



## **Beyond financial inclusion**

Redefining financial services for financial health in Kenya

April 2022

## Structure of the report



This two-part report is about financial inclusion and financial health in Kenya. The first part elaborates on why financial inclusion matters and zooms in on the positive changes that formal financial inclusion has brought to Kenyans. The second part elaborates on why financial health matters, the key challenges Kenyans face in using the available financial services, and recommendations for financial services industry players to boost financial health.

## Why the report matters



For **incumbent financial institutions (incumbents)**, "doing good" and "doing well" no longer need to be separate goals. Instead, organizations can align purpose and profit to help meet the needs of the underserved markets.



**Fintechs** have changed how financial services are structured, delivered, and consumed. They continually play a pivotal role in digitizing financial services with the potential to further lower costs, address information asymmetries, and increase speed and accessibility.



**Regulators and policymakers** are integral in promoting financial inclusion in Kenya. They must deliberately put reasonable effort to help key players with a fair operating environment while protecting consumers from exploitation.



# Part 1

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Financial inclusion ▶

Formal financial inclusion in Kenya doubled over the last decade, primarily driven by mobile phone proliferation and the increased popularity of mobile money services

### Why financial inclusion matters

Incorporating the financially excluded and underserved into the formal economy unlocks opportunities for individuals and businesses to reduce poverty and boost shared prosperity. Moreover, to build a more stable, sustainable, and inclusive future, more people need access to formal financial services – and need to use them.

#### So, what's financial inclusion?

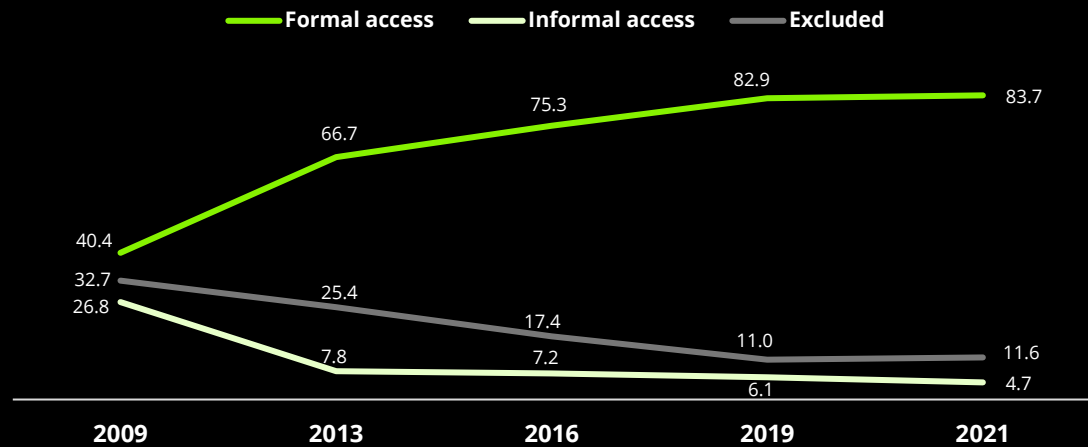
Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs delivered in a responsible and sustainable way.<sup>1</sup>

