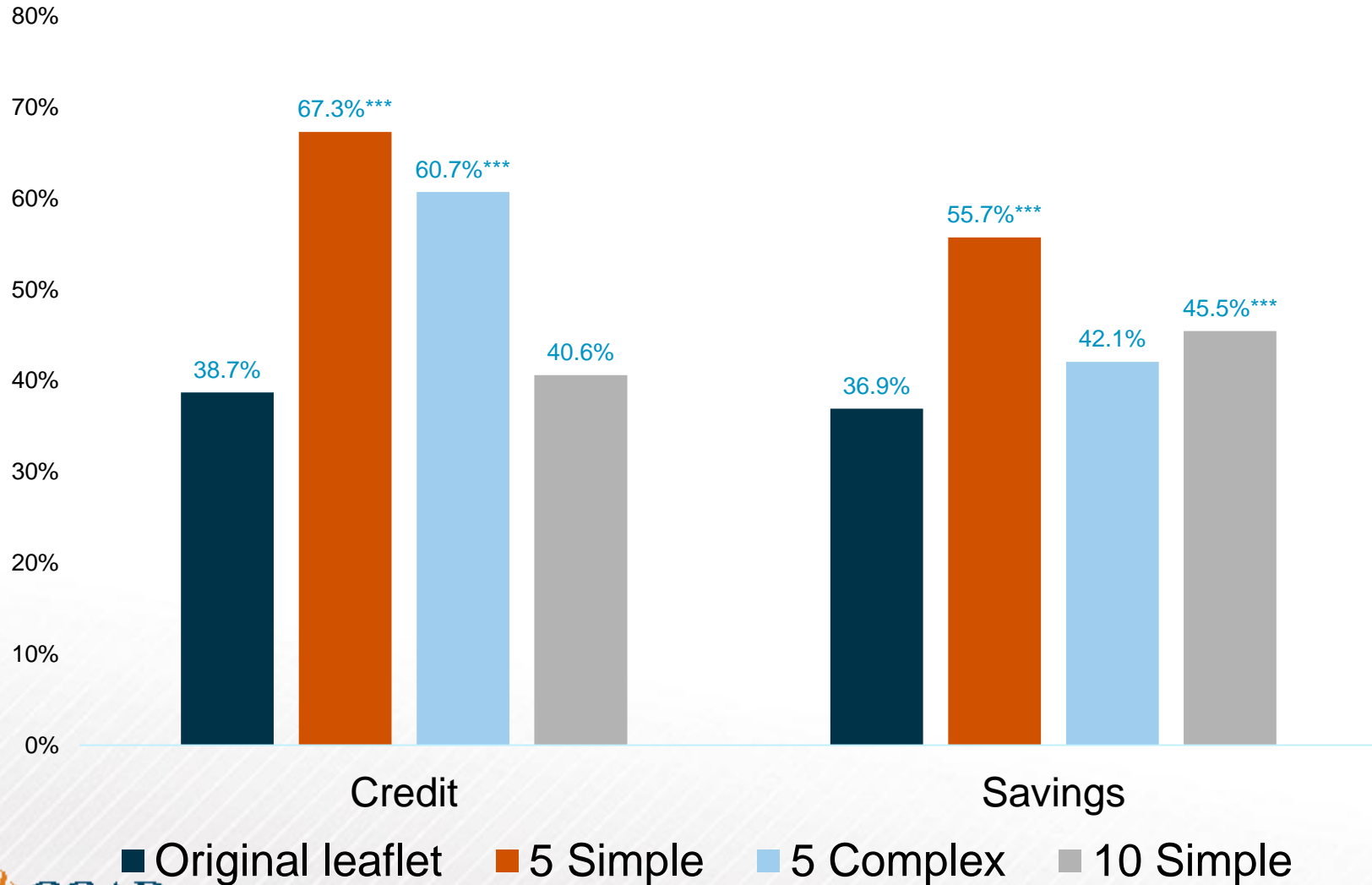
| Producto | Institución | GAT (Ganancia Anual Total)* | Ganancias en un mes sin ninguna actividad | Ganancias en un mes con actividad** |
|----------|---------------------|-----------------------------|---|-------------------------------------|
| A | Batoamigo | -0.02% | \$0.50 | -\$3.75 |
| B | Finamigo | 1.79% | \$7.92 | -\$4.88 |
| C | Santander | -0.68% | -\$1.00 | -\$1.00 |
| D | Banco Ahorro Famsa | -0.08% | -\$0.17 | -\$0.25 |
| E | Financiera FinComun | -0.63% | -\$0.42 | -\$12.88 |

* GAT (Ganancia Anual Total) es un porcentaje que representa el dinero obtenido de una inversión o ahorro durante un año, se obtiene de restarle al rendimiento generado las comisiones cobradas.

** Incluye dos consultas y dos retiros al mes de 250 pesos cada uno, sin ninguna penalidad por no mantener el saldo promedio mínimo mensual requerido.

