

Digital Pathways to Financial Inclusion
Findings from the First FII Tracker Survey in Kenya

July 2014



About the Financial Inclusion Insights Program

Putting the User Front and Center

Since 2007, when Kenya's Safaricom launched the popular M-PESA mobile money service, global interest in advancing financial inclusion through digital channels has grown markedly. Mobile money services in various forms are now available in more than 80 countries, according to GSMA, primarily in the developing world, while card-based and other digital cash products also have proliferated. It is now plausible to assume that in the not-too-distant future, many millions, if not billions, more people will be able to access a range of convenient, affordable and reliable financial tools for the first time, regardless of their proximity to brick-and-mortar financial institutions.

Even so, stakeholders of financial inclusion identify a lack of critical information about trends and dynamics in these relatively new markets for digital financial services. Knowledge gaps that need to be addressed include how to foster scale and sustainability, and how best to ensure these markets reach financially underserved and excluded individuals – particularly the poor, rural residents and women. There is a clear need for rigorous benchmarks for measuring progress in these areas.

The **Financial Inclusion Insights** (FII) research program responds to these needs by supplying in-depth data and analysis on the demand side of the digital financial services equation, to inform technology development, product development, commercial deployment and regulatory policy. The mission is to put the users and the potential users of these services front and center when key decisions are made in all of these areas.

The FII program's core focus is on eight countries – Bangladesh, India, Indonesia, Kenya, Nigeria, Pakistan, Tanzania and Uganda – which together have a combined population of more than 2 billion and are currently at various stages of digital financial services development. FII country research comprises two principal elements: nationally representative **FII Tracker Surveys** and a range of **Consumer Experience Monitoring** projects that use qualitative methods to dive more deeply into specific aspects of access and use of mobile money, other digital platforms and financial services, generally. In particular, FII research and analysis focuses on monitoring developments in digital financial services, and identifying triggers and barriers to use, and user market segments.

This report summarizes key findings and insights from the nationally representative FII Tracker Survey of 3,000 adults, aged 15 and older, conducted in Kenya during fall 2013.

The FII team and in-country partners broadly disseminate all the data and analytical materials produced under the program, notably through the FII Resource Center (www.finclusion.org) and through stakeholder-focused events in the study countries and at key conferences. We also value ongoing dialogue with financial inclusion stakeholders to ensure that the research program remains relevant and useful to them. For more information, contact the FII team at finclusion@intermedia.org.

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Summary of Findings & Insights

Based on the nationally representative Financial Inclusion Insights (FII) survey in Kenya, the following findings and insights emerged as key factors for financial inclusion stakeholders. They are intended to help inform stakeholders' decision making as they develop operational strategies to advance digital financial services.

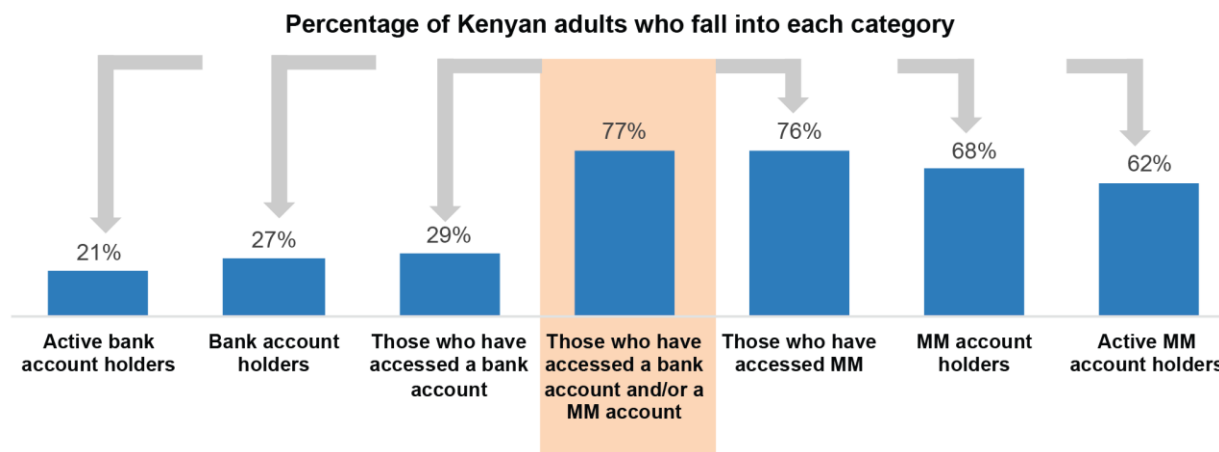
Access: How do Kenyan adults access mobile communications and digital financial services?

Mobile technology reaches the majority of the population through various means and devices:

- Ninety-three percent of users have access to a mobile phone, either through ownership (73 percent) or borrowing (20 percent).
- Fifty-one percent of Kenyan adults still use basic phones, while 36 percent use feature phones; only 6 percent have smartphones.

Formal bank accounts reach only a minority of Kenyan adults:

- Twenty-nine percent have access to a bank account, either by using their own account or accessing a bank through someone else's account.
- Only 21 percent have their own bank account.



Source: InterMedia FII Tracker Survey, Wave 1, September-October 2013; N=3,000.

Mobile phone ownership is key to increased mobile money use:

- Mobile phone and SIM ownership are fundamental to enabling mobile money use: almost all active mobile money account holders (95 percent) have their own phones and their own SIMs. (Most of the remaining 5 percent own only a SIM and borrow a phone.)
- Although 75 percent of non-mobile money users have access to a mobile phone, only 27 percent own their phone. Analysis shows that mobile phone ownership is the most important factor in mobile money use, meaning physical access to a phone is not enough.

- Dominating the mobile money market, Safaricom’s M-PESA mobile money offering claims 99 percent of users, while Airtel Money is a distant second with 4 percent of users; 3 percent use both.

Usage: What key patterns & behaviors do mobile money users display?

The main uses for mobile money in Kenya remain basic P2P services, though other value-added services (VAS) are emerging:

- Sixty-two percent of Kenyan adults are active mobile money account holders.
- Almost all active bank account holders are also active mobile money account holders – 21 percent of Kenyan adults actively use their own bank account, and 90 percent of these also actively use their own mobile money account.
- Airtime top-ups (70 percent) and domestic remittances (64 percent receiving and 60 percent sending) represent the overwhelming majority of uses among active mobile money account holders. Bill payments (10 percent, with school fees and utility bills being the most common types), saving for a future purchase or payment (10 percent) and receiving wages (6 percent) are the next most common uses. Only 9 percent of those who have saved with their mobile money account reported saving money with M-Shwari, however, implying most savers simply use their mobile money wallet to save money.
- Even among urban residents above the poverty line, the group most likely to have paid a bill through mobile money, only 18 percent of active mobile money account holders have done so, presenting a potential opportunity for further targeted growth.
- The top five value-added mobile money offerings in Kenya are: M-Shwari (15 percent reported using this savings and loan product), Lipa na M-PESA (4 percent reported using this merchant payments tool), Lipa Karo na M-PESA (2 percent, used for school fees), M-Kesho (2 percent, used as a bank account) and M-Kopa (1 percent, used for purchasing solar power).

Several user engagement profiles are emerging:

- The most common pathway to using mobile money is a need to receive money, with 70 percent of active account holders introduced to mobile money in this way, while 56 percent started using because they needed to send money. Another 26 percent started using mobile money because they wanted a safe place to store their money, though a smaller proportion actually ended up doing so.
- “Super-users” are a segment of adults who use mobile money weekly and have used at least one value-added service (VAS). Their behavior is important to observe because it provides a window into demand patterns. For instance, 27 percent of super-users use mobile money to conduct business transactions versus 8 percent of other users.
- Nearly a fifth of super-users are farmers, nearly a third of whom receive payments from customers through their mobile money accounts, while 26 percent receive wages through mobile money, and 41 percent save with mobile money.

- **Passive users:** This group of users (11 percent) only withdraws money they receive from others. Since these users are already familiar with mobile money, they are worth looking at more closely to see what other ways they could potentially use the service.
- Ten percent of all mobile money users are lapsed users (i.e., have not used mobile money in the past 90 days). A compelling use for the service may draw them to more active use.
- Two-thirds of lapsed users (with registered accounts) consider mobile money as being either “very important” or “important” to their finances. Understanding more about why it is important, and other financial needs these users have, could identify opportunities for more active use of mobile money.

Transaction sizes vary to some degree between customer segments:

- The largest differentiating factor in transaction size (value) is gender. Among active mobile money account holders, men transfer a median value of \$18 (KSh1,500) while women transfer a median value of \$13 (KSh1,100). Poverty has a similar effect on transaction size, with those above the poverty line transferring \$18 (KSh1,500) on average, and those below the poverty line transferring \$14 (KSh1,167).
- Little variation in transaction sizes exists between urban (\$16/KSh1,333) and rural (\$15/KSh1,250) active account holders.

Understanding usage patterns provides the tools and context to assess and quantify both the commercial market opportunity and the scale of impact that can be enabled through the use of mobile money.

Reaching excluded groups: How do demographic factors influence demand & uptake of mobile money?

Certain factors indicate the likelihood of using mobile money:

- **Education:** Higher levels of education directly influence usage, with the most educated showing a considerably higher rate of active mobile money use.
- **Income:** The poor are nearly 20 percentage points less likely to have used mobile money. Thirty-four percent of the poor have never tried mobile money versus 15 of those above the poverty line.
- **Age:** The 25-44 age bracket has the highest percentage of active account holders, at 73 percent.
- **Gender:** In urban areas, there is a 15-percentage point gender gap -- 83 percent of men are active mobile money account holders versus 68 percent of women. No gender gap exists in rural areas with 56 percent of men and 55 percent of women actively using an account.
- **Rural:** A 20-percentage point gap was observed between rural (55 percent) and urban (75 percent) active mobile money account use.

Key challenges: What is holding back new user adoption & expansion of current usage?

Current users cite key challenges that likely limit their expanded use of and satisfaction with mobile money:

- Infrastructure challenges are a commonly reported problem with 50 percent of users saying they were unable to complete a mobile money transaction within the past six months because the mobile network was down.
- Insufficient e-float and cash were the second and third most common challenges, with 42 percent reporting the agent did not have enough e-float and 40 percent reporting the agent did not have enough cash.
- Interaction with the agent is a key challenge, with 31 percent saying the agent was absent, 20 percent saying the process was time consuming, and 12 percent were unhappy because the agent was rude. As trust is a necessity in handling users' financial transactions, interaction with the agent is a key indicator of mobile money success.

Country Context: State of the Financial Services Market in Kenya

Kenya's experience with the M-PESA mobile money service, launched in 2007 by mobile operator Safaricom, positioned the country as a trailblazer in the use of digital technologies to broaden access to financial services. Safaricom remains the dominant player in the Kenyan mobile money market, but recent regulatory and commercial developments may usher in a more competitive environment.

Policy and Regulatory Environment

The Central Bank of Kenya (CBK), the body responsible for digital financial services regulation, issued a number of draft regulations and guidelines in 2013 that would address what the CBK has identified as key market priorities: increase consumer access to services, minimize the risk of fraud, increase competition, and foster interoperability. As of this writing, the draft regulations had not yet been enacted, but they indicate the direction the CBK intends to follow.