It is measured in the following three dimensions:<sup>2</sup>

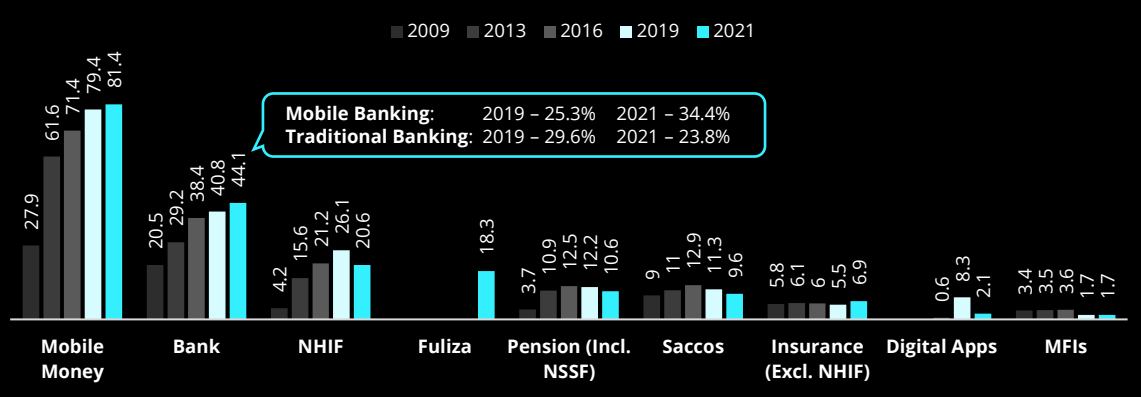
1. Access to financial services
2. Usage of financial services
3. The quality of the products and the service delivery

Access	Usage	Quality
Access reflects the depth of outreach of financial services, i.e., the availability of affordable and appropriate financial solutions to a given person.	Usage is the act of employing or utilizing a financial service. It is important because clients may have access but decide not to use a service.	Quality refers to product design and delivery attributes that enhance the value of services to clients, e.g., affordability, convenience, client protection, the dignity of treatment, and product fit. <sup>3</sup>

### Financial inclusion trends in Kenya<sup>4</sup>



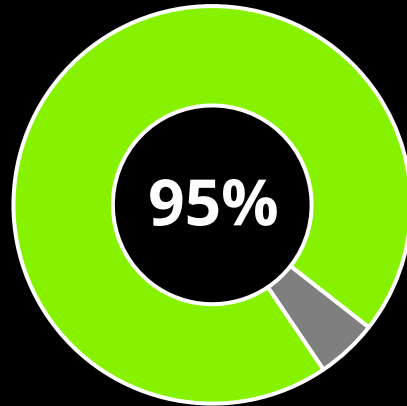
### Usage of formal financial services and products by providers



## FINANCIAL INCLUSION

Today, millions of previously excluded and underserved Kenyans use formal financial services daily through their mobile phones