Test & Learn 2.0: Test with consumers

Percentage of people that chose best product



Test & Learn 2.0: Test with consumers



Ideal complaints handling process

As conceived by Ghanaian Consumer

Test & Learn 2.0: Test with consumers

CUSTOMER COMPLAINT PROCEDURE



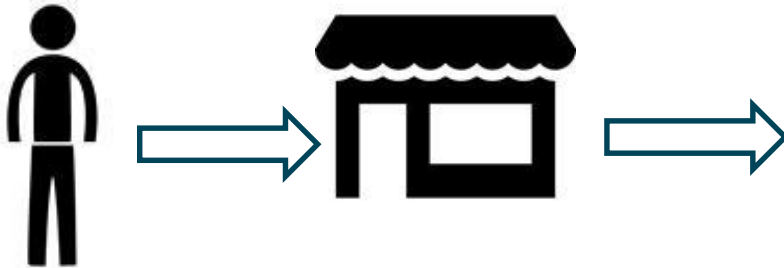
Mandatory poster describing complaints process for financial services in Ghana

Test & Learn 2.0: Test with consumers



Test & Learn 2.0: Learn from consumers' experiences

1. Enda dukani



Ambia mwenye duka...
“Nimejiunga na mradi wa Cash Lite na ningenpenda kununua na kwa kutumia kadi yangu.”

2. Chagua chakula, angalia...



- * Bei za bidhaa.
- * Duka linauza nini.
- * Kama kuna tangazo la wfp kwenye duka.

3. Nunua bidhaa na kadi ya Cash Lite



Uliza mwenye duka...

- * Angalia kama kuna pesa kwenye kadi.
- * Kama kuna shida na kadi ya Cash Lite, nifanyeje?
- * Uliza risiti na bei za kila bidhaa.

Test & Learn 2.0: Learn from consumers' experiences



I withdrew 2200 Ksh but the message on the phone indicates 2250 Ksh

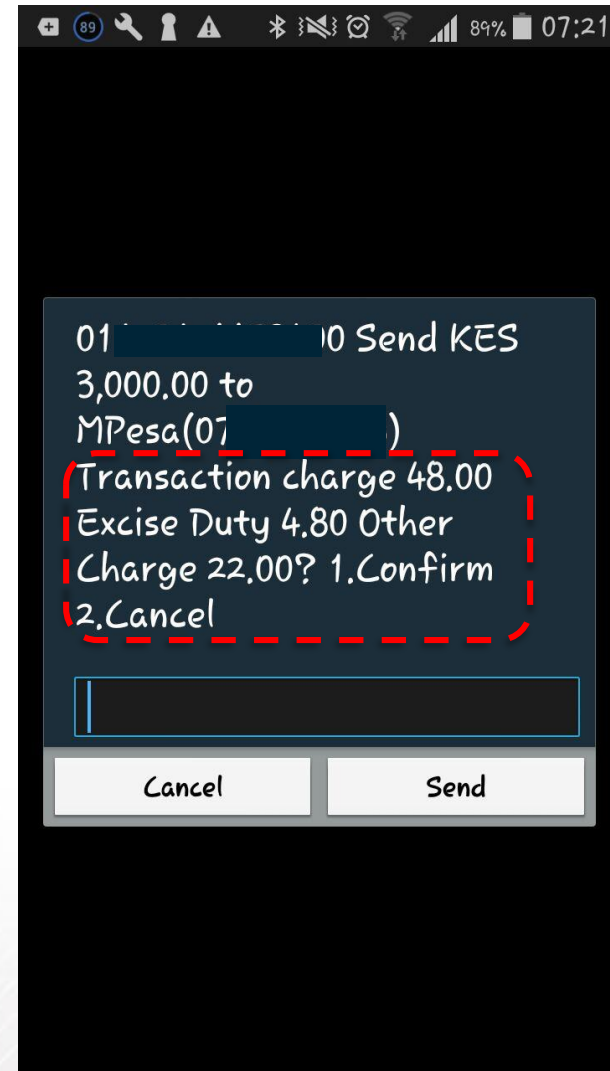
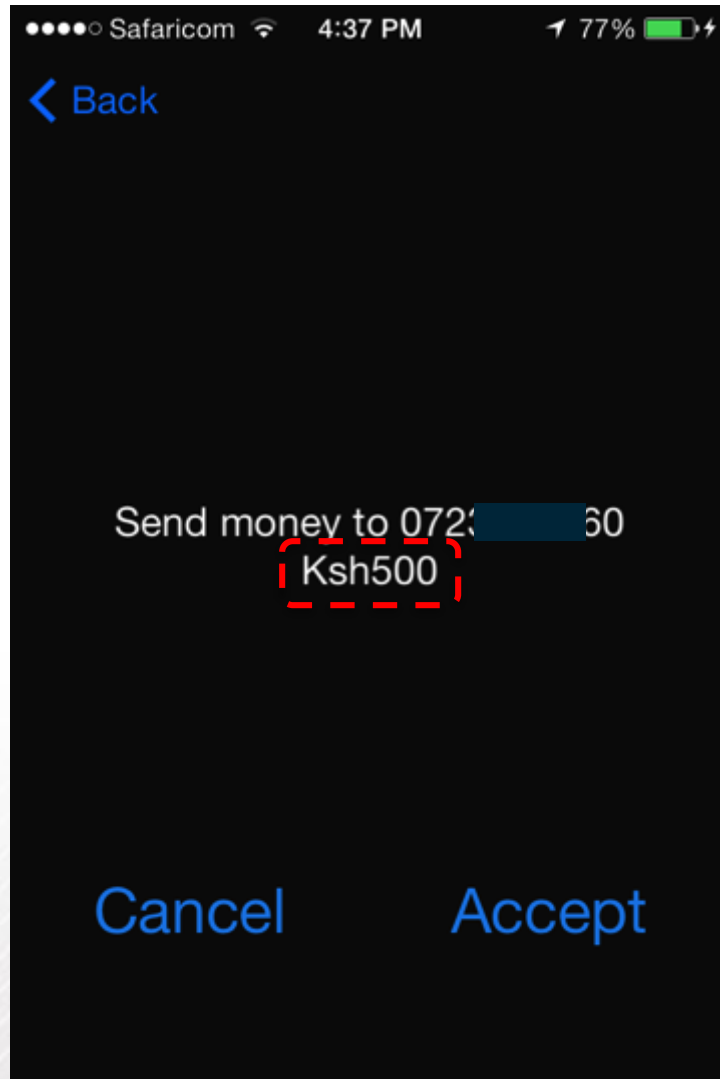
The agent asked me for the PIN and entered it without giving me the opportunity to put my PIN myself

