Where Credit Is Due
Customer Experience of Digital Credit In Kenya

Zeituna Mustafa, Mercy Wachira, Vera Bersudskaya, William Nanjero and Graham A.N. Wright

March 2017
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<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFA</td>
<td>AgriFin Accelerate</td>
</tr>
<tr>
<td>Ag</td>
<td>Agriculture</td>
</tr>
<tr>
<td>ASCA</td>
<td>Accumulating savings and credit association</td>
</tr>
<tr>
<td>ATL</td>
<td>Above the Line</td>
</tr>
<tr>
<td>BTL</td>
<td>Below the Line</td>
</tr>
<tr>
<td>CBK</td>
<td>Central Bank of Kenya</td>
</tr>
<tr>
<td>Chama</td>
<td>ROSCA (in Kiswahili)</td>
</tr>
<tr>
<td>CID</td>
<td>Criminal Investigation Department</td>
</tr>
<tr>
<td>CIS</td>
<td>Credit Information Sharing</td>
</tr>
<tr>
<td>CRB</td>
<td>Credit Reference Bureau</td>
</tr>
<tr>
<td>DC</td>
<td>Digital Credit</td>
</tr>
<tr>
<td>FII</td>
<td>Financial Inclusion Insights</td>
</tr>
<tr>
<td>HH</td>
<td>Household</td>
</tr>
<tr>
<td>LIS</td>
<td>Low Income Segment</td>
</tr>
<tr>
<td>MFI</td>
<td>Microfinance Institution</td>
</tr>
<tr>
<td>ROSCA</td>
<td>Rotating savings and credit association</td>
</tr>
<tr>
<td>SACCO</td>
<td>Savings and credit co-operative</td>
</tr>
<tr>
<td>STK</td>
<td>Sim Tool Kit</td>
</tr>
<tr>
<td>T&amp;C</td>
<td>Terms and Conditions</td>
</tr>
<tr>
<td>USSD</td>
<td>Unstructured Supplementary Service Data</td>
</tr>
</tbody>
</table>
It is easy to access multiple digital credit products in Kenya and consumers do not adequately understand the responsibilities and risks associated with them.

The uptake of digital credit has been on the rise

A growing number of clients have been negatively listed on CRB

There are 19 digital credit providers

Quick application turn around time near to real time

A growing number of loans issued with Mshwari at 63m, KCB Mpesa at 4.1m and Equitel at 3.6m

2.7 million Kenyans have been listed in the last three years

400,000 of this have been listed for amount less than 2 dollars
Sources:

• Financial Inclusion Insights Survey 2015
• FinAccess Survey 2016
• Financial Diaries 2015 and
• AgriFin Accelerate survey of smallholder farmers 2015 and 2016
According to 2015 FII, over ¾ of Kenyan adults know of M-Shwari and over ¼ have used it before.
Digital credit awareness and usage is lower in rural Kenya

- **Urban**
  - Aware: 87%
  - Ever Used: 26%

- **Rural**
  - Aware: 75%
  - Ever Used: 20%

- **Urban**
  - Ever Used: 39%

- **Rural**
  - Ever Used: 21%

Source: Financial Inclusion Insights Survey 2015 (finclusion.org)
According to 2016 AgriFin Accelerate second benchmark study for smallholder farmers of Kenya, usage of digital credit instruments doubled between 2015 and 2016 in Central and Western Provinces.

- **M-Shwari**: 15% in 2016, 8% in 2015
- **KCB M-Pesa**: 2% in 2016, 0% in 2015
- **Microfinance**: 8% in 2016, 6% in 2015

Source: www.MercyCorpsAFA.org
Digital credit is increasingly substituting shop credit, loans from family and friends and shopkeeper/moneylender loans. Digital credit provides privacy.
<table>
<thead>
<tr>
<th>Use of Credit Instruments by Type of Provider (%)</th>
<th>2006</th>
<th>2009</th>
<th>2013</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Formal</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Personal bank loan</td>
<td>1.8</td>
<td>2.6</td>
<td>3.6</td>
<td>4.4</td>
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<tr>
<td>Bank/building society loan (for purchase of house/land)</td>
<td>0.5</td>
<td>0.2</td>
<td>0.9</td>
<td>0.6</td>
</tr>
<tr>
<td>House/land government loan</td>
<td>0.3</td>
<td>0.1</td>
<td>0.3</td>
<td>0.0</td>
</tr>
<tr>
<td>Overdraft</td>
<td>0.3</td>
<td>0.2</td>
<td>0.5</td>
<td>0.4</td>
</tr>
<tr>
<td>Credit card</td>
<td>0.8</td>
<td>0.8</td>
<td>1.8</td>
<td>1.2</td>
</tr>
<tr>
<td>Mobile bank account loan**</td>
<td>_</td>
<td>_</td>
<td>_</td>
<td>5.9</td>
</tr>
<tr>
<td>SACCO loan</td>
<td>4.2</td>
<td>3.1</td>
<td>4.0</td>
<td>5.0</td>
</tr>
<tr>
<td>MFI loan</td>
<td>0.8</td>
<td>1.8</td>
<td>1.6</td>
<td>1.8</td>
</tr>
<tr>
<td>Government loan</td>
<td>0.9</td>
<td>0.3</td>
<td>0.6</td>
<td>1.3</td>
</tr>
<tr>
<td>Hire purchase</td>
<td>0.6</td>
<td>0.1</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Informal</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employer loan</td>
<td>0.9</td>
<td>0.5</td>
<td>1.0</td>
<td>5.1</td>
</tr>
<tr>
<td>ASCA loan</td>
<td>1.7</td>
<td>1.8</td>
<td>1.2</td>
<td>5.4</td>
</tr>
<tr>
<td>Chama loan</td>
<td>_</td>
<td>1.8</td>
<td>3.8</td>
<td>2.9</td>
</tr>
<tr>
<td>Informal moneylender</td>
<td>0.7</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Shopkeeper</td>
<td>22.8</td>
<td>24.3</td>
<td>5.5</td>
<td>9.9</td>
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<tr>
<td>Buyer credit</td>
<td>0.9</td>
<td>1.2</td>
<td>1.1</td>
<td>0.3</td>
</tr>
<tr>
<td><strong>Excluded</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family/friend/neighbour loan</td>
<td>12.6</td>
<td>12.2</td>
<td>5.2</td>
<td>6.6</td>
</tr>
</tbody>
</table>

According to FinAccess 2016, while shopkeeper credit has reduced substantially since 2006, it still remains, by far, the most widely used source. The most popular sources of formal credit are mobile bank accounts and SACCOs.

***Mobile bank account loans include: KCB M-Pesa, MCo-op Cash and M-Shwari. Equitel had not launched at the time of the survey.
M-Shwari remains relatively less important for the poorest 40%, but popular amongst the wealthiest 20%
## Motivation for Using Different Credit Providers (AFA)

The easy accessibility of digital credit is a key motivator – the short loan terms are not. Costs, however, do not appear to be a factor. Timing (the ability to access credit on demand) is also an important motivator.