To expand access to mobile money services, the draft CBK guidelines, "Anti-Money Laundering Guidelines for the Provision of Mobile Payment Services," would allow mobile payments providers more flexibility with Know Your Customer (KYC) requirements, potentially lowering barriers to mobile money registration. This would allow access for segments of the population that lack particular forms of identification. Mobile money providers would have discretion on which forms of identification they accept from their customers at registration. However, providers would still be responsible for verifying customers' identities when their agents register new customers.¹

To minimize the risk of fraud, proposed anti-money laundering guidelines would instruct mobile money providers to investigate accounts exceeding a daily turnover of KShs 100,000 (\$1,150), and accounts exceeding weekly transactions of KShs 300,000.² Separate proposed regulations would set an individual transaction limit of KShs 75,000.³ The regulatory guidelines are intended to make it more difficult for money launderers to use mobile money to move large sums of cash out of sight of regulators and law enforcement agencies.

Draft legislation would address Safaricom's market dominance by requiring all electronic-money issuers in the country to have open backend systems capable of becoming interoperable both domestically and internationally. The draft legislation also "encourages" providers to enter into interoperable arrangements with each other.⁴ System interoperability and the sharing of infrastructure across providers have the potential to increase competition, lower costs for consumers and encourage the entry of new players and services.

In a bid to increase competition, the Kenyan government approved mobile virtual network operator (MVNO) licenses in April 2014 under existing legislation to companies without their own telecommunications infrastructure, allowing them to supply their own SIM cards and mobile money services over existing mobile networks. Equity Bank's Finserve subsidiary received one of the first such licenses, and it plans to offer services on the Airtel network.⁵ MVNO licenses were also

granted to Equity Bank's Finserve subsidiary, Mobile Pay Ltd., which is backed by third-party mobile payments group Tangaza Pesa; Zioncell Kenya, a subsidiary of Mobile Decisioning, a provider of mobile payments technology; and Nakumatt Holdings.⁶ In May 2014, Equity Bank announced that it will provide 8.7 million of its customers with free SIM cards by July 2014, which will enable those customers to use its MVNO telecommunications and mobile money services.⁷ Equity Bank has reported that Airtel will open 60 percent of its excess bandwidth to the new telecom venture.

The government is also actively directing digitization of transactions by moving to digital payments in the public sector (e.g., passport and driver's license fees, etc.). It has also banned cash for public transport payments (bus and matatu fares), which was initially scheduled for enforcement beginning in July, 2014. The deadline has been extended to allow operators more time to become compliant, but many systems have already been implemented. Equity Bank/Google BebePay and Safaricom's Lipa na M-Pesa have started to provide cashless transport fares ahead of the deadline, and Visa and MasterCard are also working to launch similar products.

While the Central Bank has been focusing on increasing access to mobile money services, regulatory authorities including the National Treasury and the Communications Authority of Kenya (CAK), previously known as the Communications Commission of Kenya (CCK), have also passed regulations that have an impact on the mobile money market through taxation and oversight of network quality.

In early 2013, the National Treasury introduced a 10-percent tax on transaction fees for money transfer services as part of the government's efforts to increase budget revenues. To try and recoup some of the cost, Safaricom began charging an additional 10 percent on M-PESA transfers of more than 101 Shillings (\$1.20).⁸

As they work to expand their mobile money services, mobile network operators (MNOs) have faced criticism from the CAK for the quality of their basic services. In a report released in January 2014, the CAK found that none of the four MNOs are meeting minimum service quality standards, which include indicators such as call drop rate, speech quality and signal strength.⁹ Safaricom protested the findings, however, and the CAK admitted to having insufficient capacity to conduct thorough assessments. The CAK said external consultants will conduct the assessments in the future.¹⁰ Mobile providers have considerable interest in the findings, as failure to meet the standards results in hefty fines.

The Mobile Financial Services Market

As of the second quarter of 2014, there were five mobile money deployments in Kenya – Airtel Money (Bharti Airtel), M-PESA (Safaricom), Orange Money (Orange), Tangaza Pesa (Mobile Pay) and yuCash (YuMobile/Essar Telecom)¹¹ – with M-PESA the overwhelming market leader. Safaricom and Airtel have made a bid for the joint acquisition of Essar Telecom, in which Safaricom

would receive the provider's infrastructure (e.g., base stations), and Airtel would acquire the subscriber base.¹² At the time of this writing, the outcome of the bid was uncertain.

All five providers offer person-to-person (P2P) money transfers, bill payments and airtime top-ups. Other services offered by some of the providers include:

Bulk payments: Airtel Money, M-PESA, Orange Money

Merchant payments: Airtel Money, M-PESA

Receive and pay back loans: Airtel Money, M-PESA

International remittances: M-PESA

Safaricom also offers a number of mobile-based products that leverage the M-PESA payment platform. Safaricom partnered with the Commercial Bank of Africa (CBA) to offer M-Shwari, an interest-bearing savings account and microloan product. Other new products include Lipa na M-PESA, a merchant payment tool, and Lipa Karo na M-PESA, an education payment tool.

In March 2014, Airtel Money partnered with UBA Kenya Bank to offer Akiba Mkononi, which provides an interest-bearing savings account to subscribers.¹³ Airtel Money also partners with Faulu Kenya, a microfinance bank, to provide 10-day loans which are repaid through Airtel Money.

Other companies and organizations have incorporated mobile money into their offerings either as a payment platform or as a way to enable wider access to their products and services. For example, M-Kopa sells solar panels through installment payments, which customers pay through their M-PESA accounts. Changamka, a medical insurance provider, offers prepaid health-care cards that can be topped-up via M-PESA. Kilimo Salama, which offers crop insurance based on weather indexes, collects its premiums and makes payments via M-PESA.

Introduction

Before the advent of mobile money, the use of digital financial services in Kenya was limited. Only a minority of Kenyan adults had a formal bank account.¹⁴ Now, seven years after the introduction of Safaricom’s M-PESA mobile money service, two-thirds of Kenyan adults actively use digital financial services either through a bank or mobile money account.¹⁵

Mobile money has been a driving force in providing wider access to formal financial services – 62 percent of Kenyan adults have a mobile money account they actively use (i.e., used in the past 90 days). For comparison, only 21 percent of Kenyan adults are active bank account holders, and almost all of them (90 percent) also have a mobile money account.

While use of digital financial services has increased dramatically in recent years, differences among demographic groups remain, with the rural, poor, and less educated still less likely to use such services than their counterparts. In addition, while mobile money has greatly expanded the use of digital financial services, the same demographic groups that were traditionally least likely to have a bank account are now also the least likely to have a mobile money account.

Despite mobile money’s widespread use, the rural, poor, and less educated remain less likely to use the service.

Mobile money users use the services for a variety of purposes. Most primarily purchase airtime top-ups and send and receive remittances with the service. Smaller segments also use mobile money to save money for “a future purchase or payment” (10 percent), to pay bills (10 percent), and to receive wages (6 percent). M-Shwari, a savings and loan product from Safaricom, is the most widely-used new product beyond basic mobile money wallets, with 15 percent of active mobile money account holders using it. While there is market interest in moving customers beyond basic money transfers, no product has reached a broad-based appeal similar to the initial offer of P2P transfers by M-PESA.

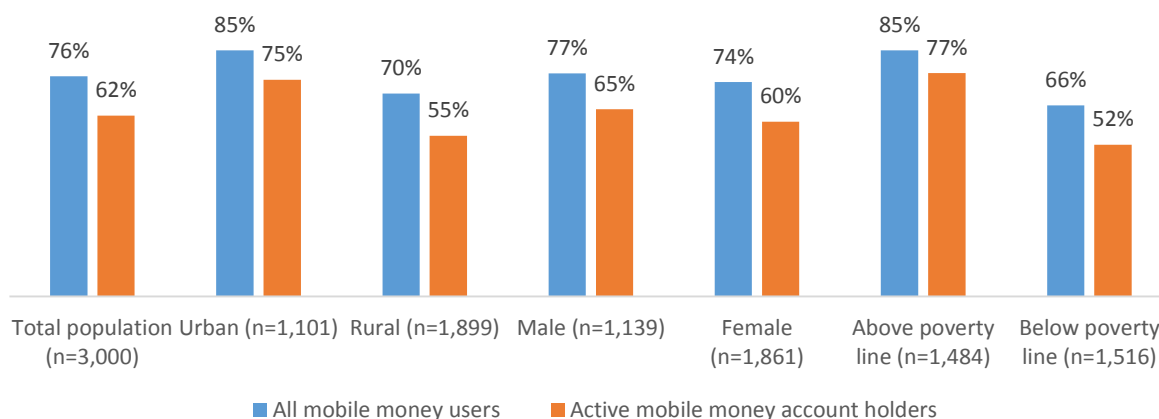
The key challenges, therefore, are to reach those with continued lack of access, to provide a wider range of services to meet potential customers’ needs, and to create a digital ecosystem that can ease financial transactions while providing safe, transparent and cost effective means of doing so.

Overview of mobile money use

Mobile money use in Kenya is widespread, reaching the highest usage rates in the world.¹⁶ Most Kenyans (76 percent) have used mobile money, and mobile money users tend to be registered and use their accounts actively.¹⁷

Use continues to be higher, however, in urban areas, among those above the poverty line,¹⁸ and among the more highly educated. Males use mobile money at slightly higher rates than females, but the difference is small compared to the discrepancies between urban and rural adults, and between Kenyans living above and below the poverty line.

Figure 1. Percent of each demographic group who have ever used mobile money and who are active mobile money account holders

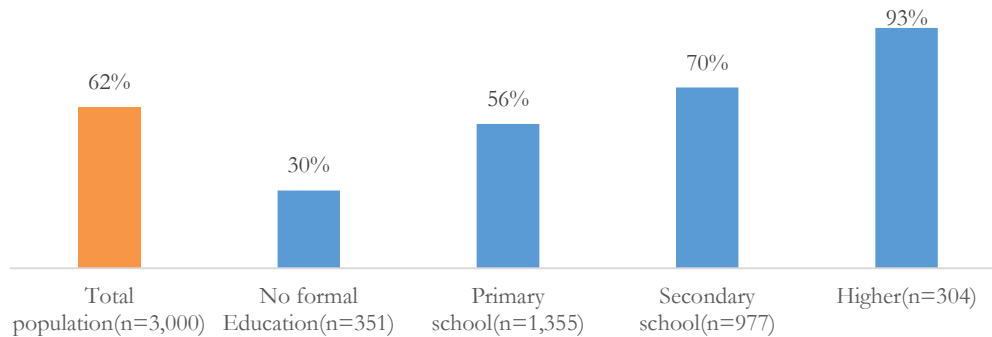


Source: InterMedia FII Tracker Survey, Wave 1, September-October 2013; N=3,000.

Most mobile money users access the service through an account they have registered in their own name, and most use the service actively. These active account holders represent 62 percent of Kenyan adults.

Those with no formal education are much less likely to be active mobile money account holders, and Kenyans with only primary school education are also less likely to be active account holders than the general population. Education is highly related to income level, so poverty could be preventing those with less education from using mobile money.