- 62% of beneficiaries are not aware of transaction fees
- In only 10% of visits the agent communicated the fees before transacting
- **In 73% of the visits the agent entered the PIN—yet 72% of customers memorize their PIN**

Test & Learn 2.0: Learn from getting our hands dirty



Inconsistent disclosure practices by DFS providers



What do I pay for Paybill?

The screenshot shows an M-PESA message thread. The first message is a confirmation: "GB59MD022 confirmed. You bought Ksh500.00 of airtime on 2/12/14 at 2:57 PM. New M-PESA balance is Ksh21,471.00. Save & earn interest on MShwari". The second message is another confirmation: "GB59UH631 Confirmed. Ksh7,644.00 sent to KPLC for account [redacted] on 2/12/14 at 3:32 PM. New M-PESA balance is Ksh13,810.00". A summary box on the right contains the following data:

| | |
|----------------------------|--------|
| Start Balance: | 21,471 |
| Bill Pay Amt.: | 7,644 |
| Expected New Balance: | 13,827 |
| Actual New Balance: | 13,810 |
| Implicit Transaction Cost: | 17 |

What do consumers know about bill pay fees? (n=500)

- 40% used paybill on e-money before
- 35% thought fee of last transaction was zero
- Ksh860 a year in fees per user for this sample

Natural Experiment: Change in M-Pesa Tariffs, August 2014

| P2P Transaction Value | Old P2P Fee | New P2P Fee | % Change in Fee |
|-----------------------|-------------|-------------|-----------------|
| 10-49 | 3 | 1 | -67% |
| 50-100 | 5 | 3 | -40% |
| 101-500 | 27 | 11 | -59% |
| 501-1,000 | 33 | 15 | -55% |
| 1,001-1,500 | 33 | 25 | -24% |
| 1,501-2,500 | 33 | 40 | 21% |
| 2,501-3,500 | 33 | 55 | 67% |
| 40K-45K | 82 | 110 | 34% |
| 45,001-50K | 110 | 110 | 0% |
| 50,001-70K | 110 | 110 | 0% |

Natural Experiment: Change in M-Pesa Tariffs, August 2014

Low-Income M-Pesa Users, Nairobi, December 2014
(n=500)

- 46% recalled tariff change
 - Only 3% and 2% knew P2P tariff for Ksh500 and Ksh1,000
 - 38% anchored to old Ksh500 tariff, 17% to old Ksh1,000 tariff
- Higher frequency users changed transaction sizes to “optimize” 33% more than lower frequency users. Price optimization learned through frequent usage.

Would better price disclosure make more users of mobile money price optimizers?

