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Sample Size
: Survey: 793 digital financial services users; Administrative data: 5 million individual borrower records, and an aggregated set of 297 million loans and overdrafts

Data Repository
Kenya Consumer Survey Report

Research Implemented by IPA
Yes

Report on the Competition Authority of Kenya Digital Credit Market Inquiry

Competition Authority of Kenya and Innovations for Poverty Action

Daniel Putman, Rafe Mazer, and William Blackmon

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This report was prepared as part of the Competition Authority of Kenya's Digital Credit Market Inquiry. The authors of this report wish to acknowledge the leadership and contributions of the following colleagues on all phases of the Market Inquiry, and who were essential to the successful completion of the Market Inquiry.
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Innovations for Poverty Action: Frank Odhiambo, James Opot

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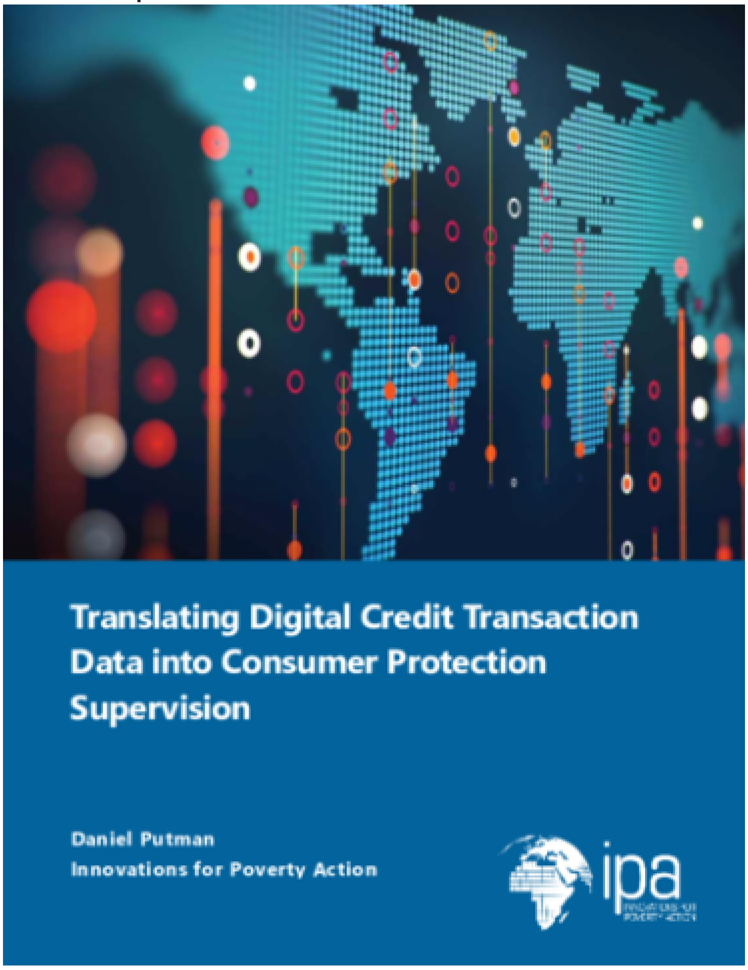

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Understanding Consumer Protection Risks Faced by Kenyan Digital Finance Users

Abstract

Use of digital finance products including mobile money, mobile banking, and digital credit has expanded in Kenya in recent years, but poor user experience with these products can reduce consumer welfare and impact use of these services. Kenya is a global leader in digital financial services usage with 79 percent of adults using mobile money, predominantly on the M-Pesa platform. Eight percent of mobile money users in Kenya have lost funds—primarily due to third-party fraud. This study, conducted in collaboration with the Competition Authority of Kenya, aims to answer key questions on consumer protection in digital finance. Several lessons emerge from the findings to inform policies that could help consumers avoid scams and over-indebtedness and increase consumer choice for the tens of millions of

Kenyans who use digital credit products.

Policy Issue

Poor user experience in digital finance can reduce consumer welfare and impact the use of these services. Which consumers are most likely to experience fraud and why are only known anecdotally. Similarly, consumers' understanding of product terms as well as awareness and perceptions of formal complaint channels are not well known. Insights into both issues are necessary to formulate policies on fraud reduction, complaints handling standards, and product transparency. Additionally, the expansion of digital credit in recent years creates an urgent need to monitor the digital credit market to develop policies to improve product suitability and responsible lending. Digital credit's use of mobile money transaction channels creates the potential for new market monitoring tools. These tools can provide insights into how digital credit is used and which consumer segments may be at risk of negative outcomes from these high-cost, short-term loans.