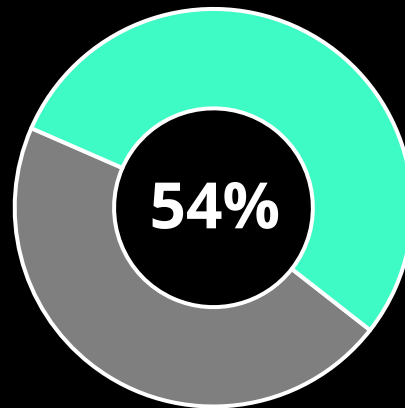
### Mobile payments



of total national payments system volume

...equivalent to **KES 6.9 trillion** annually (2021)<sup>5</sup>

### Mobile loans

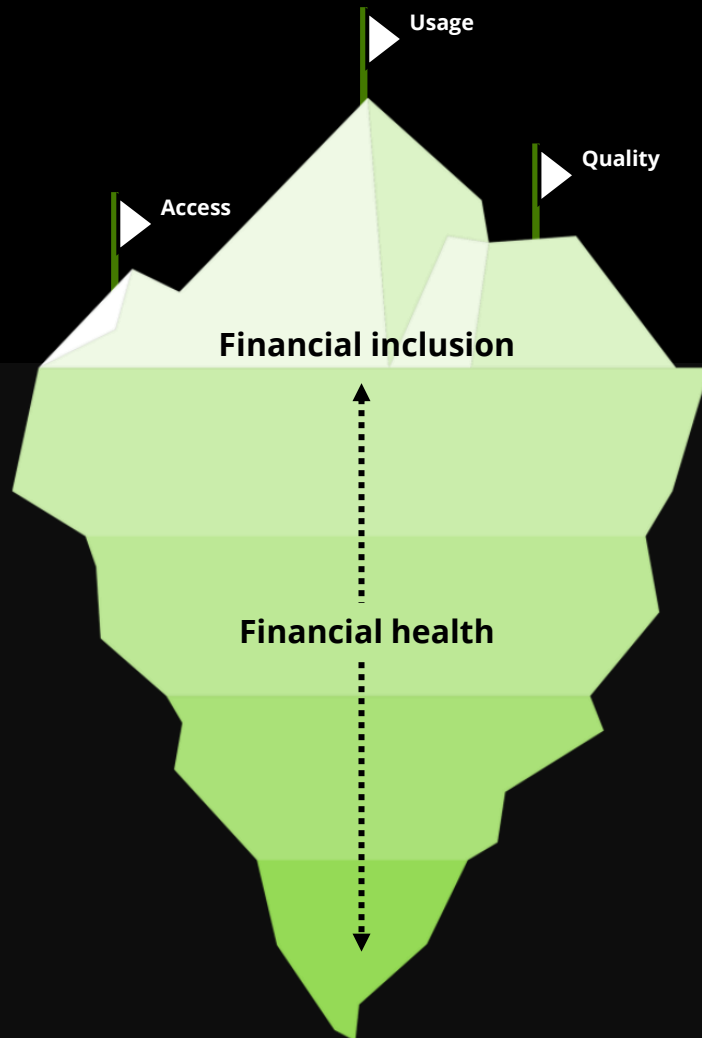


of total loans volume

...equivalent to **KES 116.8 billion** annually (2019)<sup>6</sup>

## FINANCIAL INCLUSION

Interventions are, however, necessary to ensure Kenyans use formal financial services more efficiently to lead a better quality of life

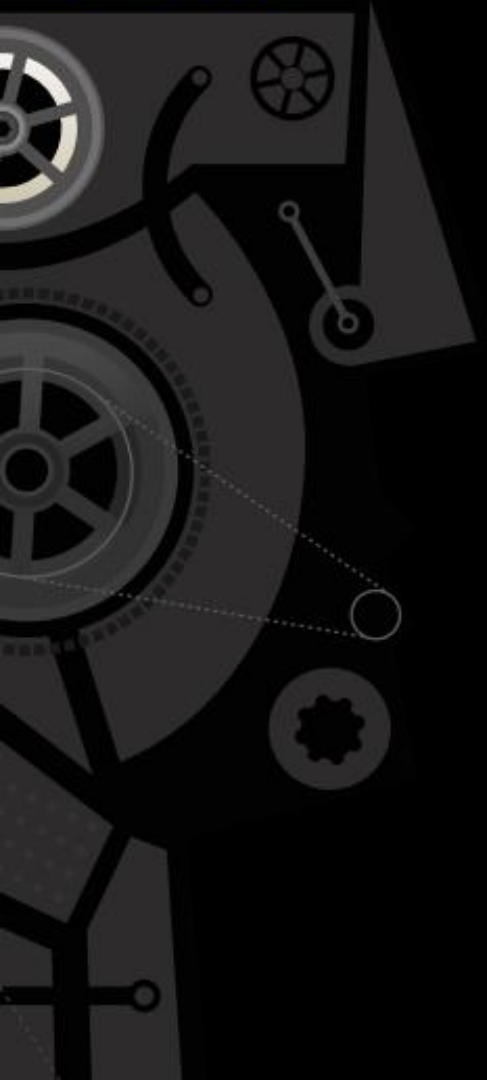


**The surface**

**Financial inclusion is just the tip of the iceberg.** Though a powerful force, it only focuses on access, usage, and quality of financial products and services.

**The core**

**There is a need to expand the focus beyond financial inclusion to financial health** to ensure that more contact with formal financial services has positive outcomes for the lives of all those included.