Competition watchdog orders mobile cash firms to reveal fees

SHARE BOOKMARK PRINT RATING ★★★★★



Competition Authority of Kenya director-general Wang'ombe Kariuki. PHOTO/FILE

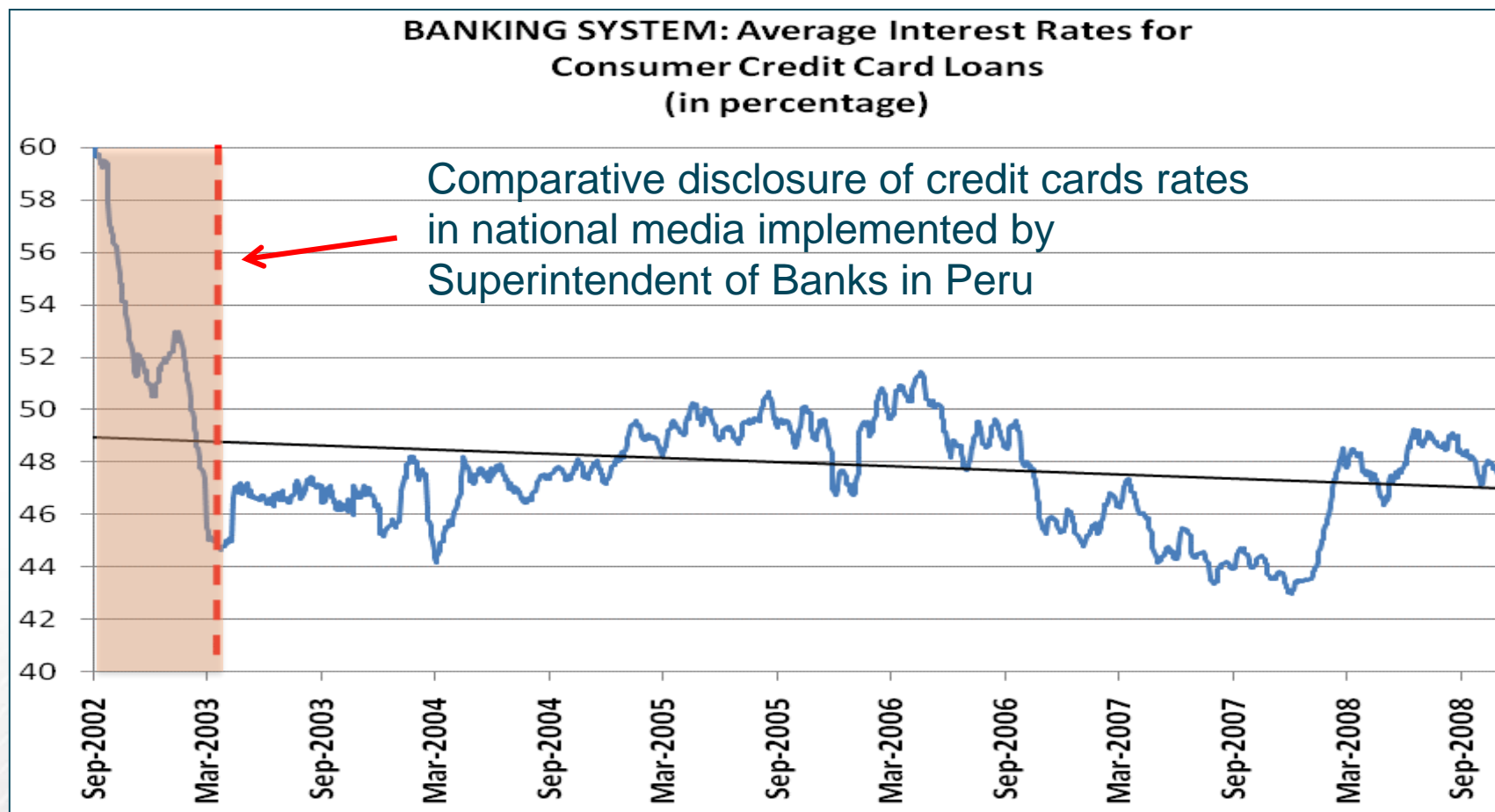
By MUGAMBI MUTEGI

Posted Saturday, October 29 2016 at 15:46

IN SUMMARY

- Mobile telecoms operators like Safaricom will be required to disclose all transaction charges to customers just before they effect the payment and issue a receipt.
- Commercial banks will also have to highlight just how much they bill for mobile loans, mobile-to-bank transfers, account balance enquiries, airtime top-up, utility payments among many other mobile-based services.

Disclosure Can Impact Pricing



Graphic and information courtesy of World Bank Global Program on Consumer Protection and Financial Literacy

Digital Credit: No cost or high cost?



1. This loan is not free (it's 6% per month for this consumer)
2. You need a smartphone to review product terms
3. The link does not contain summary of key costs and terms

Responsible Delivery: Disclosure

Jumo: Digital lender active in Kenya and Tanzania

Challenge: How can CGAP use behavioral design to improve disclosure and consumer borrowing behaviors?

1. Lab Experiment

What? Decision-making games testing financial product valuation and borrowing behavior

Why? Understand deep behaviors of consumers such as trust, time preference, risk appetite

2. Field Experiment

What? Airtel Money Transfer to large sample of respondents in Busia region

Why? Test various reminder messages to identify shifts in valuation and understanding of repayment protocol

Separating finance fees leads to better borrowing decisions

Choose your repayment plan:

- 1.Repay 228 in 45 sec
- 2.Repay 236 in 1min and 30sec
- 3.Repay 244 in 2min and 25sec

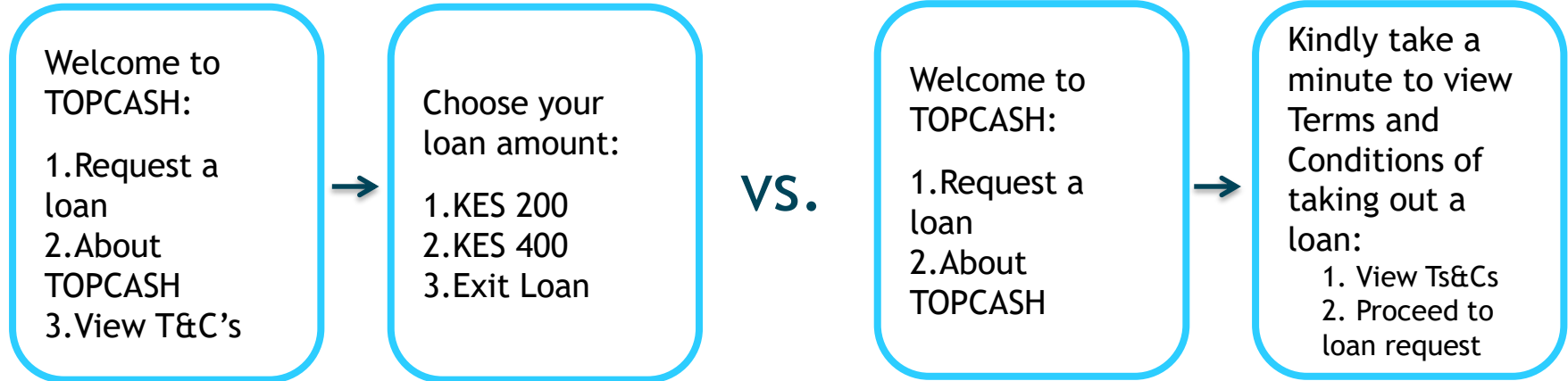
vs.