<table>
<thead>
<tr>
<th>Source: <a href="http://www.MercyCorpsAFA.org">www.MercyCorpsAFA.org</a></th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Source: <a href="http://www.MercyCorpsAFA.org">www.MercyCorpsAFA.org</a></th>
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</table>

<table>
<thead>
<tr>
<th>N=272</th>
<th>Timing</th>
<th>Costs</th>
<th>Accessibility</th>
<th>Loan term</th>
<th>Location</th>
<th>Other (Specify)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td>19%</td>
<td>13%</td>
<td>65%</td>
<td>50%</td>
<td>3%</td>
<td>6%</td>
</tr>
<tr>
<td>Sacco</td>
<td>13%</td>
<td>23%</td>
<td>62%</td>
<td>57%</td>
<td>3%</td>
<td>5%</td>
</tr>
<tr>
<td>Chama</td>
<td>24%</td>
<td>24%</td>
<td>52%</td>
<td>50%</td>
<td>7%</td>
<td>2%</td>
</tr>
<tr>
<td>M-Shwari</td>
<td>33%</td>
<td>20%</td>
<td>75%</td>
<td>28%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Microfinance</td>
<td>5%</td>
<td>14%</td>
<td>62%</td>
<td>52%</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>Agricultural input supplier</td>
<td>36%</td>
<td>27%</td>
<td>73%</td>
<td>73%</td>
<td>27%</td>
<td>0%</td>
</tr>
<tr>
<td>Family/friends/neighbors</td>
<td>0%</td>
<td>25%</td>
<td>50%</td>
<td>38%</td>
<td>25%</td>
<td>0%</td>
</tr>
<tr>
<td>Government institution</td>
<td>0%</td>
<td>14%</td>
<td>57%</td>
<td>29%</td>
<td>0%</td>
<td>14%</td>
</tr>
<tr>
<td>Reason</td>
<td>Banks</td>
<td>Mobile banks</td>
<td>Microfinance</td>
<td>SACCos</td>
<td>Informal providers</td>
<td></td>
</tr>
<tr>
<td>-----------------</td>
<td>-------</td>
<td>--------------</td>
<td>--------------</td>
<td>--------</td>
<td>-------------------</td>
<td></td>
</tr>
<tr>
<td>Day to day needs</td>
<td>5.9</td>
<td>46.2</td>
<td>3.6</td>
<td>8.2</td>
<td>36</td>
<td></td>
</tr>
<tr>
<td>Business</td>
<td>18.9</td>
<td>11.8</td>
<td>15.2</td>
<td>17.1</td>
<td>37</td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>10.7</td>
<td>10.5</td>
<td>5.8</td>
<td>21.5</td>
<td>51.5</td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>14.5</td>
<td>8.1</td>
<td>6.8</td>
<td>36.5</td>
<td>34.1</td>
<td></td>
</tr>
<tr>
<td>Emergency</td>
<td>6.7</td>
<td>40.9</td>
<td>1.8</td>
<td>10.5</td>
<td>40.1</td>
<td></td>
</tr>
<tr>
<td>House/Land</td>
<td>34.2</td>
<td>3.25</td>
<td>25.2</td>
<td>45.9</td>
<td>11.5</td>
<td></td>
</tr>
</tbody>
</table>

According to FinAccess 2016, loans used for emergencies and day to day needs is being obtained from digital credit which confirms insights from the qualitative research done by MicroSave – see below.
Most digital credit is used for ordinary needs, stretching the budget - FinAccess 2016.

Most Cited Digital Loan Uses (N, more than one response allowed)

- Pay debts: 13
- Education: 37
- Working capital: 39
- Personal attire or travel: 51
- Emergency: 65
- Ordinary HH needs: 192
Purpose of Digital Credit Borrowing by Income Group

(Digital loan uses similar across wealth groups but emergencies more common in low income group)

- **Bottom 40%**
  - Ordinary HH needs: 33%
  - Working Capital: 19%
  - Home improvement: 10%
  - HH goods: 10%
  - Other: 11%

- **Middle 40%**
  - Ordinary HH needs: 37%
  - Working Capital: 13%
  - Home improvement: 10%
  - HH goods: 8%
  - Other: 20%

- **Top 20%**
  - Ordinary HH needs: 43%
  - Working Capital: 12%
  - Home improvement: 12%
  - HH goods: 10%
  - Other: 7%

FinAccess 2016/Julie Zollman
Approach, Methodology and Key Insights
MicroSave commissioned a study in Nairobi and Meru to determine the root cause of the alarming default rates on digital credit among the low income segment (LIS). Specific focus of the research was:

- To gauge how many digital credits low-income segments can access and take simultaneously
- To understand whether low income customers understand the price, terms and condition (T&C) and consequences of the loans
- To understand if customers have repaid this loans and consequences if they do not repay the loans

**Approach & Methodology**

**PHASE I: MOCK LOAN APPLICATION**

**Objectives were to assess and understand:**
- The customer journey
- Credit scoring and protection from over-indebtedness
- Transparency and disclosure

**PHASE II: QUALITATIVE INTERVIEWS**

**Objectives were to assess and understand:**
- Motivations and triggers
- Perceptions the low-income customers have on digital credit
- Awareness of loan terms and conditions
- Awareness of credit reference bureau
Methodology and Respondent Profile

<table>
<thead>
<tr>
<th>Respondent Profile**</th>
<th>Low income digital credit customers earning below 20,000 Kenyan shilling</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>Below 35 years-20, Above 35 years-12</td>
</tr>
<tr>
<td>Gender</td>
<td>Male-15, Female-17</td>
</tr>
<tr>
<td>Education level</td>
<td>Illiterate- 1, Primary-10, Secondary- 11, and Tertiary- 10</td>
</tr>
<tr>
<td>Bank account</td>
<td>Have bank account-20, no bank account-6, did not disclose-6</td>
</tr>
<tr>
<td>Employment Type</td>
<td>Employed-8, Self-employed-24</td>
</tr>
<tr>
<td>Repayment Status</td>
<td>Defaulted-27, not defaulted-5</td>
</tr>
</tbody>
</table>

In-depth Personal Interviews

Mock Loan Applications

Stakeholder Interviews
Key Insights

Repetitive push SMS designed to make loan qualification seem as an opportunity not to be missed, drive loan uptake when borrowers do not have prior intention or serious need to borrow.

Desire to uphold reputation within a community drives clients to prioritize repaying traditional loans over digital loans, which are private and virtual.

Additional steps required to access terms and condition means that many (almost all) customers accept loans without reading them.

Instant gratification prompts customers to take loans amounts higher than their income through gaming the system.

This causes customers to borrow even when they do not really need to and thus sometimes default.

Lack of personal touch with digital credit means they are last to be repaid, leading to default and negative listing on CRB.

Many end up unable to repay because their income cannot sustain the debt.

Customers do not understand the repercussions of not repaying on time, default easily and may be negatively listed.
1 Mock Loan Application

2 Qualitative Research

Detailed Findings and Implications
Detailed Findings and Implications

Mock Loan Process

Triggers to Borrow

Purpose of Borrowing

Product Design

Awareness of CRB

Loan Burden
Mock Loan Application Process

• Five people from varying income brackets went through the loan application process for major providers of digital credit in Kenya.
  o M-Shwari, KCB M-Pesa, Equitel’s Eazzy Loan and Airtel’s Kopa Chapaa processes are remarkably, possibly even deceptively straight forward and easy.
  o The app-based third party lenders’ loan application processes are more intricate and in some cases confusing.
• Details and screen shots of the application processes are provided in Appendix 1

Key Findings:

• There are no T&C on screens. Consumers have to visit website to access the terms.
• Interest rates are not disclosed until after the loan is taken for STK based loans.
• App-based loans are cumbersome and apps take up a lot of memory space on basic smartphones.
• The app-based loans give standard amounts irrespective of income. For example, Tala gives $20 for all new customers and Branch gives $10 for all new customers.
• Borrowers can take loans from multiple sources (M-Shwari, KCB M-Pesa, Tala and Branch ... and probably other app based providers) simultaneously.
2016 AgriFin Accelerate (AFA) survey finds that feature phones are being replaced by smart phones. However, in the AFA survey’s rural areas (in Central and Western Provinces) a large majority of users have basic phones, where *web links and thus app-based digital credit and T&C are difficult (if not impossible) to access.*
<table>
<thead>
<tr>
<th><strong>Product Design</strong></th>
<th><strong>Pricing</strong></th>
<th><strong>Consumer Protection</strong></th>
<th><strong>Terms and Conditions</strong></th>
<th><strong>Awareness of Product</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• The app-based loans are cumbersome and the app takes up too much space on basic smartphones.</td>
<td>• STK based product like <a href="#">Eazzy Loan</a> charges 14.5% interest plus 1% insurance fee; <a href="#">M-Shwari</a> charges 7.5% interest per month; and <a href="#">KCB M-Pesa</a> charges 3.91% interest for 1 month loan, 2.08% for 3 months loan and 1.8% for 6 months loan</td>
<td>• Some apps request users to upload their pictures which raises concerns for LIS users</td>
<td>• <a href="#">KCB Mobi Loan</a> gives T&amp;C including interest and loan duration prior to approval</td>
<td>• Even if aware, low-income segment may not be able to download some apps</td>
</tr>
<tr>
<td>• <strong>Lengthy application</strong> steps in app based loans (i.e., Tala and Zidisha) discourages low income segment (LIS) from taking up the product</td>
<td></td>
<td>• App based loans ask for a lot of information from customers – this should be reviewed by a regulatory body</td>
<td>• Equitel Eazzy Loan gives only loan duration prior to approval. For interest and any other extra charges you have to click on a link</td>
<td>• App based loans are advertised through digital marketing which is less salient to the low income segment who cannot access those channels</td>
</tr>
<tr>
<td>• Some app based loans give standard loan amount during first time application overlooking the ability to pay i.e. Tala and Branch</td>
<td>• The app based digital loans e.g. Branch and Tala are more expensive</td>
<td>• App based digital credit providers ask for customers income and do not have a system to detect false information – so customers can easily misrepresent information</td>
<td>• KCB M-Pesa and M-Shwari do not give any T&amp;C prior to loan approval. If a customer wants to check the loan duration and other interest they need to visit the banks’ websites</td>
<td>• Some products like Jumo, Micromobile, Mjiajiri, Pesa Zetu, Zidisha, MPawa Sacco needed the respondent to be either a member or earn commission through referral</td>
</tr>
<tr>
<td>• Products seemingly lack mechanisms to verify veracity of information provided by the applicant</td>
<td>• Tala gives repayment options of either 21 days – made weekly or 30 days – made in one lump sum</td>
<td>• There is a “hassle factor” in reading terms and condition as it is lengthy and uses complex language</td>
<td>• There is a “hassle factor” in reading terms and condition as it is lengthy and uses complex language</td>
<td>• Awareness is low on app based digital credit. Out of 32 interviews only two heard or used Tala</td>
</tr>
</tbody>
</table>
### Triggers to Borrow (AFA 2016)

<table>
<thead>
<tr>
<th></th>
<th>Family</th>
<th>Friends</th>
<th>TV</th>
<th>Radio</th>
<th>Brochu-res</th>
<th>Agro dealer</th>
<th>Other farmers</th>
<th>Extension officers</th>
<th>Other (specify)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bank</strong></td>
<td>44%</td>
<td>56%</td>
<td>3%</td>
<td>8%</td>
<td>5%</td>
<td>0%</td>
<td>10%</td>
<td>0%</td>
<td>16%</td>
</tr>
<tr>
<td><strong>Sacco</strong></td>
<td>33%</td>
<td>63%</td>
<td>0%</td>
<td>0%</td>
<td>2%</td>
<td>2%</td>
<td>23%</td>
<td>13%</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Chama</strong></td>
<td>37%</td>
<td><strong>83%</strong></td>
<td>0%</td>
<td>4%</td>
<td>0%</td>
<td>0%</td>
<td>7%</td>
<td>0%</td>
<td>4%</td>
</tr>
<tr>
<td><strong>M-Shwari</strong></td>
<td>50%</td>
<td>65%</td>
<td><strong>30%</strong></td>
<td><strong>48%</strong></td>
<td>10%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>3%</td>
</tr>
<tr>
<td><strong>Microfinance</strong></td>
<td><strong>10%</strong></td>
<td><strong>48%</strong></td>
<td>5%</td>
<td>14%</td>
<td>0%</td>
<td>5%</td>
<td>10%</td>
<td>14%</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Agricultural input supplier</strong></td>
<td>27%</td>
<td>45%</td>
<td>0%</td>
<td><strong>36%</strong></td>
<td>18%</td>
<td>18%</td>
<td>27%</td>
<td>0%</td>
<td>9%</td>
</tr>
<tr>
<td><strong>Family/friends/neighbors</strong></td>
<td>50%</td>
<td>88%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>13%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Government institution</strong></td>
<td>0%</td>
<td>57%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>43%</td>
</tr>
</tbody>
</table>

According to 2016 AFA, word-of-mouth from family and friends is the main trigger for customers taking loans, though radio and TV also trigger M-Shwari borrowing.

Source: www.MercyCorpsAFA.org
Triggers to Use Digital Credit

• Providers **push messages** to generate borrowing, even when customers do not have specific need.

• **Friends and family** who have had positive experience with the product incite and encourage others to borrow – social norming influences decision-making

• Digital credit products **widely advertised through ATL and BTL channels** (i.e. M-Shwari and KCB M-Pesa) are popular among the LIS.

• Some customers **take the loan out of curiosity** to gauge their eligibility and loan limits.

• The **ease of access to digital credit makes it tempting** for those who have had limited access to credit before.

‘I tried KCB-MPesa in the initial days after my friend got a loan of $500. They gave me $250’
- User in Gikomba

‘My friend tried and was given. She told me to try and I was also given’
- User in Kawangware

‘I heard people in the market were being given M-Shwari so I also tried and was given too’
- User in Chuka
According to FinAccess 2016, respondents’ first M-Shwari loans were used for “trying it out” – often for “no reason”. Thereafter it is seen mostly as a convenient product, and use cases are diverse.
Purpose of Digital Credit Borrowing

Among our respondents as well as their friends who had also borrowed digitally:

• Digital credit is most commonly used during emergencies for consumption smoothing, emergencies and then boosting business.

• Customers accessing higher amounts (above $200) typically invest in their businesses; while those qualifying for smaller amounts used loans for consumption, emergencies and meeting recurring expenses such as rent and bus fares.

• LIS entrepreneurs complained that loan amounts they qualify for are insufficient to expand their business. They use digital loans to top up existing capital.

• The majority of women used their loans for meaningful investment (i.e. boosting business). Fewer men did so.

• A few customers used the loan received for entertainment (topping up to buy alcohol in a bar) and for sports betting.
Product Design

• **The user interface for STK based application is intuitive and user friendly.** Users did not have a problem navigating through the screens as they are used to navigating mobile money interface.

• The majority of providers advise users to access a link to read the T&C. This is a hassle to many customers as they would have to end current session and visit a website. As a result **most do not read T&C.**

• The **KCB-Mobi loan** does give customers the option to read a **summarized T&C** under loan terms – but this only consists of interest rates and duration for repayment.

• On the website, the **language used in the T&C is difficult** for LIS to fully understand. It is legal, verbose, and discouraging customers from reading.

• **High interest rates on digital credit instruments was not a concern to the LIS** since they compare interest to more expensive charges by informal money lenders offering similar short loans.
Awareness of CRB

- **Customers are not aware of CRB processes and penalties.** Some thought that CRB was CBK or CID. This increases the chance of default among digital credit customers.

- **LIS customers internalise the gravity of being listed on CRB only after their subsequent loan applications are denied.** [CIS Kenya](#) is responsible for creating awareness and educating customers on CRB processes and penalties.

- **CRB automatically updates defaulters’ status once they settle their debt.** Many formal lenders, however, require a $22 CRB clearance certificate to advance loans to customers.

- The requirement of a **CRB clearance certificate** (at a cost of $22) may exclude borrowers from the formal financial system (banks, MFIs and SACCOs). However, digital credit providers do not require this certificate – but simply seek to ensure that the borrowers is not blacklisted.

- Some lenders are mandated by CBK to report information to CRB. However, the information is often incomplete as **many FinTech digital lenders are not required to report data at all.** This can lead to **over borrowing**, or borrowing to pay off another loan, creating a debt cycle with potentially negative repercussions for the customer.