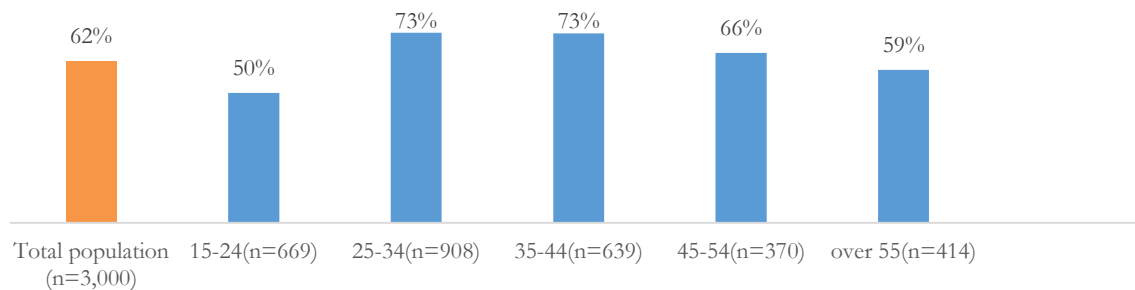
Figure 2. Education: Percent of Kenyan adults at each education level who are active mobile money account holders



Source: InterMedia FII Tracker Survey, Wave 1, September-October 2013; N=3,000; n=13 respondents were categorized as “other” for education attainment, and this group was too small for analysis

Across age groups, registered, active use of mobile money peaks among those aged 25 to 44. It is lowest among the youngest age group, 15 to 24 year olds,¹ and tapers off for older age groups, decreasing among 45 to 54 year olds and again for those 55 and older.

Figure 3. Age: Percent of each age group who are active mobile money account holders



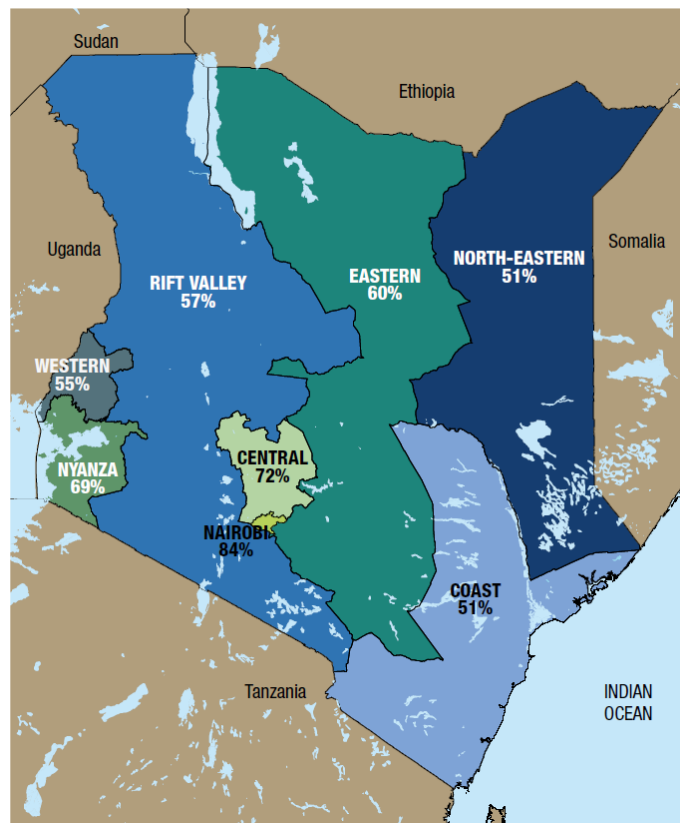
Source: InterMedia FII Tracker Survey, Wave 1, September-October 2013; N=3,000.

¹ Technically, Kenyans cannot register for a mobile money account until they have reached the age of 18 and received their national ID. However, many parents register an account on behalf of their children, often when their children move away from home for school or work. These children have full control over their account, and therefore often consider it their own registered account. In the survey, 20 percent of those aged 15 to 17 report actively using a registered mobile money account. Sixty-five percent of those aged 18 to 24 are active mobile-money account holders.

Mobile money use varies regionally as well. Nairobi and the bordering Central region have the highest proportions of active account holders. Nyanza, which borders Lake Victoria, has the next highest usage rate. The rest of the regions have lower proportions of active account holders than the national average of 62 percent, but in all regions at least 50 percent of the adult residents actively use a mobile money account registered in their name.

Safaricom’s M-PESA dominates the mobile money market. Ninety-nine percent of active mobile money account holders use M-PESA, while only 4 percent use Airtel Money (3 percent use both). Airtel Money users¹⁹ are more likely to be male, urban and above the poverty line than M-PESA users,²⁰ following a similar demographic profile to M-PESA’s early adopters.²¹

Figure 4. Region: Percent of each region’s adult population who are active mobile money account holders



Source: InterMedia FII Tracker Survey, Wave 1, September-October 2013; N=3,000.

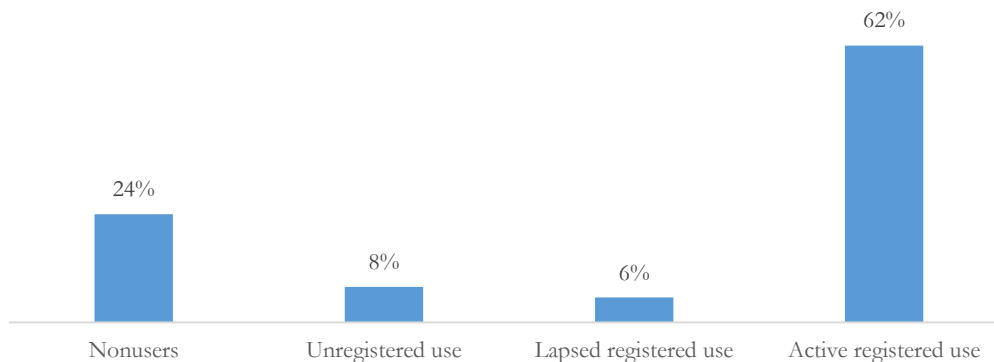
Currently little need for transactional interoperability

Most Kenyans use Safaricom’s voice and data services, and, therefore, own a Safaricom SIM card, which is also used for their mobile money account. Safaricom’s dominance in both the mobile money and voice markets means many Kenyans can operate wholly within Safaricom’s ecosystem without needing to interact with other service providers. As a result, consumers report little need for interoperability. Only 11 percent of active mobile money account holders said they had a current need to transfer money from their mobile money account to a mobile money account with a different provider, a bank account, or SACCO account, in the previous 90 days.

Despite expressing few actual needs for interoperability, many active account holders report interest in improved interoperability. Eighty percent of active account holders said they would like to see mobile money providers work together to deliver services, and the same percentage would like to see mobile money providers work with other financial institutions such as banks, MFIs and SACCOs. The Central Bank of Kenya has drafted regulations, though not yet enacted them, to promote greater interoperability. Given that the market may become more competitive in coming years as a result of ongoing regulatory reforms and the introduction of MVNO licenses, interoperability may become a more significant factor for consumers.

Most Kenyan adults are either active mobile money account holders or have never used mobile money. Few fall into other use categories, including unregistered use (using through someone else’s account or an agent’s account), and lapsed registered use.

Figure 5. Percentage of Kenyan adults who are in each mobile-money use category

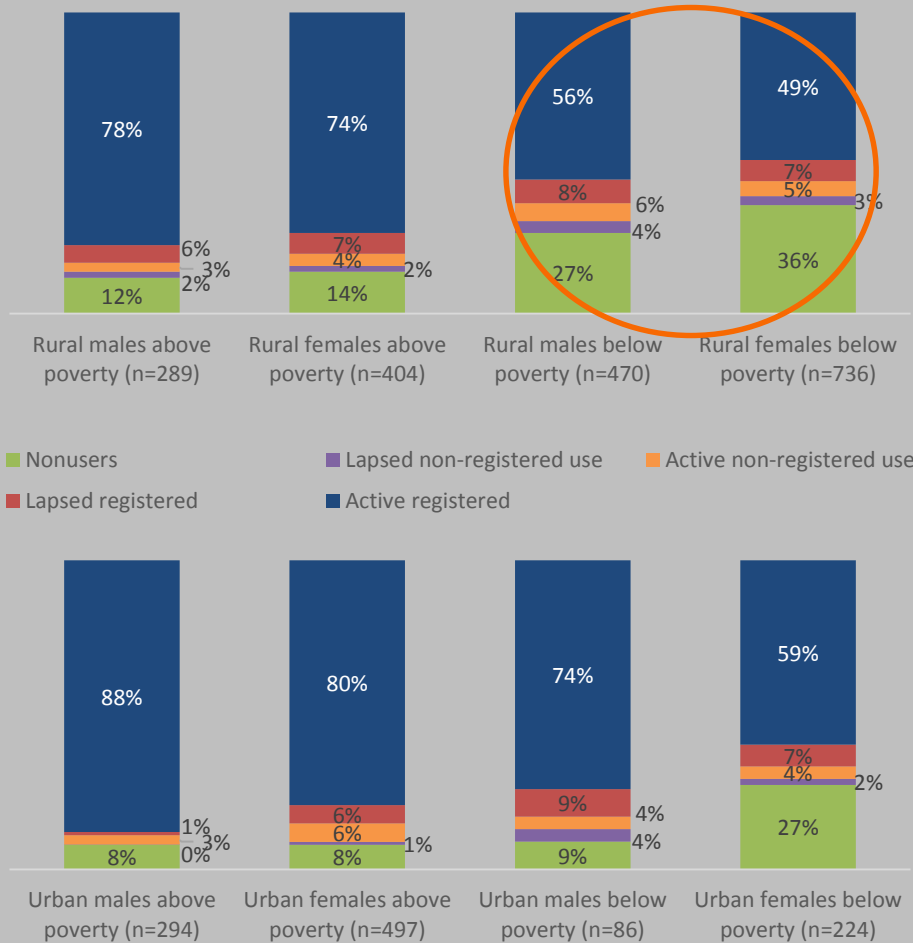


Source: InterMedia FII Tracker Survey, Wave 1, September-October 2013; N=3,000.

Differences in level of mobile money use among demographic segments

Demographic segmentation of mobile money use identifies which groups have reached high levels of use, and which groups are lagging, where targeted marketing or product development may be worth considering to encourage uptake. Groupings by rural and urban residency, poverty status, and gender highlight the principal differences.

Figure 6. Percent of each demographic in each mobile money-use category



Source: InterMedia FII Tracker Survey, Wave 1, September-October 2013; N=3,000.

In rural areas, poverty is the key determinant of lack of mobile money use; gender does not play a significant role. In urban areas, however, both gender and poverty are strong predictors of mobile money use and nonuse.

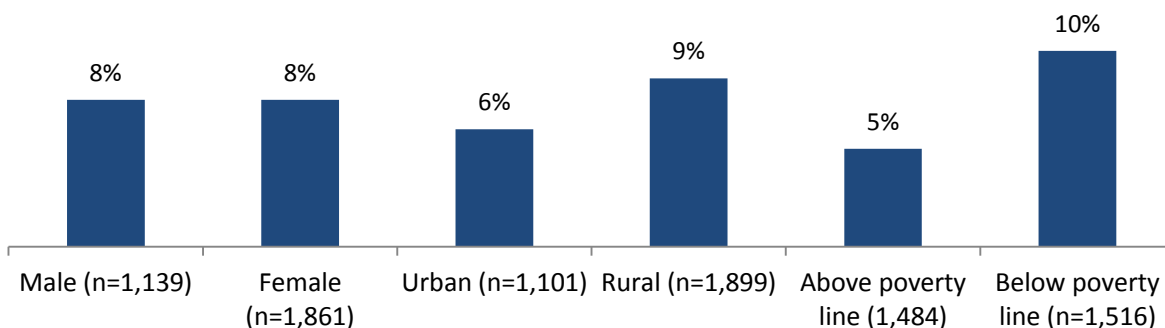
Urban males above the poverty line are much less likely than the other demographic groups in Figure 6 to use mobile money through an unregistered account, and they are less likely to be lapsed users.