Choose your repayment plan:

- 1.Repay 200 + 28 in 45 sec
- 2.Repay 200 + 36 in 1min and 30sec
- 3.Repay 200 + 44 in 2min and 25sec

Clarifying interest rates led to a **reduction in default rates** on first loan cycles from **29.1% to 20%**

Active choice approach increases viewing of T&Cs and reduces delinquency rates



Terms and Conditions viewing increased from **9.5% to 23.8%** by making it an active choice

Reading the Terms and Conditions led to a **7% absolute drop in delinquency rates**

1. Separation of finance charges & principal

Choose your repayment plan:

1. Repay 1000 + 35 in 7 days
2. Repay 1000 + 170 in 14 days
3. Repay 1000 + 205 in 21 days

* Back

3. New screen with late payment penalty

Failure to repay your loan by the due date will result in a late payment fee of <percentage> being added. You may also lose access to KopaCash

1. Next

* Back

2. Separate line of loan fees with %; Loan term detail

Loan: 1000

Loan Fees: 135 (13.5%)

Loan term: 7 days

Repayment: 1135 to be deducted from Airtel Money Wallet on <date>

1. Confirm

* Back

4. Active choice to view T&Cs, old version had only web link

Agree to the T&Cs below in order to proceed with your loan application. tc.jumo.world/akec

1. Agree

2. View T&Cs

* Back

“Just in time” financial education for digital credit

M-Pawa (Tanzania) Connected Farmer Alliance interactive SMS project objectives

1. Enhance in-person financial education
2. Learn when and how you want
3. Interactive messaging that is informative and action-oriented
4. Interactive simulations for responsible usage
 - Loan cost estimator
 - Savings goal setting



Customers that opted-in to the learning accessed a menu that allowed them to personalize their learning experience

Main menu

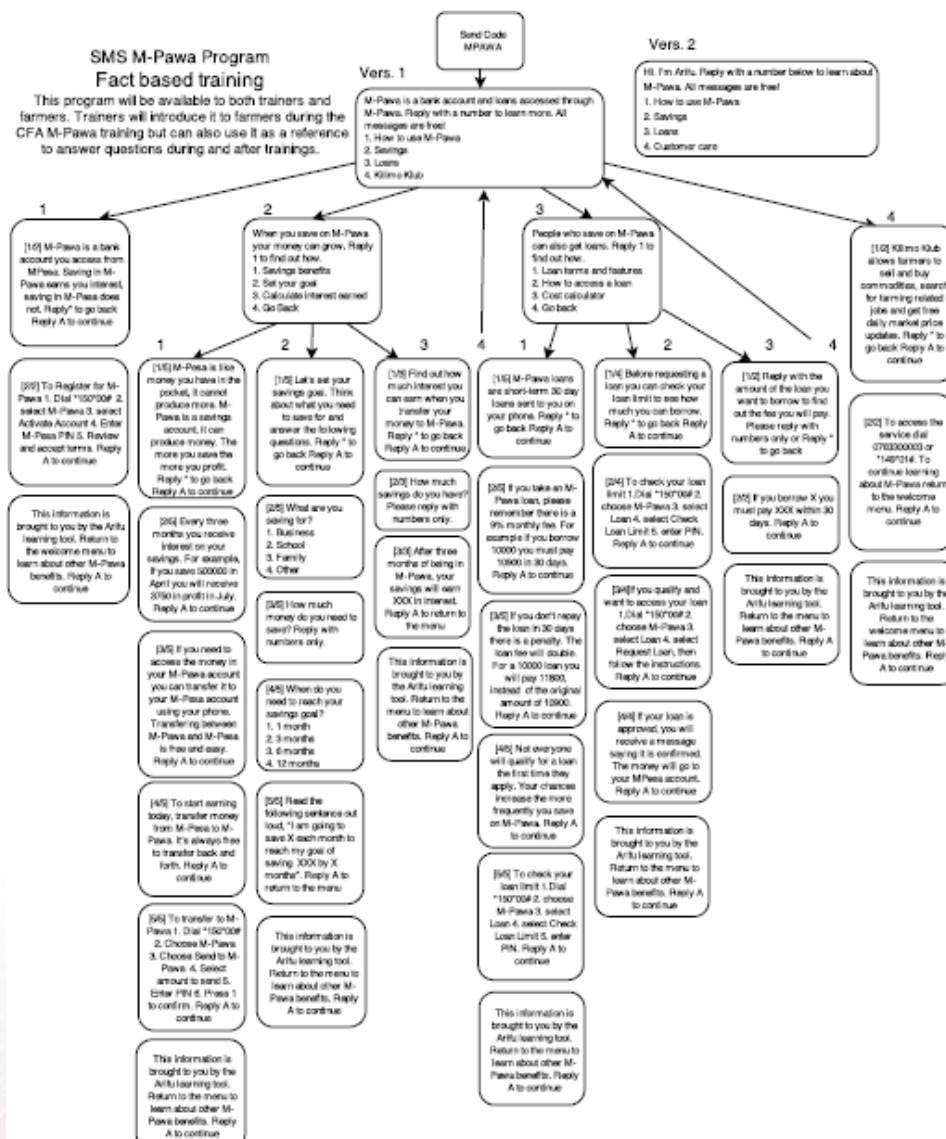
1. How to use M-Pawa
2. Savings
3. Loans

Savings Menu

1. Saving benefits
2. Set your goal
3. Calculate interest earned
4. Go Back

Loans Menu

1. Loan terms and features
2. How to access a loan
3. Cost calculator
4. Go Back



Content within the platform was varied along four types of educational approaches

Fact-Based Training



This was the standard fact based training that acted as the control group

Narrative Training



Part of the content converted to stories. Example: “Ann is a rice farmer that is saving to start a chicken business. She has saved 1M towards her goal of 2M”

Social Norms Training



Part of the content included reference to social groups. Example: “By setting a goal savers like you saved 16% more”