(After 5 years, whether you are negatively or positively listed, your CRB record is cleared - as long as you have repaid your outstanding balance in the case negative listing).

‘I will wait for 5 years to be unlisted from CRB for an amount less than 10 dollars’
Loan Burden

- Customers have learned to **game the system** through repeat savings and timely repayment small loans. Eventually, some of these customers qualify for high amounts that they are unable to repay.

- Many customers are **servicing multiple loans** (traditional and digital) which increases their chances of default.

- **Many prioritise paying traditional over digital loans** due to the personal touch associated with traditional loans. SMS used by digital credit providers are perceived as gentle reminders.

- **Lack of information sharing** among providers to conduct background checks and protect customers against **over borrowing drives high default rates**.

- Some customers **misplace phones** and end up in default and negatively listed because they have not replaced their lost phone.

- In some instances, PIN sharing allows **other family members** to request a loan without the consent from the owner of the line. We came across instances of where this had resulted in default and negative listing with the CRB.

‘They don’t know me so they can’t catch me’
- Second hand cloths seller in Gikomba

‘I delete the messages immediately I receive them on my phone. This way CRB can’t catch me’
- Designer in Town CBD

‘If I don’t pay my SACCO, loan officers and guarantors will come after me unlike DC which only sends messages’
- Second hand Cloth Seller in Kawangware
Three Persona of Digital Credit Customers

**Defaulter:**
Ignores digital loans repayment, unaware and does not understand the repercussions of being negatively listed on CRB.

**Juggler:**
Services many loans both traditional and digital. Prioritises repaying traditional loans, repays digital loans before being listed on CRB.

**Repayer:**
Repays digital loans on time, as they are used to replenish business stocks.
1. Repayer

Alfred
40 years old
Entrepreneur

‘I receive many SMS notifications to inform me of my current loan limit’

‘When I have no money, I borrow from a friend to repay digital loans. I don’t have existing loan burden as am only servicing the digital loans’

- Has an idea of the interest rate charged as a result of personal calculations.
- The interest rates are favourable compared to informal money lenders.
- Pays loan on time and saves regularly hoping it will improve credit score.
- SMS notification are helpful because it reminds him that the debt should be repaid, but can be annoying at times.
- Does not have existing traditional loan burden and is only servicing the digital loans.
- Believes that reminder messages should be individualized.
2. Juggler

• The interest rate charged is OK – it is the **price of convenience**.
• **Providers should disclose everything** especially about CRB before giving out loan.
• Is discouraged when the loan limit does not increase especially as she saves regularly, believes **savings should not be linked to borrowing**.
• The minimum set for fixed savings is too high hence discourages me from using it.
• **If they give large loans they should not expect repayment so soon.** She feels overburdened servicing all the loans at once.
• **Animates different credit instruments to fit different uses:** M-Shwari is used to boost business; KCB-MPesa is for smoothing consumption, Equitel is for school fees, and SACCO loan is for purchasing land.
• **Does not read the T&C:** “Providers give a link which I do not bother to access”.

---

**Rose**

35 years old
Entrepreneur

• **Defaults at times** especially when business is low and loans overlap.
• Has been **penalised several times by M-Shwari** for delaying repayments.
• When it comes to repayment prioritises SACCO as opposed to digital loans due to the huge penalties imposed by the SACCO – and the SACCOs are known for repossessing defaulter’s assets.
• **Text messages are helpful** to remind when the loan is due and before CRB listing.
‘No need of paying $22 dollars for the certificate. Once I have cleared the loan then I should be removed from the list’

‘I do not know the consequences of being listed. I can’t take bank loans they are for the rich’

‘CRB is criminal investigation department and clearance certificate is equivalent to certificate of good conduct’

‘Messages don’t work effectively as reminder - ‘it is computer speaking to me’

Mbindi
26 years old
Entrepreneur

- **Urge to take loan** overshadows ability to repay - hence takes a large amount for which qualified after gaming the system.

- **Hyperbolic discounting** means that the attraction and immediate gratification of the loan outweighs the problems of repaying it.

- **Ignore the terms and condition** as it an extra step of following a link to a website.

- **Do not know the timelines for negative listing on the CRB.**

- Perceive provider **notices before listing on CRB as too short.**
What is Common Among the Three Segments?

• All of them had **limited awareness of the T&C** because they do not read as it is not easily accessible.

• All of them had **limited knowledge of CRB processes** involved. Customers who had been listed were curious to know the steps involved and how they can clear with themselves from the list.

• There was a consistent feeling that had they been fully aware of T&C before taking the loans it **would have influenced decision**.

• The majority of the **customers took up the loan to smooth consumption, emergencies or to boost business**. Customers who were self employed channelled the loan to their business to increase stock.
Interventions and Recommendations
Recommendations for Regulators (1)

- **Competition Authority of Kenya** (CAK) should **regulate aggressive marketing techniques** as they encourage the low income segment to over-borrow. Unsolicited SMSs surprise users with loan offers, eliciting customer loss aversion. CAK should consider restricting language that can be used in push marketing and mandate options to opt in and out of these marketing messages.

- CAK should **enforce current requirements to display core T&C** on screens prior to disbursement, and extend this to all providers of digital credit. CAK should also ensure that T&C are **readable and accessible** to all users, regardless of **sophistication or phone type**, to ensure customers understand implications of default. T&C should be:
  - Written in clear, simple and concise language, using **simple layout and summarized terms**.
  - Available in different languages.
  - Visible on all phones (e.g. pop-ups on feature phones).
Recommendations for Regulators (2)

• CAK should examine and test opportunities to use behavioural levers to reduce ill-considered loan applications. This may involve testing the following interventions:
  o Introducing friction to access STK-based loans, e.g. “cooling off periods” before the money is disbursed
  o User selected maximum limits and/or co-signatures (PINs)
  o Framing loan default as having serious consequences (e.g. ‘you will not be able to borrow in the future, if negatively listed on CRB’)
  o Priming ‘good borrower’ identity at loan application (e.g. ‘only prompt repayers take this loan, do you want to proceed?’)

• In addition to T&C display, CAK should define standardised product features, including but not limited to:
  o Informed consent to share personal data and privacy safeguards
  o Behavioural features tested and proven effective (see above)

• Mandate all digital money lenders (incl. FinTechs based outside the country) to report to CRB and review their demands for information from potential borrowers.

• CBK may consider periodically auditing CRB records to ensure accuracy so as to reduce disputes and protect consumers.
Recommendations for Providers (1)

- Providers should enhance their credit scoring algorithms to detect customers’ gaming techniques and better assess ability to repay.

- Providers should introduce measures to prevent over indebtedness and contribute to improved market level credit risk management (for example, through improved credit information sharing to reduce multiple borrowing).

- Providers will need to extend the loan terms for larger loans to allow borrowers to break down the repayments into manageable installments. (This is one of the core lessons from the microfinance experience).

- Providers should strive to provide positive real returns on deposits to encourage a savings culture among low income segments.
• **Providers should introduce a ‘personal touch’** into the digital credit collections process to reduce the rates of delinquency and thus negative listing, particularly for small amounts. This should go beyond automated SMS based reminders to include calls, especially when the defaulter is about to be negatively listed on CRB.

• Providers could introduce **separate PIN for digital credit** wallets. This will help curb instances where customers default because they were not aware when a loan was taken.

• Traditional credit providers should be less stringent in requesting for **clearance certificate** for small ticket size loans. Once a customer has cleared the loan arrears, providers should allow them access other credit services, waiving the $22 clearance certificate.
Recommendations for Other Stakeholders

- Stakeholders should collaborate to enhance digital credit market monitoring and supervision. This can be done through regular demand-side nationally representative surveys covering customers’ experiences with digital credit, debt burden, protection issues, etc. These surveys can be further supplemented with data from: the providers; the CRB; audits; and qualitative research.