## Part 2

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Financial health ▶

Over the last five years, financial health in Kenya deteriorated, even as access to and usage of formal financial services increased

### Why financial health matters

The global financial inclusion field has long focused on access to and usage of financial products. A financial health orientation adds the dimension of consumer outcomes. It helps fill the gap that has existed between the proximate indicators of access and usage and the ultimate goals of improved quality of life.<sup>7</sup>

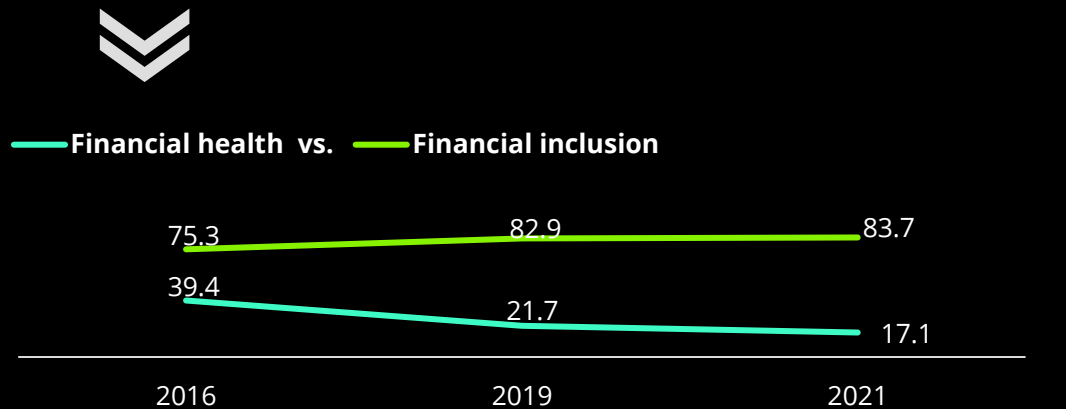
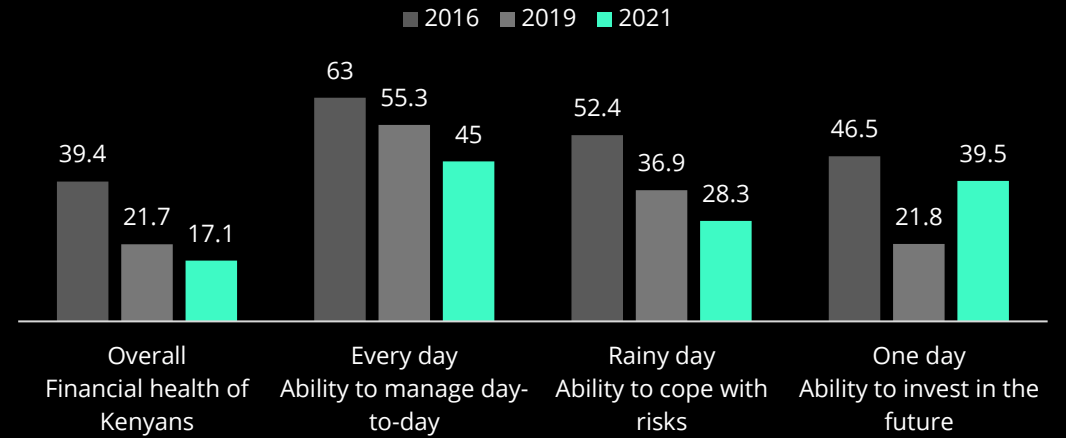
#### So, what's financial health?