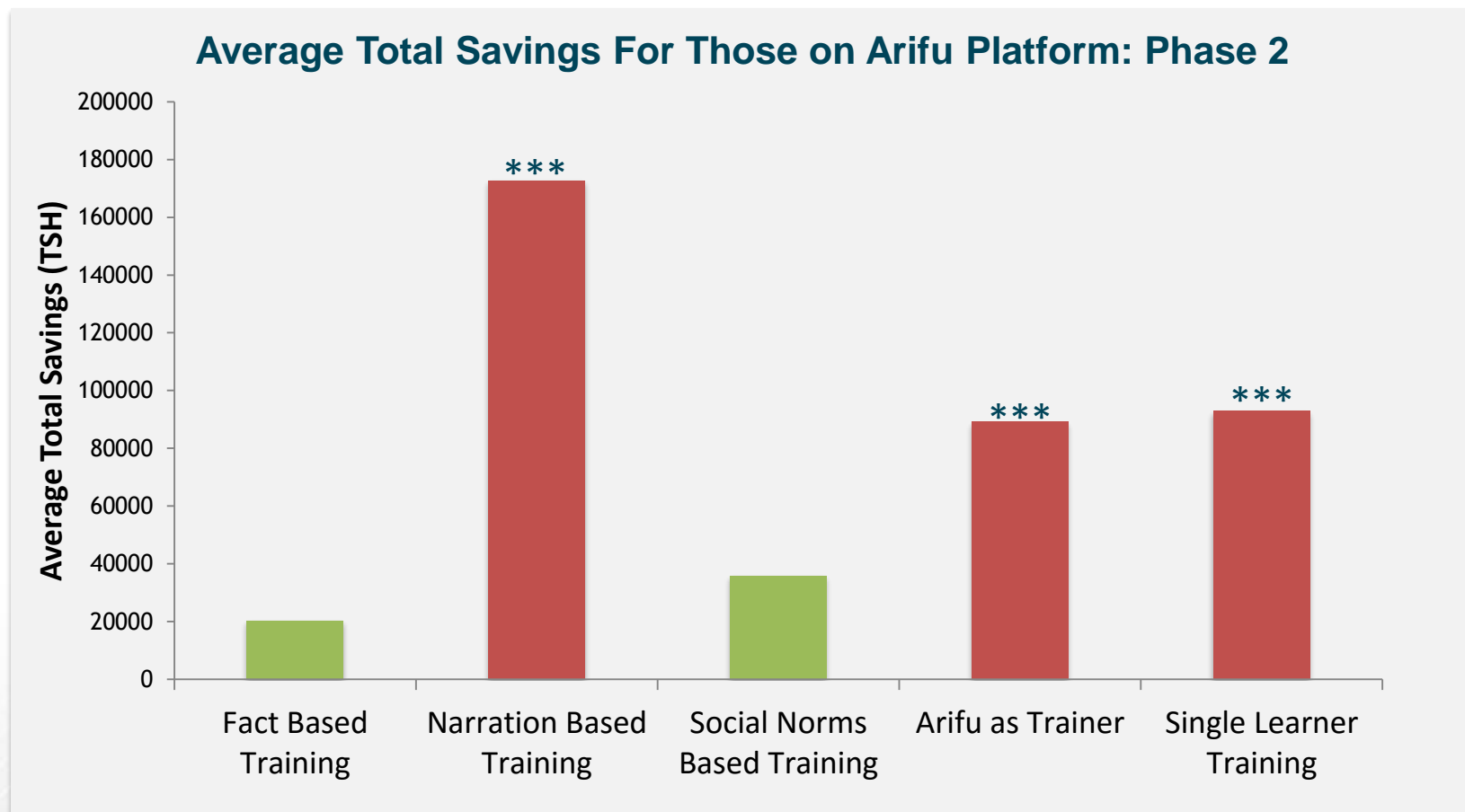
Single learner training



Interactive menus removed, learner when though a predefined list of messages

Each type of content was also tested as coming from a trainer called Arifu vs impersonal

Narration based training proved to be the most effective at driving savings behavior



Across program content types, we find that Narration Based Training, Arifu as Trainer and Single Learner Training are all significantly better than Fact Based Training at increasing savings amounts

Digital Credit an Example of Cross-Jurisdictional Challenges

My 5 digital credit policy “must-haves”:

- Remove regulatory arbitrage issues in market conduct
- Monitor market growth via e-money channel
- On-channel pre-purchase disclosure
- Consumer-led consent and limited usage rules on data
- Rules on push marketing and sales

Competition policy matters for financial inclusion and consumer welfare

- Price: Drives competitors to compete on price and operate more efficiently.
- Quality: Ensure quality to retain customers.
- Variety and diversity: Introduce new innovations to stay ahead of rivals.