- Stakeholders should improve information about the CRB and ensure that opportunities for complaint and redress for those negatively listed are salient and accessible.

- Think outside the box, as traditional financial education is unlikely to be part of the solution.
Appendices
1. Loan Application Processes
Mock One: Branch - Sharon Muliga (1)

Digital Loan name: Branch  
Provider: Branch Kenya  
Delivery Channel: Application on Smartphone

Sharon Muliga is a bartender who lives in Kangemi. She is 26 years old, single and has one kid. She earns $40 per month. She started working in Aug 2016. She has never taken any loan. She was not aware of the app based products.
currently Branch gives options to users to allow access to certain information
Sharon had not taken any loan before - and yet she was declined, and was unaware of the reason for this.
Mock One: Tala - Sharon Muliga (1)

Digital Loan name: **Tala**
Provider: Inventure Mobile Kenya
Delivery Channel: Application on Smartphone

![Tala Sign Up Screen](image-url)

- **Sign Up**
  - Use your M-Pesa number to get started!
  - **M-Pesa Phone Number**: +254 726331552
  - **Confirmation code sent via SMS to**: 254726331552
  - **Enter your confirmation code**: 1734
  - **Confirm Phone Number**
  - **Continue**
Tala has an element of ‘human touch’ with real-time staff to speak to.
The request by Tala to give date of issue of the ID was observed to be a hassle factor because many do not remember - thus posing a barrier.
### Mock One: Tala (4)

**TALA**

**Do you own this phone?**
- Yes, this phone is mine
- No, someone else owns this phone

**Did you get it new or used?**
- New
- Used

**How long have you been using this phone?**
- Less than 1 month
- 1-3 months
- 3-6 months
- 6-12 months
- 1-3 years
- 3+ years

I confirm that the answer I selected above is true and understand that answering dishonestly will disqualify me from Tala loans.

**TALA**

| 34% |

**How did you hear about Tala?**
- Whatsapp
- Friend on social media (e.g. facebook)
- Facebook ad
- Google Play Store or online search
- In person / word of mouth
- Other

**Referral Code (Optional)**

---

**TALA**

To apply for a loan, set a secret question. You can use this to reset your PIN if you forget it.

Choose your secret question

- What is your mother’s full name?
- What was your childhood nickname?

Choose your answer

**sar**
Mock One: Tala (5)

In comparison to other app-based loans, Tala explains the reason for accessing information on the phone.

Tala updated user interface

Tala (formerly Mkopo Rahisi) user interface as at early 2016
Mock One: Tala (6)

What would you like to use your loan for?

- Business Expense
- Personal Expense

What kind of personal expense is this?

- Emergency

What kind of personal expense is this?

- for hospital

Check all that apply to you

- Have a job: I work for someone who pays me
- Self employed: I work for myself and earn income
- Student
- No Income

Continue
Tala advances loan to users despite outstanding loan burden.
### Mock One: Tala (8)

<table>
<thead>
<tr>
<th>TALA</th>
<th>TALA</th>
<th>TALA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Review your answers</strong>&lt;br&gt;Tap on the pencil to edit</td>
<td><strong>Review your answers</strong>&lt;br&gt;Tap on the pencil to edit</td>
<td><strong>Review your answers</strong>&lt;br&gt;Tap on the pencil to edit</td>
</tr>
<tr>
<td><strong>When did you start doing this?</strong>&lt;br&gt;Aug 2016</td>
<td><strong>Per</strong>&lt;br&gt;Month</td>
<td><strong>Your loan application is pending.</strong>&lt;br&gt;If you do not receive a decision in 1 hour, please contact us.</td>
</tr>
<tr>
<td><strong>On average, how much do you earn from this in KSh?</strong>&lt;br&gt;4,000</td>
<td><strong>Do you always earn the same amount from this source?</strong>&lt;br&gt;Yes, I always earn the same amount.</td>
<td></td>
</tr>
<tr>
<td><strong>Do you have any other sources of income?</strong>&lt;br&gt;No</td>
<td><strong>Do you have any other sources of income?</strong>&lt;br&gt;No</td>
<td></td>
</tr>
<tr>
<td><strong>Do you have any outstanding loans?</strong>&lt;br&gt;No</td>
<td><strong>What is your highest level of education?</strong>&lt;br&gt;Secondary / High School</td>
<td></td>
</tr>
</tbody>
</table>
The applicant qualified for $10 as a first time user. Most first time users are offered $20 as a standard first loan. This could be because maybe her income was $40 and she had another outstanding balance.

Tala gives two options of repayment but both options fall within a month.
Mock One: Zidisha - Sharon Muliga (1)

**Digital Loan name:** Zidisha
**Provider:** Zidisha Inc.
**Delivery Channel:** Application on Smartphone

### Start application

Before you start, please make sure you have:
- A Safaricom phone number registered in your own name
- Your national ID number
- A photo of yourself saved in your phone
- At least half an hour of data time to complete the application form

### Your Profile

- **Sharon**
- **muliga**
- **0726331552**
- **Other Phone Number (Optional)**
Zidisha app requires customers to upload their picture which raised concern.
Mock One: Zidisha (3)

The product gives the credit score thus allowing users to have full information on their progression.
This information was confusing to us and the respondent. She got irritated because of the many steps involved and information which she could not understand.
## Mock One: Zidisha (5)

<table>
<thead>
<tr>
<th>Loan</th>
<th>Receive</th>
<th>Repay</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1,000 KES</td>
<td>26,050 KES</td>
</tr>
<tr>
<td>2</td>
<td>37,121 KES</td>
<td>39,075 KES</td>
</tr>
<tr>
<td>3</td>
<td>55,682 KES</td>
<td>58,613 KES</td>
</tr>
<tr>
<td>4</td>
<td>83,523 KES</td>
<td>87,919 KES</td>
</tr>
<tr>
<td>5</td>
<td>125,285 KES</td>
<td>131,879 KES</td>
</tr>
<tr>
<td>6</td>
<td>187,927 KES</td>
<td>197,818 KES</td>
</tr>
<tr>
<td>7</td>
<td>281,889 KES</td>
<td>296,726 KES</td>
</tr>
<tr>
<td>8</td>
<td>422,834 KES</td>
<td>445,089 KES</td>
</tr>
<tr>
<td>9</td>
<td>634,252 KES</td>
<td>667,634 KES</td>
</tr>
<tr>
<td>10</td>
<td>943,103 KES</td>
<td>992,740 KES</td>
</tr>
</tbody>
</table>

I understand and agree that my first loan will have the following deductions: 0 KES one-time membership fee, 23,747 KES one-time Members Loan Fund payment (as a result of increased credit limit), and 5% service fee. I will receive a total of 1,000 KES after the deductions, but will still be responsible for repaying the full 26,050 KES loan.
Mock One: Zidisha (6)

✓ Loan Proposal Tip

Help lenders understand how their funds will be invested. Please use your own words. Explain:
• What will you buy with the loan? Give exact item(s) and price in dollars.
• What benefit will this create to yourself and others?
• If it is for a business, how much do you expect your profit to increase?

OK
Digital Loan name: **KCB M-Pesa**
Provider: Kenya Commercial Bank
Delivery Channel: Sim Tool Kit (STK)
Mock One: KCB M-PESA (2)

Safaricom

KCB M-PESA

Deposit from M-PESA
Withdraw to M-PESA
Loan
Fixed Savings Accounts
My Account

Safaricom

Loan
Request Loan
Pay Loan
Check Loan Limit

Dear SHARON MULIGA,
You qualify for a loan of up to KES 500.00. To apply for a loan, access KCB Mpesa in the MPESA menu.

11:12 AM
Mock Two: M-Shwari - Mary Nyamai

Digital Loan name: **M-Shwari**  
Provider: Commercial Bank of Africa  
Delivery Channel: Sim Tool Kit (STK)

Mary Nyamai is a cleaner who works at Guaranty Trust (GT) bank. Her monthly income is $130. She is married and has two kids. She is 32 years old. She runs a side business besides her job (She did not disclose which business).