Unregistered mobile money use

Only 8 percent of mobile money users in Kenya conduct transactions through someone else's account,²² such as a friend, family member, or mobile money agent, rather than using their own registered account. This is referred to as unregistered mobile money use.²³ These unregistered users represent 8 percent of Kenyan adults.

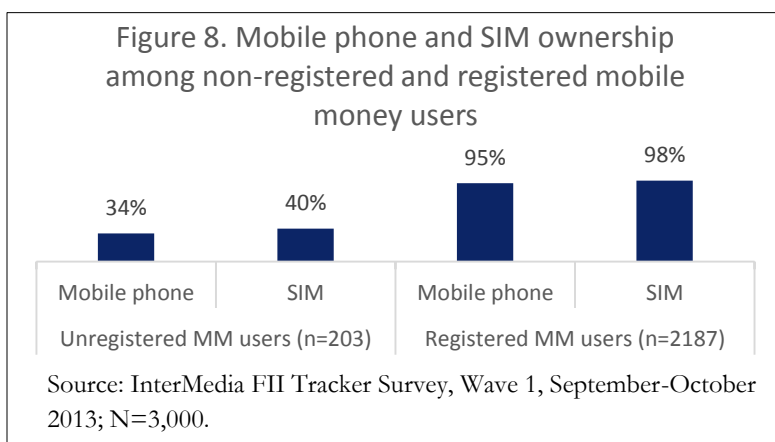
The method of use matters because an individual must have a registered mobile money account to access more advanced mobile money products such as saving money in an e-wallet, or accessing insurance or loan products through mobile money. In this sense, unregistered use can be a barrier to deeper financial inclusion.

Figure 7. Percentage of each demographic group who are unregistered mobile money users



Source: InterMedia FII Tracker Survey, Wave 1, September-October 2013; N=3,000.

Lack of mobile phone and SIM card ownership is the key driver of unregistered mobile money use. Unregistered users are less than half as likely to own a mobile phone or SIM card as the rest of the Kenyan adult population.²⁴ The difference is even greater when comparing unregistered users with registered users (Figure 8). Most unregistered mobile money users (64 percent) access the services through a friend's or family member's account, while a smaller proportion (33 percent) gain access by using the services over-the-counter (commonly referred to as direct deposits in Africa).



Unregistered use is also highly related to poverty, with Kenyans below the poverty line almost twice as likely to use mobile money without their own account as those above the poverty line. Low education attainment may be a contributing factor. Poor, unregistered mobile money users have less education than other Kenyans, with 70 percent having either no formal education or only primary education (compared with 53 percent of other Kenyan adults).²⁵ Poor, unregistered users also are less likely to own a mobile phone than other Kenyan adults (28 percent versus 49 percent).

Limited current demand for the types of transactions that require a registered account may also be contributing to unregistered use. Most unregistered users (92 percent) began using mobile money either to receive or to send money transfers. In addition, these mobile money users primarily use the service to withdraw money (84 percent), while far fewer have deposited money (42 percent). This indicates unregistered users primarily withdraw money they have received from others, and are not using any other services.

Lapsed and infrequent mobile money use

Lapsed mobile money users are those who have used mobile money at some point in the past, but have not used the service in the previous 90 days. Eight percent of Kenyan adults are lapsed mobile money users. Most of them (70 percent, or 6 percent of Kenya's adult population)²⁶ are lapsed registered users. Only negligible differences exist when looking at lapsed use by gender, location and poverty level.

The explanation for mobile money users becoming lapsed may lie in their use patterns. Similar to active account holders, almost all lapsed mobile money users (92 percent) have used mobile money to withdraw money. However, far fewer lapsed users have ever deposited money into a mobile money account (53 percent, versus 85 percent of active account holders), indicating many only use the service with money they receive from others. Seventy-two percent of lapsed mobile money users said they began using mobile money to receive money from others; it is possible that they began for this reason and subsequently stopped when they did not receive further funds.

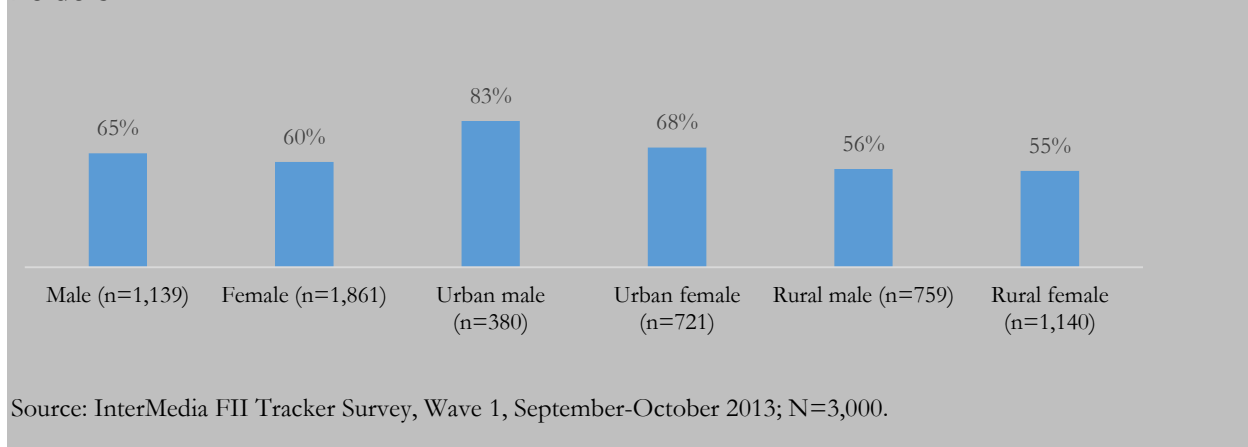
Another reason for lapsed use could simply be an infrequent need for mobile money services. Two-thirds of lapsed users (with a registered account) said mobile money is either "very important" or "important" in their finances. Only 2 percent said it is not important at all. This suggests that, while some users may go long periods without using mobile money, they still consider it important and have not necessarily abandoned the services. Rather, they could be viewed as a distinct type of user, more aptly termed "infrequent users." These users may have only infrequent need for the services they currently use, such as money transfers, but could potentially transition into active users if they take up additional services which meet their needs.

Gender Profile: Mobile money use among women and men

Kenyan women have nearly the same level of mobile phone ownership as men; 72 percent of women, and 75 percent of men own a personal mobile phone. Even rural women and poor, rural women own mobile phones at the same levels as their respective male counterparts.

The percent of women who have ever tried mobile money is nearly equal to that of men, with about three-quarters of each having used the service at least once (74 and 77 percent respectively). The gap is slightly larger for active mobile money account holders (60 percent of women versus 65 percent of men).

Figure 9. Percent of each demographic segment who are active mobile money account holders



Source: InterMedia FII Tracker Survey, Wave 1, September-October 2013; N=3,000.

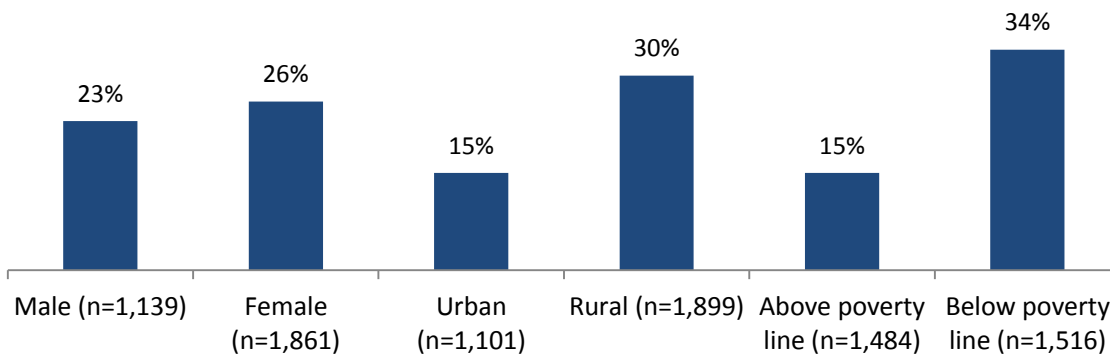
In urban areas, however, women are much less likely to use mobile money than men, whereas in rural areas they use at a similar level as men. Overall, however, use in rural areas is lower. Similarly, there is a much larger employment gap in urban areas. Women are 25 percentage points less likely to be employed than men, whereas in rural areas women are only 8 percentage points less likely to be employed than men. Urban women, therefore, have less access to technology than their urban male counterparts. In addition, because they are less likely to be employed they may have fewer resources with which to use mobile money, and fewer needs for mobile money than urban men.

The gender gap is larger in urban areas than in rural areas.

Mobile money nonusers

Even though mobile money experienced widespread and rapid initial take up in Kenya, 24 percent of Kenyan adults still have never used mobile money. Overall, the poor are much less likely to have used mobile money than those above the poverty line – 34 percent of the poor have never tried the service, versus 15 percent of those above the poverty line, a difference of nearly 20 percentage points. The gap between rural and urban residents is only 15 percentage points. The gender gap is small – females are only 3 percentage points less likely to have tried mobile money than males.

Figure 10. Percentage of each demographic group who have never used mobile money

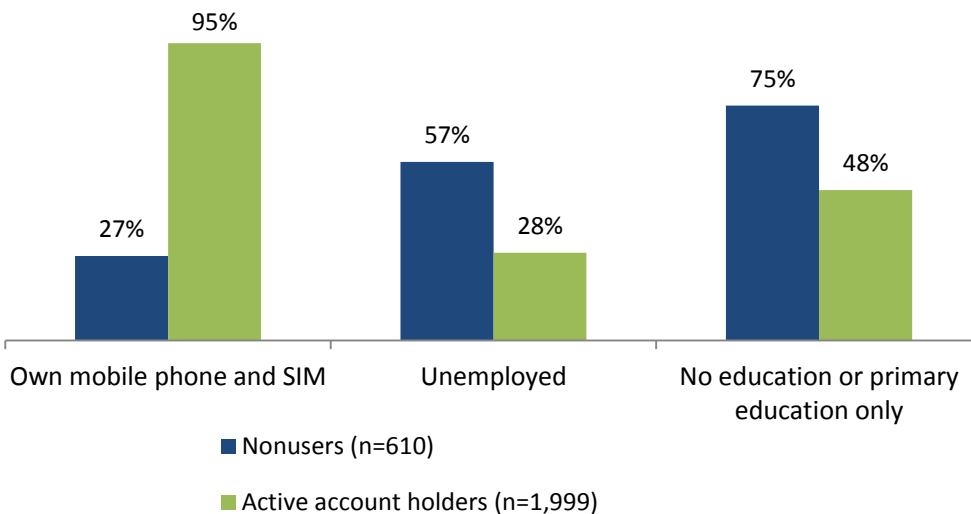


Source: InterMedia FII Tracker Survey, Wave 1, September-October 2013; N=3,000.