Competition and Digital Financial Services: Priority issues

| Topic | Key Competition Considerations |
|---|--|
| 1. Channel Access | Restrictions of access; price/quality variance |
| 2. Transparency | Ability to compare and exert competitive pressures on market |
| 3. Network Effects and Switching Barriers | Agent exclusivity; account portability |
| 4. Data Ownership and Usage | Restricted usage of consumers' own financial history; unauthorized selling of data |
| 5. Interoperability | Bilateral or centralized?; role of regulator? |
| 6. Account Issuance | Preferential licensing of EMI by industry |
| 7. Partnerships in MFS products | Equal terms for rivals; market dominance |

Data Usage and Consumer Protection

Key Consumer Protection Concerns:

- Unauthorized sharing of customer transactional information
- Sweeping of customer personal information e.g., when download apps or visit websites
- Unsolicited marketing
- Lack of adequate standards & legal protections

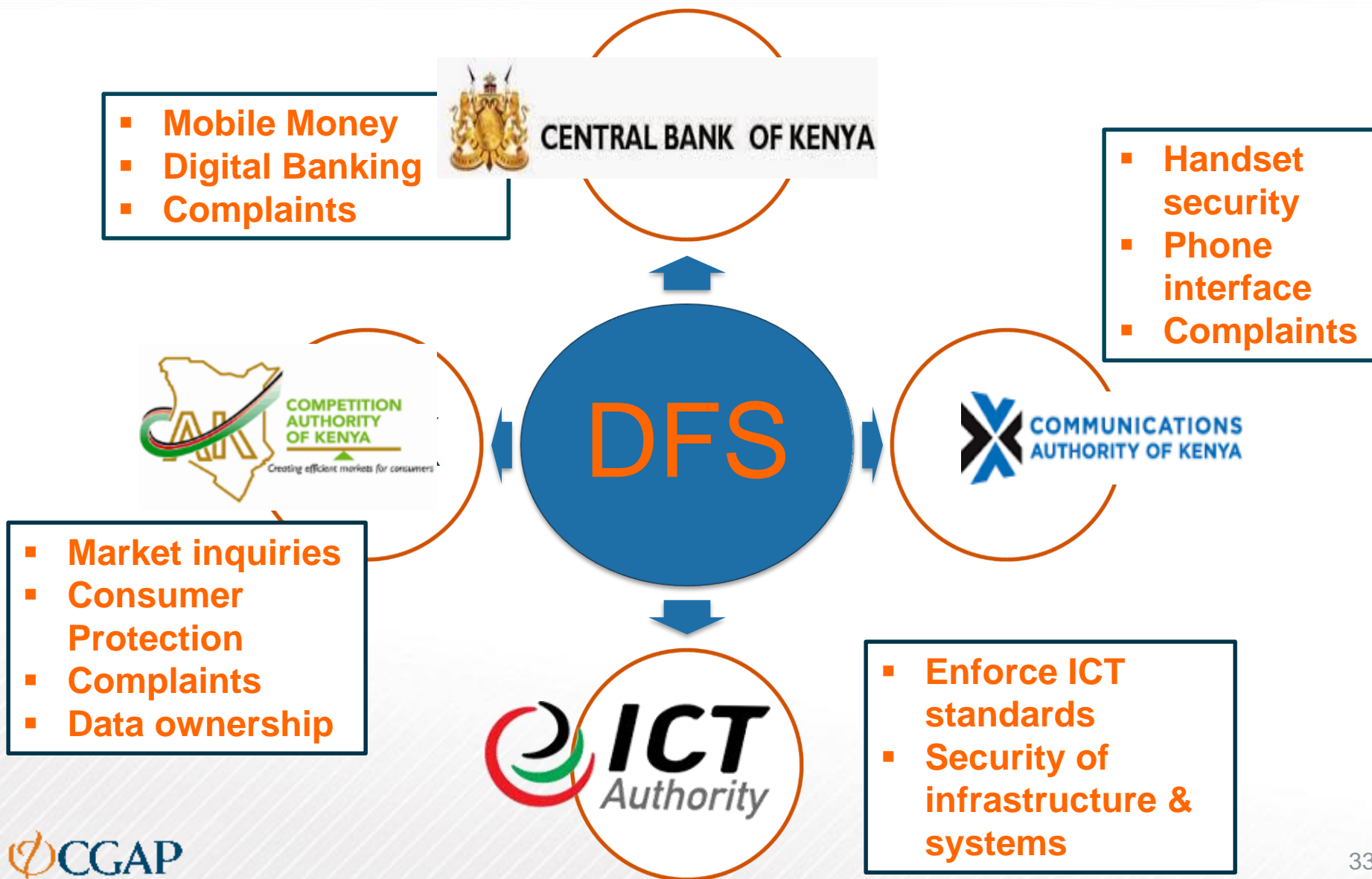
Data Usage and Competition

Key competition concerns for data usage and ownership:

- Information asymmetries for lenders
- Adverse selection and increased borrowing costs
- Network effects and switching barriers for consumers
- Barriers to entry and innovations in DFS products and services—in credit and beyond

Regulatory Arrangements for Data Usage

There are often overlaps in supervision and Enforcement...



Regulatory Arrangements-Kenya

Kenya: The Data Protection Bill: Clause 7(1)

Duty to notify – prior to agency collecting personal information directly from a **Person collecting personal data must ensure that the data subject is aware of the following:**

- That the info is being collected
- the purpose for collecting
- name and addresses of the collector, the custodian and any other agency that will receive the info
- the intended recipients of the info
- any law under which the info is collected (and whether it is mandatory)
- consequences of not providing the info fully or partly
- the right to access and correct the info

Regulatory Arrangements-Kenya

The Data Protection Bill:

Clause 7(3)