* M-Shwari does not ask for income. Mary is with airtel and not an active M-Pesa/ Safaricom user.
Digital Loan name: **Kopa Chapaa**

Provider: Airtel Kenya

Delivery Channel: Sim Tool Kit (STK)

Mary is an Airtel GSM user, but does not use Airtel Money - suggesting that the algorithm only considers Airtel money use.
Mock Two: Branch - Mary Nyamai

Digital Loan name: **Branch**
Provider: Branch Kenya
Delivery Channel: Application on Smartphone
Mock Two: Branch (2)
Mock Two: Branch (3)

- Allow Branch to access your contacts?
  - 1 of 4
  - Deny
  - Allow

- Allow Branch to make and manage phone calls?
  - 3 of 4
  - Deny
  - Allow

- Allow Branch to send and view SMS messages?
  - 2 of 4
  - Deny
  - Allow

- Allow Branch to access this device's location?
  - 4 of 4
  - Deny
  - Allow
The highest possible loan amount is made more salient to trigger customers to take it.

Branch updated user interface - not option to select 4 weekly repayments or 1 at month end.

Branch user interface as at early last year (April).
Mock Two: Branch (5)
Mock Two: Tala - Mary Nyamai (1)

Digital Loan name: **Tala**  
Provider: Inventure Mobile Kenya  
Delivery Channel: Application on Smartphone
Mock Two: Tala (2)

**Apply for a loan**
Qualify for loans up to KSh 50,000 over time

**My Tala Status**
Track your progress over time

**Tala helps me help my family**

**TALA**

We need to verify your identity. Enter your information as seen on your National ID card.

Legal First Name

Legal Last Name

Date of Birth

Date of Issue

Email Address

Phone
254792603002

Please provide an alternative phone number in case we can’t reach you at the number above (Optional)

National ID

Gender

- Male
- Female

**CONTINUE**
Mock Two: Tala (3)

- **TALA**
  - 23%

  **Do you own this phone?**
  - Yes, this phone is mine
  - No, someone else owns this phone

  **Did you get it new or used?**
  - New
  - Used

  **How long have you been using this phone?**
  - Less than 1 month
  - 1-3 months
  - 3-6 months
  - 6-12 months
  - 1-3 years
  - 3+ years

  I confirm that the answer I selected above is true and understand that answering dishonestly will disqualify me from Tala loans.

- **TALA**
  - 34%

  **How did you hear about Tala?**
  - Whatsapp
  - Friend on social media (e.g. facebook)
  - Facebook ad
  - Google Play Store or online search
  - In person / word of mouth
  - Other

  Referral Code (Optional)

- **TALA**
  - 45%

To apply for a loan, set a secret question. You can use this to reset your PIN if you forget it.

**Choose your secret question**
- What is your mother’s full name?
- What was your childhood nickname?

**Choose your answer**

[CONTINUE]
Mock Two: Tala (4)

What would you like to use your loan for?
- Business Expense
- Personal Expense

What kind of personal expense is this?
Select Answer...

Please describe how you will use this loan in more detail

Check all that apply to you
- Have a job: I work for someone who pays me
- Self employed: I work for myself and earn income
- Student
- No Income

CONTINUE
Mock Two: Tala (5)

When did you start doing this?
Jan 2015

On average, how much do you earn from this in KSh?
13,000

Per
Month

Do you always earn the same amount from this source?
- Yes, I always earn the same amount.
- No, the amount I earn sometimes changes.

Do you have any other sources of income?
- Yes
- No

What is your highest level of education?
- None
- Primary
- Secondary / High School
- College / University
- Masters / PhD

Do you have any outstanding loans?
- Yes
- No

CONTINUE

Your loan application is pending.
If you do not receive a decision in 1 hour, please contact us.
Mock Two: Tala (6)

You qualify for **KSh 2,000**
Choose the payment schedule that best fits your needs.

**30 Day Payment Schedule**
The total amount includes a 11% fee.

- Due 18 February 2017: KSh 2,300
- Total: KSh 2,300

**21 Day Payment Schedule**
The total amount includes a 11% fee.

- Due 26 January 2017: KSh 740
- Due 02 February 2017: KSh 740
- Due 09 February 2017: KSh 740
- Total: KSh 2,220

Choose Payment Schedule

- 30 Day
- 21 Day

If you do not repay this loan by the final due date, you will be charged an additional 8% fee. There is no penalty for prepayment. Offer is valid for 48 hours.

**NO THANKS**

Customers are required to cover all mobile money provider charges associated with the loan. Standard carrier SMS and data charges may apply.

By accepting this loan, you agree to comply with the [User Agreement](#).
Mock Two: Saida - Mary Nyamai (1)

Digital Loan name: **Saida**
Provider: Greenshoe Capital Inc.
Delivery Channel: Application on Smartphone
Mock Two: Saida (2)

Fill in the form below to get started

Full Names (as they appear on ID)

Mary Nyamei

Mobile Number
0727233001

ID Number
24113165

Good Afternoon Mary
Check if you can get a loan

Tell us about yourself and check if you can get a Saida loan by pressing the button below

Check Now

Refresh

2016

Ksh 100 to Ksh 1,000
Ksh 1,001 to Ksh 3,000
Ksh 3,001 to Ksh 7,000
Ksh 7,001 to Ksh 10,000
Ksh 10,001 to Ksh 15,000
Ksh 15,001 to Ksh 30,000
Ksh 30,001 and Ksh 50,000
more than Ksh 50,000
Mock Two: Saida (3)

Check Loan

Check If You Can Borrow.
To check if you can get a loan, complete the sentence below with your personal details - press the places that look like this ▼ to select what applies to you.

Tazama Katika Swahili

I am ▼ aged ▼ years old,

my marital status is ▼

my highest level of education is ▼

today I live ▼ in ▼ a rented ▼ house,

my main source of income is through ▼

capacity and every ▼ I am paid Ksh ▼ which I have been earning for the last ▼ years,

I am using Saida for an emergency ▼ and today I would want a loan of Ksh 100 to Ksh 1,000 ▼

Check If I Qualify

Close Window

Thank you. Your results should be ready in about an hour. Please press the Back button on your phone to go back.

Thank you for using Saida.

Press the button below to close this page.

Close Page

Saida

IMPOR SHOP HELP

Loan Application Declined

Sadly, we could not offer you for a loan. We hope you try us again in the future.

Check the Help menu to see reasons why.

Also check the Shop menu to see what is on offer.

REFRESH

2016
Belinda Barasa is a security guard who lives in Kawangware. She is 30 years old and single. She earns $100 per month. Belinda has a feature phone which carries two sims and one of the sim card is Equitel. She has tried to use both M-Shwari and Equitel but she has not qualified yet. She does not know why and has given up on trying again.
Mock Three: Eazzy Loan (2)
Belinda was told to start saving with Equity. She doesn't have enough income to save. She withdraws all of her salary immediately.
Mock Four: Tala - Cate Ambede (1)

Digital Loan name: **Tala**  
Provider: Inventure Mobile Kenya  
Delivery Channel: Application on Smartphone

Cate Ambede is a beautician. She is 32 years old and single with one daughter. She earns $150 per month from employment. Cate used to save in Mshwari but after being listed she stopped saving. Cate did not know about Tala but after the mock loan application she decided to take the loan offered.
Welcome to Tala! I’m Lucy and I’m here to help you get started. Tala requires a permission so you can quickly apply for a loan.

Allow Tala to make and manage phone calls?

Tala allows one account per person which is linked to your device. Tala uses access to your phone to secure your account. Tala will never send or receive calls from your device.