Nonuse is highest in the Coast and North-Eastern regions, where 49 percent of adults have never used mobile money, followed by the Western region, with 45 percent nonusers, and Rift Valley, with 43 percent nonusers.

Lack of mobile phone ownership is a key barrier for nonusers. Among nonusers, only 27 percent own both a mobile phone and a SIM card, compared with 95 percent of active mobile money account holders.²⁷

Figure 11. Percentage of nonusers and active mobile money account holders who fall into each characteristic



Source: InterMedia FII Tracker Survey, Wave 1, September-October 2013; N=3,000.

Non-mobile-money users are much more likely to be unemployed than mobile money users. Over half, or 57 percent, do not have a job that earns income. Of those who have a job, 54 percent are farmers.

Nonusers also tend to be less-educated than mobile money users. Twenty-one percent have no formal education, compared with only 7 percent of those who have used mobile money. In addition, 54 percent have completed only primary education, meaning 75 percent of nonusers have no secondary or higher education. This compares with only 48 percent of mobile money users.

Younger Kenyan adults, those aged 15 to 24, are less likely to have used mobile money than any other age group.²⁸ This group is also much less likely to be employed than any other age group - only 36 percent of Kenyans aged 15 to 24 have a job that earns income, compared with 79 percent of adults aged 25 and older.²⁹

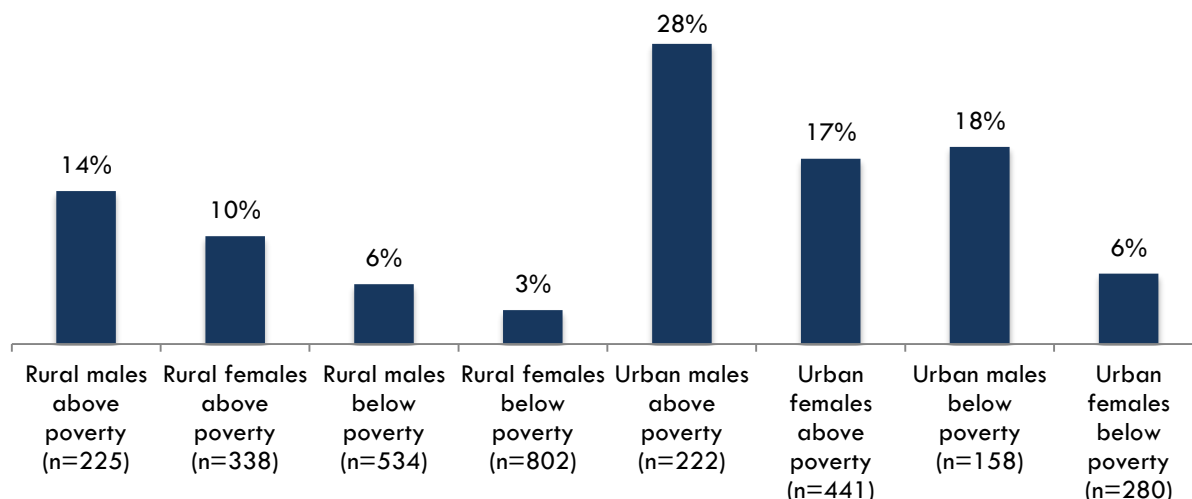
A lack of money, or lack of need for money transfer services, could be the reason for low mobile-money usage rates. Younger Kenyans are also less likely to own both a mobile phone and SIM (62 percent, compared with 80 percent among those 25 and older), which presents an additional barrier to mobile money uptake.

Super-users

A subset of mobile money users uses the service with greater frequency, and for more purposes, than the average mobile money user. In this report, these “super-users” are defined as those who have a registered account, use the account at least once a week and have used at least one service beyond deposit, withdrawal, money transfers, and airtime top-ups from their mobile money account. Eleven percent of Kenyan adults are considered super-users.

Males are more likely to be super-users than females, urban residents are more likely than rural residents, and Kenyans above the poverty line are more likely than those below the poverty line to be super-users.

Figure 12. Percent of each demographic segment who are super-users



Source: InterMedia FII Tracker Survey, Wave 1, September-October 2013; N=3,000.

Similar to mobile money use in general, younger Kenyan adults and the oldest adults are least likely to be super-users, and those aged 25 to 44 are most likely. Super-users are better-educated than other active mobile money account holders, with most having either secondary or higher education.

Many super-users use both a bank account and mobile money, highlighting the complementary roles the two services play in their financial lives. Super-users are more likely than other active account holders to have a bank account (46 percent versus 27 percent).³⁰

Super-users are slightly more likely to be business owners than other active account holders (12 percent versus 9 percent), and they are much more likely to use mobile money as a part of a business (27 percent of super-users versus 8 percent of other active account holders). Super-users use mobile money to receive payments from customers (18 percent), and smaller percentages use mobile money to pay suppliers, pay business-related expenses such as rent, taxes, and utility bills, and pay employees.

Being a super-user is not only an urban, business-driven activity, however. Nearly a fifth of super-users are farmers, and they use mobile money primarily to send and receive transfers. Nearly a third of these farmers receive payments from customers with their mobile money account, compared with 15 percent of other super-users. These farmers are also more likely than other super-users to receive wages through mobile money (23 percent versus 16 percent) and to save with mobile money (42 percent versus 33 percent).³¹

Super-users begin using mobile money for similar reasons as other active mobile money account holders, primarily to send and receive money. This indicates that it is after registration and initial use that they find other uses for mobile money.

Basic and value-added mobile money uses

When mobile money was launched in Kenya, it was with the marketing tag line, “send money home.” Kenyans living in urban areas needed safe, inexpensive options for sending money to family back “home” in rural areas.³² Mobile money quickly began meeting this need, and, to this day, most active mobile money account holders start using mobile money to receive money (71 percent) or to send money (56 percent) to other individuals.³³

Saving money is also a key driver for the service – a third of active account holders started using mobile money because they wanted to save money (though only 10 percent report actually doing so, indicating a disparity between intentions and actions). Only 13 percent of active account holders started using the service because of someone’s recommendation, indicating usefulness of services is a bigger driver than personal recommendations.

Few active account holders started using the service because of someone’s recommendation, indicating usefulness of services is a bigger driver than personal recommendations.

Basic mobile money services

Almost all active mobile money account holders have withdrawn money from their accounts, while a smaller proportion has deposited money into their accounts (Figure 11). That a minority of active account holders have withdrawn money without ever having deposited money (14 percent) indicates that for some users, mobile money is simply a vehicle for receiving money from others and converting those mobile money transfers to cash.

This practice is most common among poor, rural and female active account holders. About a fifth of the mobile money users in each group have withdrawn money from their accounts without ever having deposited money.

These users who withdraw money without depositing can be termed “passive users,” as they use mobile money services only with other people’s money. Given passive users are already familiar with how mobile money works, they could extend their use of mobile money if products can address unmet needs for financial services.

Figure 13. Among active mobile money account holders, percentage of each demographic group that has conducted each type of transaction

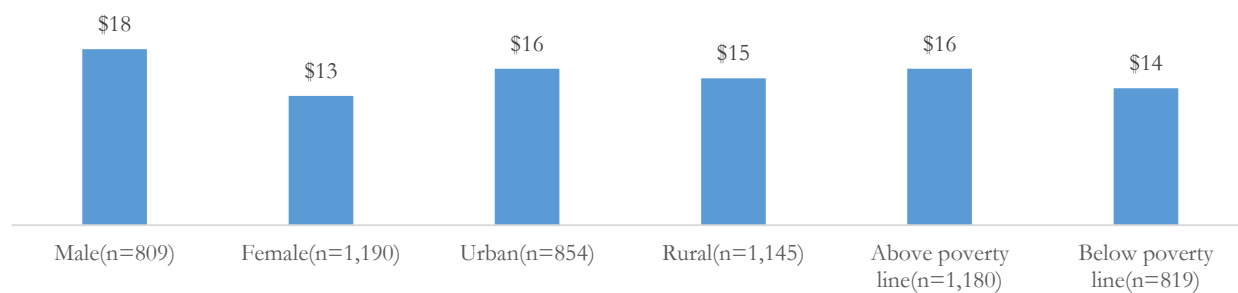
Active mobile money account holders	Deposit money	Withdraw money	Buy airtime top-ups	Send remittances (regular support or emergencies)	Receive remittances (regular support or emergencies)
All active mobile money account holders (n=1,999)	85%	98%	69%	60%	64%
Male (n=809)	90%	98%	74%	63%	64%
Female (n=1,190)	79%	98%	65%	57%	63%
Urban (n=854)	92%	99%	81%	68%	67%
Rural (n=1,145)	79%	98%	61%	54%	61%
Above poverty line (n=1,180)	91%	98%	78%	65%	65%
Below poverty line (n=819)	75%	98%	56%	52%	62%

Source: InterMedia FII Tracker Survey, Wave 1, September-October 2013; N=3,000.

Different demographic groups handle different volumes of money with their mobile money accounts. On average, male active account holders deposit and withdraw 27 percent more money than females in each transaction.³⁴ The gap between those above the poverty line and below the poverty line is slightly smaller, with a 13 percent difference. Urban and rural residents deposit and withdraw similar amounts of money; the average for urban residents is only 6 percent larger than that of rural residents. In addition, active account holders who deposit and withdraw money average doing each about twice per month.

On average, males deposit or withdraw \$18 (KSh1,500) in each transaction, while females deposit or withdraw \$13 (KSh1,100).

Figure 14. Median deposit or withdrawal size among active mobile money account holders of each demographic group



Source: InterMedia FII Tracker Survey, Wave 1, September-October 2013; N=3,000.

Buying airtime top-ups is also a common mobile money activity; 69 percent of active mobile money account holders report buying airtime with their mobile money account. Airtime purchase is also the most frequently conducted mobile money transaction -- active account holders who purchase airtime tend to do so five times per month.

Sending and receiving money transfers, for either regular support or for emergencies, round out the top five uses of mobile money, with 60 and 64 percent doing each, respectively. Males, urban residents, and those above the poverty line are more likely to both send and receive remittances, for both regular support and for emergencies, than their female, rural, and below-the-poverty-line counterparts (among active account holders).

Despite handling different volumes of money with their accounts, and differences in the levels of use of mobile money services, mobile money account holders of all demographic groups consider the service very important in their finances. Nearly 90 percent of active account holders report that mobile money is either “very important, use it for almost all my financial activities” or “important, use it frequently or for large transactions.”

All demographic groups attribute an equal level of importance to mobile money in their finances, with nearly 90 percent considering it very important or important.