Financial health is the extent to which someone is able to meet all their current commitments and needs comfortably and has the financial resilience to maintain this in the future.<sup>8</sup>

It is measured in the following three dimensions:<sup>9</sup>

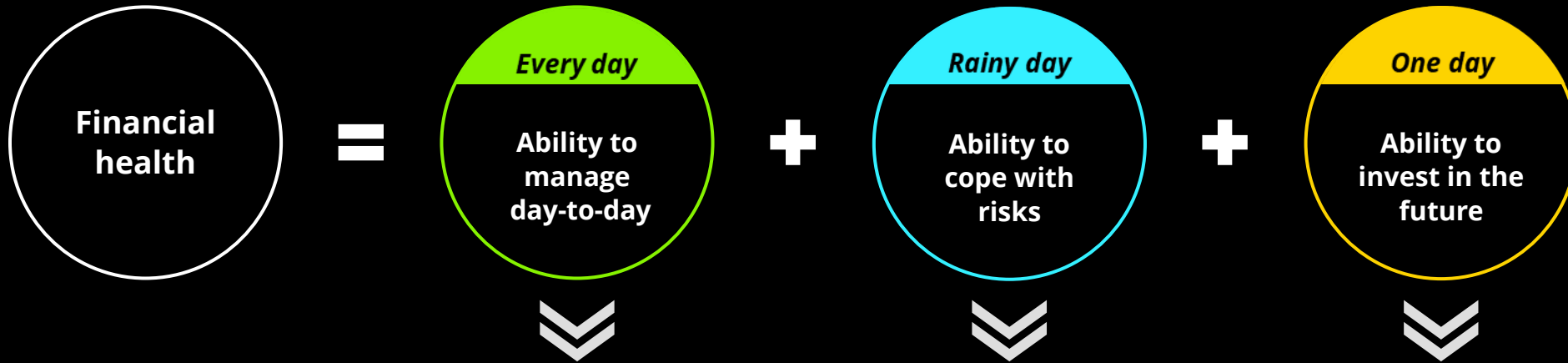


### Financial health trends in Kenya<sup>11</sup>





Most Kenyan adults still face challenges that limit their ability to manage present and future needs