CONTINUE

Apply for a loan
Qualify for loans up to KSh 50,000 over time.
APPLY NOW

Status
- BRONZE: KSh 500–4,999
- SILVER: KSh 5,000–9,999
- GOLD: KSh 10,000–50,000

Grow your limit with Tala
With Tala you can borrow convenient loans. When you keep your account in good standing and repay loans, you can grow your limit up to KSh 50,000 over time. Apply to get started!
Mock Four: Tala (3)

**TALA**

We need to verify your identity. Enter your information as seen on your National ID card.

- **Legal First Name**: catherine
- **Legal Last Name**: ambede
- **Date of Birth**: 19/09/1984
- **Gender**: Female
- **National ID**:

  - National ID: 23519434
  - Date of Issue: 26/10/2004
  - Email Address: kateabukusi@gmail.com
  - Phone: 254703144516

Please provide an alternative phone number in case we can't reach you at the number above (Optional).

**TALA**

Do you own this phone?
- Yes, this phone is mine
- No, someone else owns this phone

Did you get it new or used?
- New
- Used

How long have you been using this phone?
- Less than 1 month
- 1-3 months
- 3-6 months
- 6-12 months
- 1-3 years
- 3+ years

I confirm that the answer I selected above is true and understand that answering dishonestly will disqualify
Mock Four: Tala (4)

How did you hear about Tala?
- Whatsapp
- Friend on social media (e.g. facebook)
- Facebook ad
- Google Play Store or online search
- In person / word of mouth
- Other

Referral Code (Optional)

To apply for a loan, set a secret question. You can use this to reset your PIN if you forget it.

Choose your secret question
- What is your mother's full name?
- What was your childhood nickname?

Security question cannot be blank.

Choose your answer
mary abukusi

Security answer cannot be blank.

Continue

Allow TALA to send and view SMS messages?
- Deny
- Allow

2 of 2

Allow TALA to access this device's location?
- Deny
- Allow

Allow TALA to access photos, media, and files on your device?
- Deny
- Allow
Mock Four: Tala (5)

What would you like to use your loan for?
- Business Expense
- Personal Expense

What kind of personal expense is this?
- Education expenses

Please describe how you will use this loan in more detail
- school for daughter

Check all that apply to you
- Have a job: I work for someone who pays me
- Self employed: I work for myself and earn income
- Student
- No Income

On average, how much do you earn from this in KSh?
- 20,000 Per Month

Do you always earn the same amount from this source?
- Yes, I always earn the same amount.
- No, the amount I earn sometimes changes.

Do you have any other sources of income?
- Yes
- No
Mock Four: Tala (6)

Please describe your main source of income
Employment

When did you start doing this?
Mar 2015

On average, how much do you earn from this in KSh?
20,000

Per
Month

Do you always earn the same amount from this source?
Yes, I always earn the same amount.

What is your highest level of education?
- None
- Primary
- Secondary / High School
- College / University
- Masters / PhD

Do you have any outstanding loans?
- Yes
- No

Your loan application is pending.
If you do not receive a decision in 1 hour, please contact us.
Choose the payment schedule that best fits your needs.

**30 Day Payment Schedule**
The total amount includes a 15% fee.
- Due 24 February 2017: KSh 2,300
- Total: KSh 2,300

**21 Day Payment Schedule**
The total amount includes a 11% fee.
- Due 01 February 2017: KSh 740
- Due 08 February 2017: KSh 740
- Due 15 February 2017: KSh 740
- Total: KSh 2,220

Choose Payment Schedule

Send My Loan

NO THANKS

Customers are required to cover all mobile money provider charges associated with the loan. Standard carrier SMS and data charges may apply.

By accepting this loan, you agree to comply with the User Agreement.
Mock Four: Tala (8)

30 Day Schedule

You selected the 30 day payment schedule for your KSh 2,000 loan. A total of KSh 2,300 will be due by 24 February 2017.

- I agree to repay this loan according to the schedule.

Confirm

Charges associated with the loan. Standard carrier SMS and data charges may apply.

By accepting this loan, you agree to comply with the User Agreement

LAP8VNC124 Confirmed. You have received Ksh2,000.00 from INVENTURE MOBILE KENYA LIMITED 851901 on 25/1/17 at 9:00 AM New M-PESA balance is Ksh2,807.00. Buy goods with M-PESA.

safaricom 09:00

Type text message

Earn 100KSh off your next loan payment whenever someone you invite repays their first Tala loan!
Mock Five: Justine Kyalo

Digital Loan name: **M-Shwari**  
Provider: Commercial Bank of Africa  
Delivery Channel: Sim Tool Kit (STK)

Justine Kyalo is a caretaker at Pangani executive apartment. He is 27 years old. He is married with one son. He earns an income of $100 per month. He has never taken Mshwari or KCB Mpesa. He does not trust loans that are given through the phone.

*No T&C shown in the screens leading to a loan*
2. Other Information
Finaccess Analysis of Financial Services by Kenyans

Which financial services are used by & matter most to Kenya’s poorest?

Percent of adults using financial instrument vs percent of users citing that financial instrument as their most important, by instrument, ‘Poorest 40%’

**Financial service category**
- Bank saving/transaction
- Non-bank savings
- Bank credit
- Non-bank credit
- Mobile money
- Insurance
- Investments
- Pension

**Percent of population currently using or has used in the past (adults 18+)**

Graph notes: *Kenya’s poorest 40% are identified using an asset based index of welfare. Source: 2016 FinAccess household survey, FSD Kenya, June 2016*

Tracking the growth of digital banking in Kenya
Penetration of M-Shwari in population, overall, by household residence and wealth, 2013-2016

*Graph notes: M-Shwari usage is measured somewhat differently in FinAccess and FITS. FinAccess asks whether a respondent is currently using M-Shwari for savings or credit or if the respondent has used M-Shwari in the past but no longer uses it. FITS asks respondents when was the last time they used M-Shwari. For this analysis, respondents in FITS who had used M-Shwari in the past 90 days are labeled as ‘current’ user. Each estimate of M-Shwari’s penetration is calculated at the weighted average time of all interviews during a particular survey. Source: FSD Kenya, March 2016*
## Current Digital Credit Offerings in Kenya

<table>
<thead>
<tr>
<th>Provider</th>
<th>Number of sign up</th>
<th>Number of loans issued</th>
<th>Value of loans made (USD)</th>
<th>Value of savings deposited (USD)</th>
<th>Sources (Links)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eazzy Loan (Equitel)</td>
<td>2,200,000</td>
<td>3,557,913</td>
<td>208,000,000</td>
<td>-</td>
<td><a href="http://bit.ly/2g5clR">http://bit.ly/2g5clR</a></td>
</tr>
<tr>
<td>KCB-Mpesa</td>
<td>10,200,000</td>
<td>4,100,000</td>
<td>170,000,000</td>
<td>7,400,000</td>
<td><a href="http://bit.ly/2fbmb5g">MicroSave calculations</a></td>
</tr>
</tbody>
</table>
Loan Application Process and Bottlenecks

1. Traditional vs Digital loans

Current ‘As IS’ Map

1. Push message trigger application
2. Application Process
   Limited knowledge of T&C
3. Loan disbursement and Usage
4. Loan repayment: Defaults
   (Prioritize Traditional)
5. Lack knowledge of penalties and
   processes. Listed on CRB

Desired ‘To BE’ Map

1. Push message triggers with option to opt in and opt out
2. Application process and full disclosure of T&C
3. Loan disbursement and usage
4. Loan repayment made on time
5. Customer takes another loan