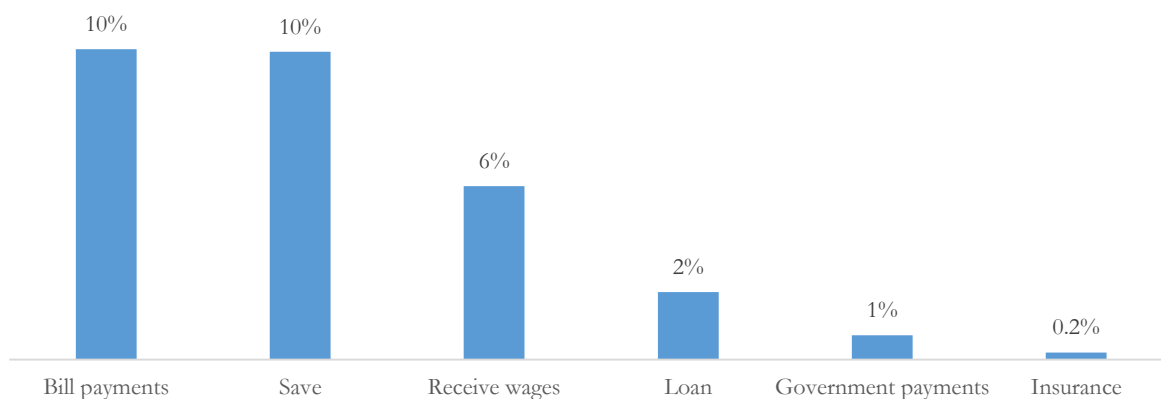
Value-added mobile money activities

Mobile money users conduct a variety of activities beyond basic deposits, withdrawals, money transfers, and airtime top-ups. These additional activities are often referred to as “value-added.”

Some users conduct value-added activities informally, with their basic mobile money account, such as saving money in their mobile money wallet, even though the wallet does not generate interest on the money they save. Others do so through formal value-added service offerings, such as CBA and Safaricom’s joint offering, M-Shwari, which provides an interest-bearing savings account and access to loans. This section uses a general definition of value-added activities, which includes both informal and formal uses, to describe the range of activities mobile money users conduct from their phones. Later sections cover specific value-added service offerings in the Kenyan market.

Saving in a mobile money account and paying bills through an account are the most common uses of mobile money beyond basic withdrawals, deposits, money transfers, and airtime top-ups. However, still only 10 percent of active mobile money account holders use mobile money for each purpose.

Figure 15. Percentage of active account holders who conduct each value-added activity with their mobile money account

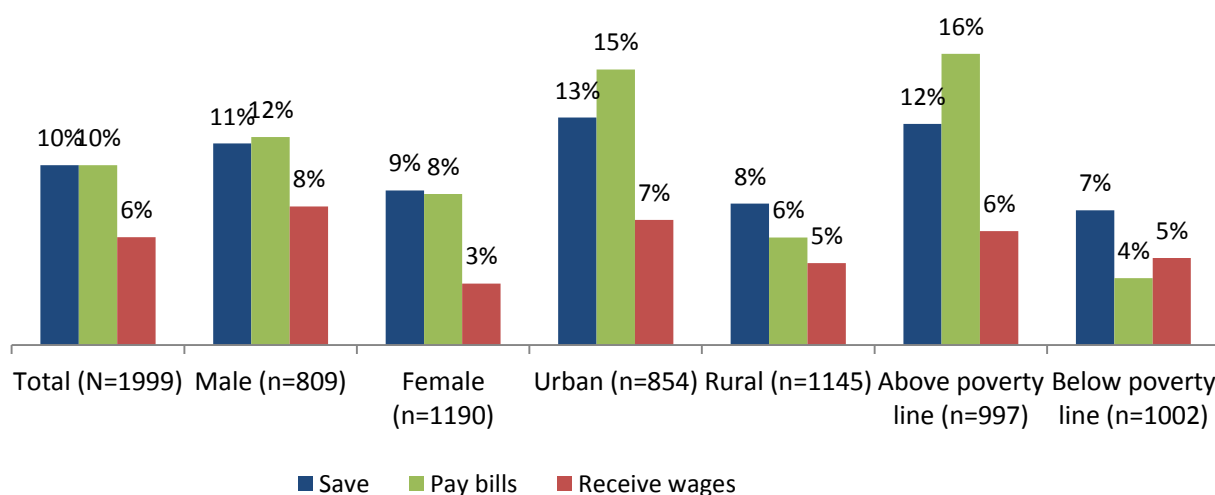


Source: InterMedia FII Tracker Survey, Wave 1, September-October 2013; N=3,000; subsample base n=1,999.

The savers tend to be urban residents and above the poverty line, and most put money into savings twice a month. Rural residents and those below the poverty line are much less likely to save with a mobile money account. These mobile money users also must travel longer to reach an agent, and analysis shows that the time required to travel to an agent is inversely related to the number of times a person saves in a month.

Only 9 percent of those who have saved with their mobile money account³⁵ reported saving money with M-Shwari. This implies that most savers simply use their mobile money wallet to save money.

Figure 16. Percentage of each demographic group who have conducted each of the most common value-added activities



Source: InterMedia FII Tracker Survey, Wave 1, September-October 2013; N=3,000.

With respect to bill payments,, only 1 percent of active mobile money account holders began using mobile money to pay a bill of any kind, yet 9 percent now use their accounts to make utility bill payments (representing 6 percent of Kenyan adults). This means far more Kenyan adults now pay utility bills through a mobile money account than through a bank account, 6 percent compared with only 1 percent, respectively. Based on the data, utility bills may be an emerging use case for mobile money.

Paying utility bills may be an emerging use case for mobile

School fees are the second most commonly paid bill through mobile money (7 percent of active account holders do so). Less than a fifth of those who have paid a school fee through mobile money report using Lipa Karo na M-PESA, Safaricom’s education payment tool. Therefore, most Kenyans who report paying school fees through mobile money likely do so through simple money transfers.

Paying other bills through mobile money is not common. Very few active mobile money account holders have paid a medical bill with mobile money (1 percent), and almost no one has paid a government bill with the service (less than 1 percent).

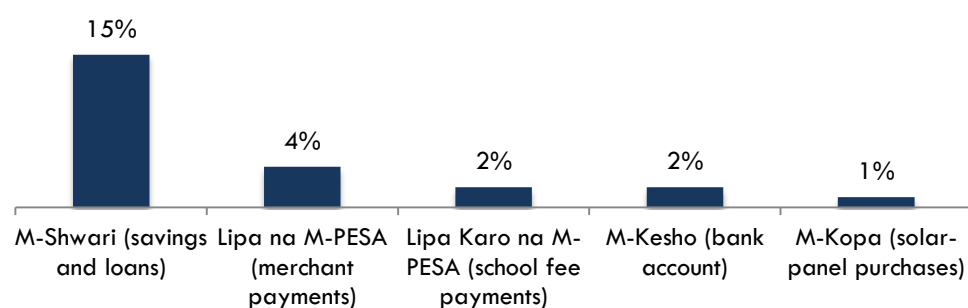
The use of mobile money bill payment is still largely an urban phenomenon; urban active account holders are twice as likely to use it as rural active account holders. This could either be due to lower penetration of utility services in rural areas,³⁶ or lower awareness of bill payment services. In addition, those who are above the poverty line are four times as likely to pay bills using mobile money than those below the poverty line. Similar to the urban-rural divide, this could be a function of lower use of formal utilities among the poor or lower awareness of bill payment options.

Receiving wages is the third most common value-added service. Very few Kenyans have used other value-added mobile money services.

Specific value-added service offerings

Safaricom and other Kenyan mobile money providers are at the forefront of a global trend to leverage mobile money platforms to bring an increasing number of innovative products to the market. These new VAS offerings allow customers to conduct a variety of transactions via a mobile phone, including saving, taking loans, accessing bank accounts, merchant payments, education payments, bus fare payments, fundraising, and the ability to purchase solar-panel lighting through installment payments via mobile money. At this point, however, no new products have come close to the levels of use seen with mobile money’s initial money transfer service.

Figure 17. Top five value-added service offerings: Percentage of active account holders who have used each



Source: InterMedia FII Tracker Survey, Wave 1, September-October 2013; N=3,000; subsample base n=1,999 active mobile money account holders.

M-Shwari, a savings and loan product, and Lipa na M-PESA, a merchant payment tool, have seen the widest uptake, with 15 percent and 4 percent, respectively, of active mobile money account holders using each product.

M-Shwari

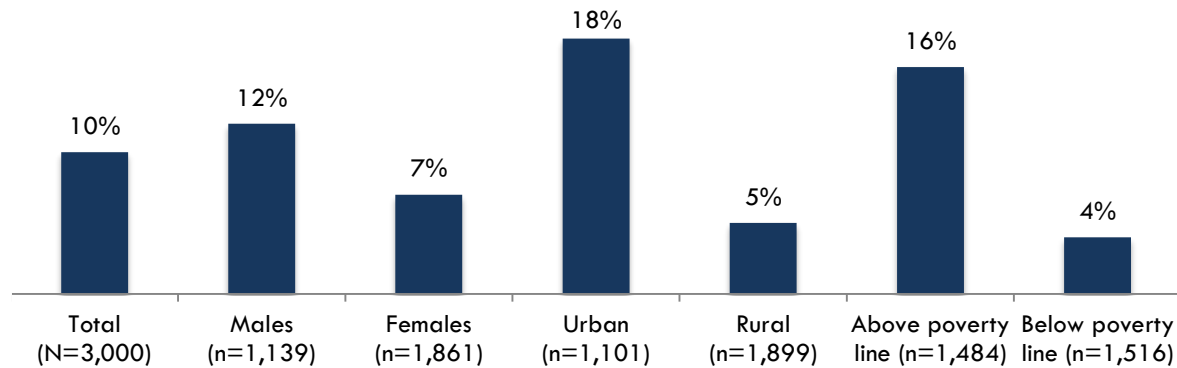
A savings and loan product offered through a partnership between Safaricom and Commercial Bank of Africa (CBA), M-Shwari is the best-known product among new mobile money offers, with 66 percent of Kenyans saying they have heard of it.

M-Shwari provides users a virtual bank account which earns 2 to 5 percent interest and access to micro loans, using a mobile phone-based credit score to determine loan sizes.³⁷ Any M-PESA account holder can opt into M-Shwari simply by following menu prompts on their phone.

Fifteen percent of active mobile money account holders have used M-Shwari, representing 10 percent of the Kenyan adult population. Almost all M-Shwari users report using the service actively – 93 percent had used it in the past 90 days.³⁸ Most are also satisfied with the product. Eighty-four percent of users rate M-Shwari as “good” or “very good.” In addition, 94 percent said they will continue using the product, and 95 percent said they would recommend it to a friend.

Overall, more urban residents have used M-Shwari than rural residents. More males than females, and more Kenyans above the poverty line have used it than those below the poverty line.

Figure 18. Percentage of each demographic group who have used M-Shwari

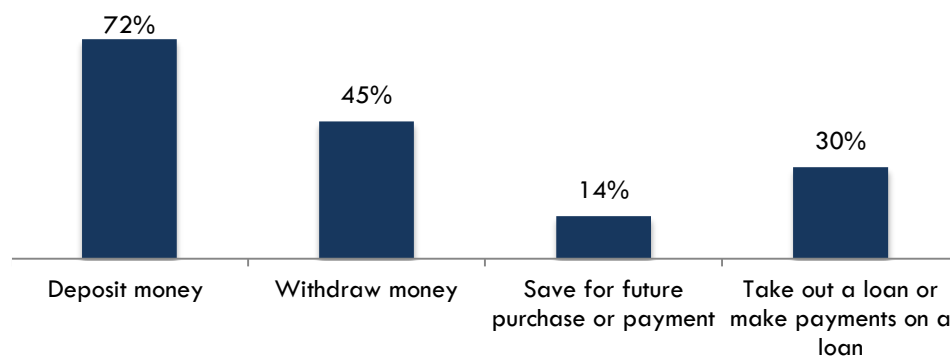


Source: InterMedia FII Tracker Survey, Wave 1, September-October 2013; N=3,000.