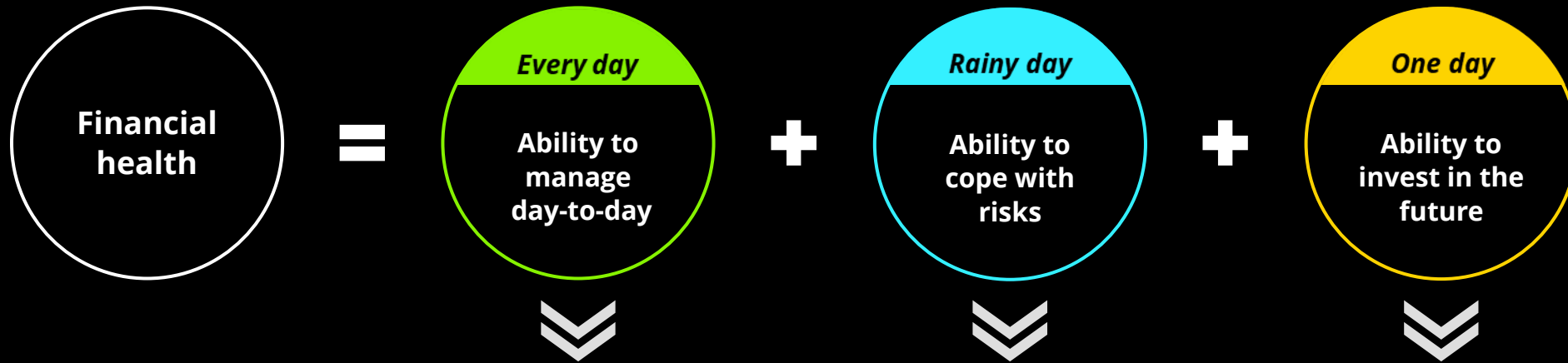


**Main challenges**

- Banking and payments:** Most mobile money transactions incur a fee that many poor find difficult to pay, even if they are willing to do so because of the convenience and speed.<sup>12</sup> According to KNBS, only 13.1% of Kenyans use mobile money for day-to-day expenses, compared to 78.9% who use cash.
- Financial management:** Most Kenyans do not have comprehensive knowledge to manage their money and finances effectively. According to KNBS, only 2.9% of Kenyans rely on formal financial institutions for advice, compared to 88.3% who rely on themselves and their friends/family.
- Credit and debt:** According to FSD Kenya, digital loans in Kenya are the most recurrently used loan<sup>13</sup>, behind social network and moneylender loans. Moreover, those with existing loans are overindebted or struggling to pay. According to KNBS, 45.8% missed a payment or paid late, 12.4% paid less, and 10.7% did not pay at all.
- Insurance:** Most Kenyans perceive insurance products as beneficial but costly and out of reach. According to KNBS, 65.4% of Kenyans wish to have insurance but can't afford it, 14.3% don't know about insurance, 9.8% don't know where to get it, and only a paltry 3% don't see the benefits.
- Savings and investments:** Most Kenyans are not financially resilient and lack suitable products for those willing to save and invest small sums. According to KNBS, 54.6% of Kenyans lack enough money to save, and 18.4% lack regular income. Moreover, 34.9% of Kenyans state they don't have the kind of money to invest, 29.2% have never heard of securities markets, and 14.8% don't understand how to invest in securities.<sup>14</sup>

## FINANCIAL HEALTH

Incumbents, fintechs, regulators, and policymakers need to take comprehensive action to shift the dials on personal finance



- **Banking and payments:** Incumbents and fintechs need to accelerate the interoperability of payments systems to decrease transaction costs and improve the overall experience for consumers.

➤ **Example:** [WhatsApp Payments](#) users do not pay transaction fees

- **Credit and debt:** Regulators and policymakers need to establish consumer financial laws and regulations to prevent and address Kenyans' over-indebtedness and debt stress.

➤ **Example:** [The U.S. Consumer Financial Protection Bureau](#)

- **Savings and investments:** Incumbents and fintechs need to utilize deep tech to provide Kenyans with affordable, easy-to-use savings and investment solutions.

➤ **Example:** [Acorns](#) automated savings and investments

### Recommendations

- **Financial management:** Regulators and policymakers need to develop and implement a national financial wellbeing strategy to drive industry-wide change.

➤ **Example:** [The UK Strategy for Financial Wellbeing](#)

- **Insurance:** Incumbents and fintechs need to utilize deep tech to provide Kenyans with affordable insurance tailored to their risk profile.

➤ **Example:** [Wingsure](#) provides instant personalized insurance

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## FINANCIAL HEALTH

Mobilizing ecosystems, designing solutions, and measuring financial health are crucial in driving the desired change at scale



### Mobilizing ecosystems

**Policymakers, research bodies, and governance initiatives can support educating people on financial health** and increasing their knowledge and capabilities **by activating renowned partners in the financial health ecosystem.** However, executing this shift in focus among stakeholders is just the beginning. A long and challenging journey awaits, ultimately stimulating people to enact the proper financial behavior.



### Designing solutions

**Incumbents and fintechs need to focus on solutions that help people create the proper financial habits** in their daily lives. **Regulators need to focus on preventative measures to ensure people are not making the wrong financial decisions.** There is a need for intuitive product designs and personalization, improved customer communication, added financial health benefits to the employee value proposition, and new financial services ecosystem partnerships.



### Measuring financial health

**Stakeholders need to broaden their measurement of impact,** moving away from binary results based only on account access **to embrace the larger goals of financial security, resilience, and quality of life.**

A deeper factual insight into the financial behavior of Kenyans is needed to understand the root causes and be able to bring stakeholders onto the same page in adopting a more robust framework of financial health.

## Endnotes

1. World Bank, [Financial Inclusion Overview](#), n.d., accessed April 12, 2022
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9. KNBS (n 4)
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11. Kenya National Bureau of Statistics (KNBS), [2021 FinAccess Household Survey: Key Findings](#), January 2022
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