Bottlenecks
## Behavioural Biases

<table>
<thead>
<tr>
<th>Bottlenecks</th>
<th>Associated Behaviour</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Aggressive push messages from providers that make digital credit appear to be an opportunity not to be missed</td>
<td><strong>Salience, priming and loss aversion.</strong> This causes LIS to borrow and enter into a bad debt because the advertisement mentions loans that they qualify for which in some cases is high and can be a burden during repayment</td>
</tr>
<tr>
<td>2. Users are advised by providers to access a link to be able to read T&amp;C</td>
<td>Due to the <strong>hassle factor</strong> involved in accessing T&amp;C prevents many from reading the T&amp;C</td>
</tr>
<tr>
<td>3. Loan amount advanced to customers is usually small to make any meaningful investment including loans channelled for business which in most cases are a top ups to existing amount</td>
<td><strong>Present bias</strong> majority of the users channel the loan for consumption smoothing while in other instances is scattered around trial, entertainment</td>
</tr>
<tr>
<td>4. Text messages do not trigger repayment as much as they serve as reminders (People delete the messages immediately they receive them)</td>
<td>Lack of personal touch in DC makes them prioritize repaying traditional loans over digital loans</td>
</tr>
<tr>
<td>5. T&amp;C are presented in complex legal language which is difficult for customers to understand. Information on they don't understand the repercussions of not repaying which in most cases makes them being listed</td>
<td><strong>Price value bias,</strong> most customer end up ignoring the T&amp;C therefore CRB processes and penalties is not readily available</td>
</tr>
</tbody>
</table>
3. Excerpts from 2016 AgriFin Accelerate Survey
Two regions were surveyed: Central and Western Kenya.

Per region 25 villages were randomly selected.

Respondents had to own a phone or a SIM card.
## Demographics

### Gender Segregation

<table>
<thead>
<tr>
<th></th>
<th>Central</th>
<th>Western</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>242</td>
<td>269</td>
</tr>
<tr>
<td>Female</td>
<td>265</td>
<td>233</td>
</tr>
</tbody>
</table>

51% of the interviewed respondents were females.

### Age Segregation

<table>
<thead>
<tr>
<th>Age</th>
<th>Central</th>
<th>Central</th>
<th>Western</th>
<th>Western</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-30 years</td>
<td>18%</td>
<td>14%</td>
<td>23%</td>
<td>34%</td>
</tr>
<tr>
<td>31 years and</td>
<td>82%</td>
<td>84%</td>
<td>77%</td>
<td>65%</td>
</tr>
<tr>
<td>above</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A total of 1,009 farmers were surveyed; 506 farmers in 25 villages in Central and 504 farmers in 25 villages in Western Kenya. 51% of the interviewed respondents were females.

Source: www.MercyCorpsAFA.org
Phone Usage

- Withdraw money: 57% (2016), 53% (2015)
- Deposit money: 56% (2016), 53% (2015)
- Buy airtime top-ups: 56% (2016), 45% (2015)
- Receive payments: 35% (2016), 28% (2015)
- Make payments: 34% (2016), 27% (2015)
- Use/browse the internet: 9% (2015), 12% (2016)
- Download music, video or games: 6% (2015), 10% (2016)

Source: www.MercyCorpsAFA.org
According to 2016 AFA survey, digital savings has increased for Mshwari, KCB Mpesa and Equitel.

<table>
<thead>
<tr>
<th>Service</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>M-Pesa</td>
<td>63%</td>
<td>71%</td>
</tr>
<tr>
<td>M-Shwari</td>
<td>25%</td>
<td>22%</td>
</tr>
<tr>
<td>KCB M-Pesa Account</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>Family bank pesa pap</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>Equitel</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>MCo-op Cash</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Micro finance bank</td>
<td>4%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: www.MercyCorpsAFA.org
## Savings in Digital Wallet (2)

<table>
<thead>
<tr>
<th></th>
<th>Easy access to savings</th>
<th>Low cost on savings</th>
<th>Accessibility of saving products</th>
<th>Easy access to loan/credit</th>
<th>Other (specify)</th>
</tr>
</thead>
<tbody>
<tr>
<td>M-Pesa</td>
<td>59%</td>
<td>4%</td>
<td>31%</td>
<td>4%</td>
<td>2%</td>
</tr>
<tr>
<td>Chama</td>
<td>57%</td>
<td>1%</td>
<td>22%</td>
<td>16%</td>
<td>3%</td>
</tr>
<tr>
<td>Equity Bank</td>
<td>33%</td>
<td>8%</td>
<td>42%</td>
<td>12%</td>
<td>5%</td>
</tr>
<tr>
<td>M-Shwari</td>
<td>55%</td>
<td>2%</td>
<td>22%</td>
<td>20%</td>
<td>1%</td>
</tr>
<tr>
<td>Co-operative Sacco</td>
<td>30%</td>
<td>3%</td>
<td>41%</td>
<td>19%</td>
<td>8%</td>
</tr>
<tr>
<td>Saving in a hidden place</td>
<td>69%</td>
<td>3%</td>
<td>28%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>A group of friends in ROSCA</td>
<td>41%</td>
<td>2%</td>
<td>35%</td>
<td>20%</td>
<td>2%</td>
</tr>
<tr>
<td>Formal Sacco</td>
<td>50%</td>
<td>4%</td>
<td>31%</td>
<td>15%</td>
<td>0%</td>
</tr>
<tr>
<td>Other (specify)</td>
<td>33%</td>
<td>13%</td>
<td>33%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Co-operative Bank</td>
<td>39%</td>
<td>4%</td>
<td>32%</td>
<td>7%</td>
<td>18%</td>
</tr>
<tr>
<td>KCB M-Pesa Account</td>
<td>32%</td>
<td>4%</td>
<td>36%</td>
<td>20%</td>
<td>8%</td>
</tr>
</tbody>
</table>

**N=427**

According to 2016 AFA survey, ease of access to savings and credit serve as main choice for savings

Source: www.MercyCorpsAFA.org
According to 2016 AFA survey, most farmers prefer sacco and Mshwari loans.
### Factors Considered Before Taking Loan

<table>
<thead>
<tr>
<th></th>
<th>Central</th>
<th>Western</th>
<th>18 - 30 years</th>
<th>31 and above</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repayment duration</td>
<td>35%</td>
<td>50%</td>
<td>46%</td>
<td>41%</td>
<td>40%</td>
<td>44%</td>
</tr>
<tr>
<td>Interest rate</td>
<td>34%</td>
<td>21%</td>
<td>33%</td>
<td>27%</td>
<td>26%</td>
<td>31%</td>
</tr>
<tr>
<td>Grace period</td>
<td>11%</td>
<td>11%</td>
<td>8%</td>
<td>12%</td>
<td>14%</td>
<td>8%</td>
</tr>
<tr>
<td>Institution reputation</td>
<td>12%</td>
<td>8%</td>
<td>2%</td>
<td>12%</td>
<td>9%</td>
<td>11%</td>
</tr>
<tr>
<td>Fixed amount to be paid</td>
<td>6%</td>
<td>8%</td>
<td>12%</td>
<td>6%</td>
<td>9%</td>
<td>5%</td>
</tr>
</tbody>
</table>

\(N=272\)

According to AFA survey, farmers considered repayment duration and interest rates as the most important determinants.

Source: www.MercyCorpsAFA.org
Loan Usage

- Fertilizer purchase: 31% in 2015, 19% in 2016
- School fees: 29% in 2015, 24% in 2016
- Seed purchase: 28% in 2015, 18% in 2016
- Buy livestock: 18% in both 2015 and 2016
- Start new business: consumption: 18% in 2015, 10% in 2016
- Consumption: 28% in 2015, 12% in 2016
- Pesticide/herbicide purchase: 8% in 2015, 5% in 2016
- Payment of labor for land preparation: 8% in 2015, 5% in 2016
- Payment of labor for harvesting: 4% in 2015, 3% in 2016
- Payment of labor for planting season: 3% in 2015, 3% in 2016
- Purchase land: 3% in 2015, 4% in 2016
- Emergency: 5% in 2015, 2% in 2016
- Purchase machine: 2% in both 2015 and 2016
- Medical fees: 2% in both 2015 and 2016
- Payment for other labor: 4% in 2015, 1% in 2016

Source: www.MercyCorpsAFA.org
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