Despite M-Shwari’s function as a savings and loan product, only 30 percent of M-Shwari users report taking out a loan or making payments on a loan with the product, while 14 percent report saving money “for a future purchase or payment.” Accounting for overlap between the two groups, only 39 percent of users report using M-Shwari for loans or for this type of savings.³⁹

This finding raises questions about what the remaining 61 percent of M-Shwari users do with the product. A majority of M-Shwari users, 72 percent, report depositing money into their account, while 45 percent report withdrawing money. The discrepancy indicates some users are depositing money without withdrawing it, yet do not consider it savings for a future payment or purchase.

Figure 19. Among M-Shwari users, percentage who use the service for each purpose



Source: InterMedia FII Tracker Survey, Wave 1, September-October 2013; N=3,000; subsample base n=284 M-Shwari users.

It is possible that users are saving for other purposes, such as having money on hand in case of an emergency. They also may be using their M-Shwari accounts for short-term money storage, intending to withdraw it at a certain time or when they reach a certain amount.

M-Shwari users may also view the service primarily as a means for loans, rather than a savings account. To be eligible for an M-Shwari loan, a user must first make a deposit into the savings account, and then they can request a loan. Early reports indicated that customers were dissatisfied with the small loan sizes they were being offered.⁴⁰ Users may have made an initial deposit with the intention of taking out a loan, and then not taken the loan when it was smaller than desired.

Lipa na M-PESA

Lipa na M-PESA, a product offered by Safaricom, enables merchants to receive customer payments through M-PESA. It is the second most commonly used new mobile money-based product.⁴¹ Four percent of active mobile money account holders (3 percent of Kenyan adults) have used Lipa na M-PESA. Similar to M-Shwari, almost all Lipa na M-PESA users, 91 percent, had used it in the 90 days prior to the survey.⁴² Users expressed high levels of satisfaction with Lipa na M-PESA; 94 percent said they will continue to use it, and 97 percent said they would recommend it to a friend.

Lipa na M-PESA users reported using the service for a variety of purposes, some of which were expected, and some of which indicated either new use cases or confusion on the part of customers. Twenty-three percent of Lipa na M-PESA users said they have used their accounts to withdraw money. It is possible these people may be merchants moving their money from their Lipa na M-PESA account either to another account (such as their M-PESA or bank account) or to cash, though the survey doesn't provide specific details on this. Another 5 percent said they have used it to make a payment to a merchant, likely representing customers.⁴³

However, 41 percent of users said they have paid a service bill with the product (i.e., a utility bill, medical bill, or education fee). This could indicate emerging use cases, such as private education and medical facilities trying to take advantage of Lipa na M-PESA. It could also, however, indicate confusion on the part of users. Anecdotal evidence suggests some Kenyans are confusing Lipa na M-PESA with a longer-standing bill payment tool, M-PESA Pay Bill, also offered by Safaricom, which is commonly used to pay utility, medical, and other bills.⁴⁴

In addition, 18 percent of Lipa na M-PESA users said they had used it to send or receive remittances for regular support. Given Lipa na M-PESA is a very new product, the responses suggesting it has been used for bill payments and regular remittances may illustrate either confusion or unexpected uses on the part of merchants and/or customers.

Additional mobile money-based products

Other mobile money-based products launched in recent years have smaller customer bases. Lipa Karo na M-PESA, launched by Safaricom, allows M-PESA users to pay school fees through their M-PESA account, and 2 percent of active mobile money users have used the service. Two percent also have used M-Kesho, a joint offering by Safaricom and Equity Bank that provides an interest-bearing bank account that allows users to transfer money to and from an M-PESA account.

One percent of active mobile money account holders reported using M-Kopa. This product allows rural residents to purchase solar-powered lighting by making installment payments through mobile money.

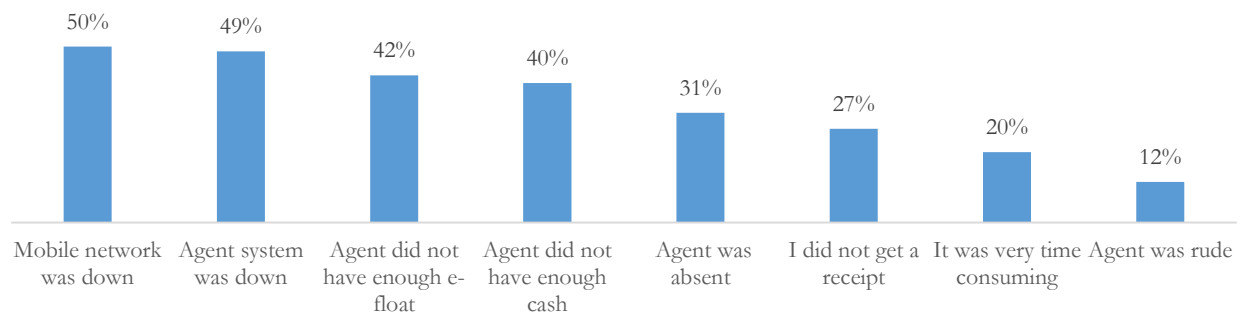
Problems customers experience with mobile money

Problems with mobile money services are common, but the continued high use of basic products suggests that the degree of problems is tolerable for most consumers. Most active mobile money account holders, 82 percent, experienced at least one problem with the service in the previous six months.

Problems are most common in the Coast Region, where 99 percent of active mobile money account holders reported experiencing at least one problem with their mobile money service in the past six months. Many of the issues stem from network failure, reported by 71 percent of respondents from the region. In Nairobi and the North East Region, 87 percent of active account holders reported a problem, and, in the remaining regions, about 80 percent did.

Network issues are the most commonly reported problems by active mobile money account holders. Half of active account holders reported the mobile network was down when they needed to conduct a transaction.

Figure 20. Percentage of active account holders who experienced each mobile money issue in the previous six months



Source: InterMedia FII Tracker Survey, Wave 1, September-October 2013; N=3,000; subsample base n=1,999 active mobile money account holders; respondents could give multiple answers.

Many active mobile money account holders reported problems that relate to agents' business operations. About 40 percent each said they had problems with an agent lacking sufficient e-float and sufficient cash to complete transactions. Nearly a third reported that an agent was absent when they tried to visit.

Few reported problems with their interactions with agents, however, indicating positive customer service. Only 12 percent of active account holders said an agent had been rude to them. Less than 5

percent each reported that an agent did not give all the cash that a customer was owed, refused to perform a transaction, did not know how to complete a transaction, or overcharged or asked to pay for a deposit, which should be free.

Based on the survey, problems with mobile money service likely do not drive active mobile money users to stop using and become lapsed. Active account holders are much more likely to have experienced a problem with mobile money than lapsed users. In particular, active account holders are about twice as likely to have experienced an agent with insufficient cash or e-float, and to have experienced a rude agent, than lapsed users.

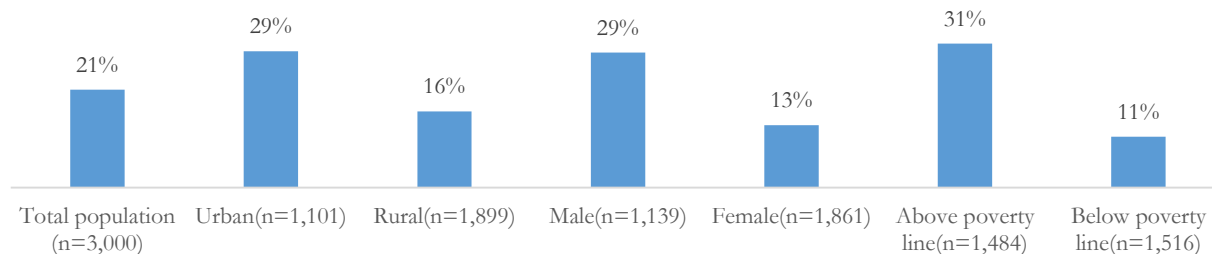
The role of banks in providing financial services

Both banks and mobile money play a role in providing Kenyans with a range of financial services. One-fifth of Kenyan adults own and actively use a bank account. While this is a far smaller proportion than those using mobile money, banks still play a central role in financial inclusion.

Bank accounts and mobile money often play complementary roles. Almost all (91 percent) of active bank account holders also own and actively use a mobile money account. Thirty percent of active mobile money account holders are also active bank account holders, which is higher than the national average for bank account ownership. Both active bank and active mobile money account holders consider their accounts important. Eighty-nine percent of active bank account holders, and 90 percent of active mobile money account holders consider their account either “very important, use it for almost all my financial activities” or “important, use it frequently or for large transactions.”⁴⁵

Banks are used disproportionately by urban residents, males, those above the poverty line, and those with higher education, but all demographic groups use mobile money at a higher level than they use bank accounts.

Figure 21. Percent of each demographic who are active bank account holders

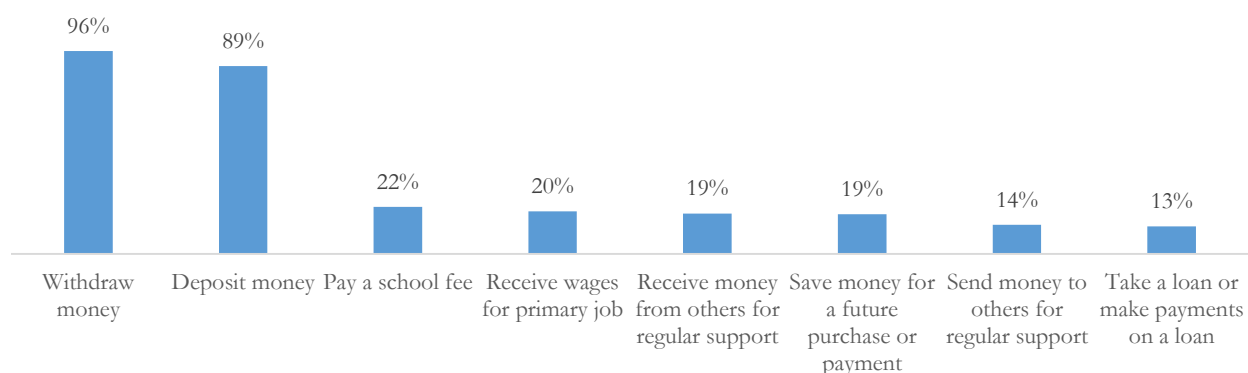


Source: InterMedia FII Tracker Survey, Wave 1, September-October 2013; N=3,000.

Kenyans tend to use banks and mobile money for different purposes. With mobile money, sending and receiving remittances, for both regular support and in emergencies, top the list. For banks, the top uses are paying school fees and receiving wages; about a fifth of active bank account holders use their accounts for each purpose. Among professionals, such as doctors, teachers and nurses, who are active bank account holders, over half (55 percent) receive wages via their account.⁴⁶

Saving money is also a common use of bank accounts. Bank account holders are more likely to save with their account than mobile money account holders – 19 percent of active bank account holders save money in their account, compared with 10 percent of active mobile money account holders.

Figure 22. Percentage of active bank account holders who have used their account for each purpose



Source: InterMedia FII Tracker Survey, Wave 1, September-October 2013; N=3,000; subsample base n=659 active bank account holders; respondents could give multiple answers.