Exceptions to the duty to notify-

it is not practicable for an agency to comply with sub section (1) (on duty to notify) before collecting the information; or

the whereabouts of the data subjects are not known

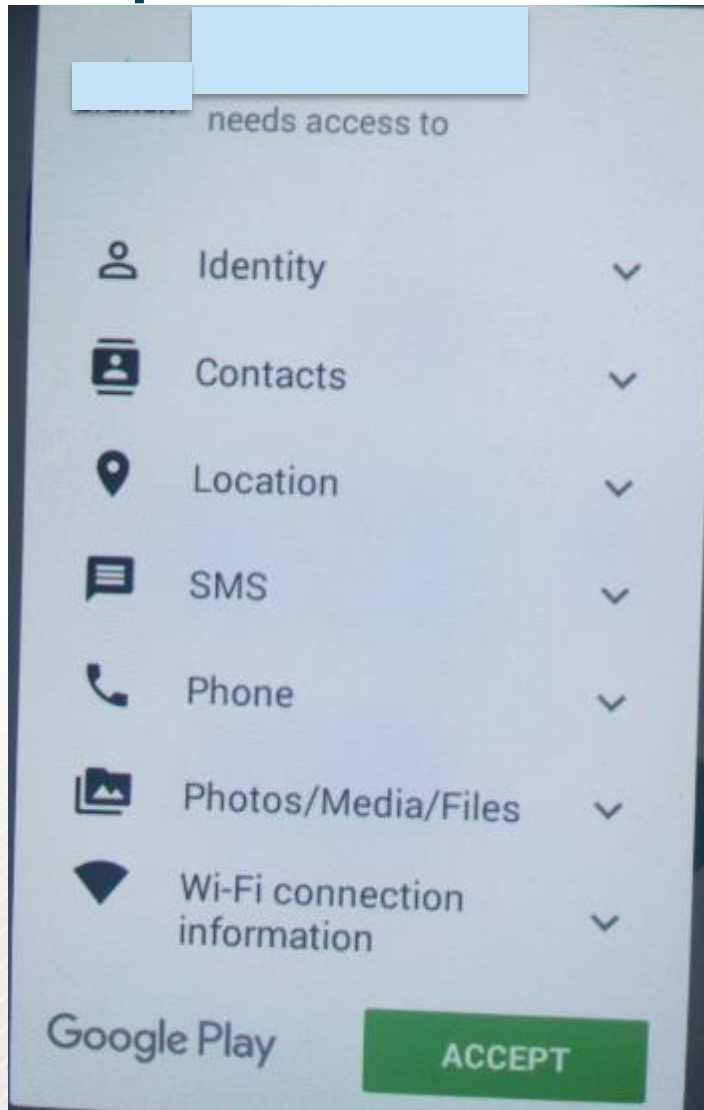
the agency shall, as soon as practicable after the information is collected, comply with the provisions of subsection (1).

Seven Key Elements of Data Privacy Policy

1. Transparency and disclosure (of data collection, usage, storage and risks)
2. Informed consent (simplification, standardization, over life cycle vs. one-off)
3. Consumer choice (default settings)
4. Limitations on data purpose, usage and storage
5. Data control (right to access, correct and delete data)
6. Data ownership, including sharing arrangements (data portability and open API)
7. Data security

Data Usage & Ownership in Digital Credit

Accept Terms & Conditions



Standard Form Contract:

“Each time you visit one of our sites or use one of our Apps we may collect the following information:

technical information, including the types of mobile device you use, unique device identifiers (for example, your Device’s IMEI or serial number), information about the SIM card used by the Device...

information stored on your device, including contact lists, call logs, SMS logs, contact lists from other social media accounts, photos, videos or other digital content...”

“Big Data, Small Credit” – Findings from Omidyar Network Consumer Survey in Kenya & Colombia

Data Consumers Consider Private

| | | | |
|-------------------|-----|---------------|-----|
| Email Content | 82% | National ID | 55% |
| Calls or Texts | 82% | Websites | 53% |
| Income | 81% | Email Address | 48% |
| Financial | 78% | Phone Number | 39% |
| Medical | 70% | Age | 36% |
| Social Networking | 57% | Education | 24% |

First Access Tanzania: A little informed consent could go a long way

SMS Disclosure Approved by Regulators:



"This is a message from First Access: If you just applied for a loan at Microfinance Bank and authorize your mobile phone records to be included in your loan application, Reply 1 for Yes. Reply 2 to Deny."

Responsible Data Usage Features

- **Consumers opt-in to allow mobile and other records to be used to credit score**
- **Third-party: Lender never sees customer data**
- **One-off: Consumer only opts in for single usage of their data**

First Access Tanzania:

A little informed consent could go a long way

Supplemental SMS Developed by CGAP/FirstAccess:

“This is a message from First Access: Mobile phone records are information captured when you use your phone, including phone calls, SMS, airtime top-ups, or a mobile money account. Questions? Call First Access 12345678”

“This is a message from First Access: First Access ONLY uses your mobile phone records to make a loan recommendation to lenders. We NEVER share your personal information with anyone. Questions? Call First Access 12345678”

What will consumer-led data sharing look like in the mobile money age?



Text Your Name To **21272** To Check Your Credit Status

Possible Policy Responses to Data Usage and Ownership Issues

- Require porting of account info across financial sector
- Ensure full coverage of all lenders
- Data privacy and marketing rules
- Opt-in rules on data sharing and restrictions on recurring use of data
- Make DFS providers responsible for all third parties' usage of data

Five wishes for consumer protection and competition in Kenya in 2017

1. FSA advances towards implementation
2. Data privacy bill with DFS aspects
3. Move towards more consumer-control of financial data to remove barriers to entry
4. Open *and secure* channels
5. CP in DFS working group of regulators to identify emerging risks

CGAP

Advancing financial inclusion to improve the lives of the poor



Foreign Affairs, Trade and
Development Canada
Affaires étrangères, Commerce
et Développement Canada



BILL & MELINDA
GATES foundation



MetLife Foundation
Ensuring Access. Empowering Communities.