Context of the Evaluation

Kenya is a global leader in digital financial services usage with 79 percent of adults using mobile money in 2019 and a sharp increase in digital credit usage in recent years. This usage is predominantly on the M-Pesa platform with loans concentrated among a small set of lenders. Eight percent of mobile money users in Kenya have lost funds—primarily due to third-party fraud. Consumers have raised concerns about hidden fees and high costs. Yet, when consumers suffer, they often do not use formal complaints channels. When they do use these channels, consumers are unlikely to receive a prompt and effective resolution.

Digital credit is the most significant consumer protection concern in Kenya currently, with President Uhuru Kenyatta calling for action to protect digital borrowers in his remarks of January 13, 2020. The rapid expansion of Kenya's digital credit market has increased access to credit but also led to new consumer risks: the portion of financially healthy Kenyans in the 2019 FinAccess Survey was 22 percent, compared to 39 percent in 2016.

The National Treasury and others have designated the Competition Authority of Kenya (CAK) to conduct relevant policy development activities. The CAK, in collaboration with IPA, launched a Digital Credit Market Inquiry "to identify and address potential consumer protection concerns in the regulated and unregulated digital credit markets." This research forms part of a multifaceted collaboration between IPA and CAK intended to inform the development of consumer protection policy strategies directly impacting consumer protection for the tens of millions of Kenyans who use digital credit products.

Details of the Intervention

This is not a randomized evaluation

This study includes two main components: a phone survey and analysis of transaction-level administrative data provided by digital credit providers.

Survey

This survey aimed to answer key questions on consumer protection in digital finance:

- Which consumers suffer from fraud, and what traits or actions expose them to these risks?
- Which consumers utilize formal complaints channels when they suffer an issue, and what keeps them from obtaining an effective resolution?
- What do consumers understand about the terms of the digital financial services they use?

To answer these questions, researchers conducted a phone survey in September and October 2020 of approximately 793 digital finance consumers, selected using a random digit dial method. Researchers filtered respondents based on their recent use of digital finance products. The survey covered a range of consumer protection topics including pricing and transparency, competition and choice, fraud, and agent misconduct. Researchers disaggregated data by demographic characteristics such as gender and age.

Administrative data analysis

CAK and IPA audited 15 months of loan data from Kenya's leading digital credit providers, analyzing issues related to the cost of credit, early and late repayment, and multiple borrowing. The project targeted customers of digital credit providers who have taken at least one loan from a regulated or unregulated lender between January 2019 and March 2020.

Specifically, researchers assessed:

- Key performance statistics on digital credit in Kenya: volume of loans; rates of early, on-time and late repayment; true cost of digital credit.
- Demographics such as age, gender, location for digital credit users, and variation in usage and outcomes.

Researchers sought to understand the implications of this data for responsible digital lending as well as how this supply-side data could complement demand-side data. Working with the CAK, the researchers built a transaction-level data analysis tool to monitor digital credit expansion and inform policymaking.

Results and Policy Lessons

Survey results

Over 95 percent of mobile money consumers had used M-Pesa in the past 90 days, less than 5 percent had ever used any other provider. Forty percent of respondents reported correct mobile loan fees, with greater knowledge of fees found among younger and more educated respondents.

The top three uses for mobile loans were for household or personal expenses (57 percent), business or agriculture expenses (23 percent), or for emergencies (17 percent). Most borrowers reported reducing consumption to service debt, and 77 percent did not pay a loan back on time.

Fifty-seven percent of respondents experienced attempted scams or fraud since COVID-19 began, but most consumers did not report having fallen victim to them. Thirty-eight percent of respondents lost money on a digital financial service. Financial losses were more than a typical daily wage, though 64 percent of consumers who lost money reached a resolution.

Administrative data results

The administrative data allowed researchers to estimate the size and growth of the digital credit market. This revealed a large increase in the number and total value of disbursements of digital credit products between January 2019 and March 2020. Both administrative and survey data together revealed high rates of late or non-repayment as well as multiple borrowing. Men were slightly more likely than women to have multiple accounts.

Analysis of the administrative data indicated that many loans are repaid after very short periods of time: 37.5 percent of borrows pay in less than four weeks, and 5 percent within one week or less. This indicates that borrowers may be paying more in interest than they should for loans they only need for a week. This may call for requiring providers to give discounts on interest fees for early repayment.

Several policy lessons emerge from these findings:

- The strategies consumers use for avoiding scams could form the basis of consumer education campaigns for less vigilant consumers.
- Pre-transaction disclosures could be made more salient.
- Interventions could improve consumer awareness and encourage comparison shopping.
- New tools could monitor the market for warning signs of over-indebtedness.

Greater information sharing across digital credit providers could improve consumer switching and reduce multiple borrowing and related non-payment of debts.

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