Active bank account holders also are more likely to use their accounts for loans than mobile money account holders. Fourteen percent of active bank account holders have taken out a loan, made payments on a loan, or granted a loan to someone else through their account, compared with 2 percent of active mobile money account holders.

Six percent of Kenyan adults are lapsed bank account holders, meaning they have a registered account but have not used it in the past 90 days. For many Kenyans, “lapsed” use may actually imply infrequent use, and just as with mobile money users, could be due to the way they use their accounts. Paying school fees is one of the most common uses of a bank account, an activity that may only take place once per school term. Other common bank activities, such as saving money and taking out loans, may also occur infrequently.

In addition, many lapsed bank account holders said they began using their account to save money (68 percent), while only 12 percent reported actually having saved money in their accounts. Lapsed account holders may have opened an account with intentions of saving money, did not end up

saving money, and subsequently ceased using the account. Therefore, there still may be a latent demand for savings products.

The way forward for financial inclusion stakeholders

These findings suggest that financial inclusion stakeholders should take a deeper look into the groups currently underserved by digital financial services, particularly the rural poor and poor, urban women. Further FII research will help identify the needs of these groups in more detail, and the specific barriers they face to the use of financial services.

The use of mobile money services beyond basic airtime top-ups and money transfers also should be explored in more depth. Products such as M-Shwari and Lipa na M-PESA have seen initial uptake in Kenya, indicating interest among consumers for broader mobile-based financial services. Better understanding of the ways consumers use the services, and additional needs consumers have, will help stakeholders expand current use and develop new and innovative products.

Finally, many mobile money user groups, including passive users, who use mobile money services only with money they receive from others, and infrequent users, who only use the service occasionally, are already familiar with mobile money. These individuals may be activated to greater use if offered the right products.

Future waves of the FII survey will track developments in the Kenyan financial services market. As the Kenyan market evolves, FII research will dig deeper into the emerging trends and changing patterns in financial inclusion.

Methodology

The FII tracker survey in Kenya is an annual, nationally representative survey of 3,000 Kenyan individuals aged 15 and older. The survey includes face-to-face interviews lasting 45 to 60 minutes. The first survey was conducted from Sept. 12 to Oct. 4, 2013.

Working with Kenya National Bureau of Statistics (KNBS)

InterMedia worked with KNBS to draw the nationally representative survey sample. KNBS has established sampling frames based on census data. InterMedia combined two of KNBS' sampling frames (NASSEP V and NASSEP IV) to ensure full and accurate national representation.

NASSEP V was drawn from updated 2009 household census data released in 2013 by KNBS as part of their 5th National Sample Survey and Evaluation Programme. NASSEP V was ongoing in the northeast when the FII survey went to field, and so the northeast was not included in the sampling frame.

NASSEP IV was used to draw a sample from the northeast. It is based on census data from 1999.

Sampling Enumeration Areas (EAs)

The combined NASSEP frame covered a total of 5,360 enumeration areas (EAs) from urban and rural strata within each county, using the probability proportional to population size method (using numbers of households rather than people).

InterMedia used systematic random sampling to distribute the total number of urban and rural EAs equally into four sub-samples (a total of 1,340 EAs in each), ensuring each had a uniform urban/rural composition.

EAs within each sub-sample were then further standardized into units ranging from between 50 and 149 households.

Simple random sampling from within one of the four sub-samples was used to select the final 300 EAs (10 interviews in each) used in the study. Seven additional EAs were subsequently selected as replacements due to access, security and language barriers in the original EAs.

Sampling Start-Points, Households and Respondents

One start-point within each EA was chosen by randomly selecting from a list of local landmarks identified by village elders. Households were selected using a random route walk and standardized skip pattern and process for substitution.

One respondent per household was selected using the Kish grid method and relevant consent for eligible respondents under 18 years of age was obtained. Ten interviews were conducted per EA.

Glossary

Active mobile money/bank account holder – An individual who has a registered mobile money/bank account and has used it in the last 90 days.

Active mobile money/bank user – An individual who has used mobile money/a bank in the past 90 days, either through a personal, registered account or through someone else's account.

Digital financial services (DFS) – For this study, digital financial services include bank services and mobile money services.

Grameen Progress out of Poverty Index (PPI) – A poverty measurement tool from the Grameen Foundation wherein a set of country-specific questions is used to compute the likelihood that a household is living below the poverty line.

Interoperability – The ability of users of different digital financial services (e.g., Safaricom M-PESA, Airtel Money and bank accounts) to transact directly with each other through interoperable platforms.

Lapsed mobile money/bank user – An individual who has used mobile money/a bank at some point in the past, but has not done so in the last 90 days.

Microfinance Institution (MFI) – An institution that offers financial services, such as loans or savings, generally to low-income clients.

Mobile money– A service in which a mobile phone is used to access financial services.

Mobile money agent – A person or business contracted by a mobile money provider to provide services to mobile money customers.

Mobile virtual network operator (MVNO) – A service provider that enters into an agreement with a mobile network operator to obtain access to wireless network infrastructure, and offers their own services over that network.

Over-the-counter - Using a DFS through an agent's account. This is a type of unregistered use.

Poverty line - \$2.50 per day, as classified by the Grameen Progress Out of Poverty Index.⁴⁷

Savings and Credit Cooperative Organization (SACCO) – A group-based savings and loan organization.

Unregistered user - An individual who uses a DFS only through someone else's account, such as a friend, family member or agent.

Value-added services– DFS transactions that go beyond simple deposits, withdrawals, money transfers and airtime top-ups.

Endnotes

- ¹ <https://www.centralbank.go.ke/images/docs/NPS/Regulations%20and%20Guidelines/Guidelines%20-%20Mobile%20money%20AML%20Guidelines.pdf>
- ² <https://www.centralbank.go.ke/images/docs/NPS/Regulations%20and%20Guidelines/Guidelines%20-%20Mobile%20money%20AML%20Guidelines.pdf>
- ³ <https://www.centralbank.go.ke/images/docs/NPS/Regulations%20and%20Guidelines/Regulations%20-%20E-%20Money%20regulations%202013.pdf>
- ⁴ <https://www.centralbank.go.ke/images/docs/NPS/npsdraftregulations.pdf>
- ⁵ <http://www.reuters.com/article/2014/05/26/kenya-equity-bk-idUSL6N0OC28420140526>
- ⁶ http://www.cck.go.ke/news/2014/Mobile_Virtual_Network.html
- ⁷ <http://mobile.nation.co.ke/business/-/1950106/2326960/-/format/xhtml/-/13l9sl2/-/index.html>
- ⁸ <http://www.theeastafrican.co.ke/news/Safaricom-raises-MPesa-tariffs/-/2558/1681810/-/view/printVersion/-/gyug2l/-/index.html>
- ⁹ http://www.cck.go.ke/mobile/news/index.html?nws=/news/2013/Mobile_operators_fail.html
- ¹⁰ <http://www.itwebafrica.com/telecommunications/153-kenya/232233-consultants-to-assess-kenyan-mobile-network-quality>
- ¹¹ <http://www.mobileworldlive.com/mobile-money-tracker>
- ¹² <http://www.vccircle.com/news/telecom/2014/03/04/airtel-safaricom-seek-buy-essar-owned-kenyan-telco-yumobile>
- ¹³ <http://www.businessdailyafrica.com/UBA-launches-Sh50-mobile-savings-plan/-/539552/2252052/-/x55apj/-/index.html>
- ¹⁴ <http://www.fsdkenya.org/finaccess/documents/2006FinaccessReportFINAL.pdf>
- ¹⁵ In this report, “active use” is defined as having used the account in the past 90 days.
- ¹⁶ <http://www.economist.com/blogs/economist-explains/2013/05/economist-explains-18>
- ¹⁷ Active use is defined as using the service in the 90 days prior to the survey.
- ¹⁸ InterMedia used the Grameen Foundation’s Progress out of Poverty Index to establish a \$2.50/day purchasing power parity poverty line. Each respondent is classified as either above or below this poverty line.
- ¹⁹ n=70 active mobile money account holders with an Airtel Money account
- ²⁰ n=1983 active mobile money account holders with an M-PESA account
- ²¹ <http://www.mit.edu/~tavneet/M-PESA.pdf>
- ²² n=2390 mobile money users, including both registered and unregistered users.
- ²³ Accessing mobile money through one’s own account is referred to as “registered use”, while accessing through someone else’s account is referred to as “unregistered” use. An unregistered user can conduct transactions either over-the-counter (OTC) with an agent, or through another individual’s personal account.
- ²⁴ Among unregistered users (n=203), 34 percent own a mobile phone, and 40 percent own a SIM card; among the rest of the population (n=2797) 77 percent own a mobile phone, and 80 percent own a SIM card.
- ²⁵ n=143 poor, nonregistered mobile money users; n=2,857 other Kenyans.
- ²⁶ n=253 lapsed mobile money users
- ²⁷ n=610 non-mobile money users
- ²⁸ n=669 respondents aged 15-24
- ²⁹ n=2331 respondents aged 25 or older
- ³⁰ n=357 super users; n=1642 active account holders who are not super users
- ³¹ n=63 super users who are farmers; n=294 super users who are not farmers
- ³² <http://go.worldbank.org/0SE6OB70I0>
- ³³ Multiple responses were allowed.
- ³⁴ The survey asked about deposits and withdrawals together.
- ³⁵ n=190 active mobile money account holders who have saved money in their account.
- ³⁶ For example, only 13 percent of rural residents have piped water, compared with 44 percent of urban residents: http://www.wssinfo.org/fileadmin/user_upload/resources/Kenya.xls

³⁷ A customer's initial loan amount is determined by algorithms based on the customer's usage of Safaricom services such as voice, mobile data, and M-PESA. Subsequent loans are determined by their M-Shwari activities, including savings and loan repayments (<http://www.gsma.com/mobilefordevelopment/tiered-risk-based-kyc-m-shwari-successful-customer-due-diligence>).

³⁸ n=284 M-Shwari users

³⁹ The survey specifically asked about saving "for a future purchase or payment". Follow up studies will explore other savings purposes.

⁴⁰ http://www.microsave.net/files/pdf/BN_139_M_Shwari.pdf

⁴¹ To access the product, merchants must first apply for a Lipa na M-PESA account. They then receive a "till", a special SIM card, tied to a phone number, which allows them to receive M-PESA payments. In order to make payments, customers only need an M-PESA account. They make payments to the till number through their M-PESA menu, and have no other interaction with the Lipa na M-PESA product. Merchants pay a 1 percent fee on all payments they receive through Lipa na M-PESA, and customers pay no fees.

⁴² n=78 Lipa na M-PESA users

⁴³ Only merchants have actual Lipa na M-PESA accounts. Customers who say they have used it to make a purchase have actually used their M-PESA account to send money to the merchant's Lipa na M-PESA account.

⁴⁴ <http://www.safaricom.co.ke/personal/m-pesa/m-pesa-services-tariffs/payment-solutions/pay-bill>;
<http://kopokopo.com/what-is-the-difference-between-lipa-na-m-pesa-and-pay-bill/>

⁴⁵ n=659 active bank account holders

⁴⁶ n=75 professionals who are active bank account holders

⁴⁷ <http://www.progressoutofpoverty.org/>



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