KENYA POLICY BRIEFS
Towards Realisation of Vision 2030
JULY 2021
Volume 2 No. 2

Series 1 – Economic Pillar: Financial Services

Role of Fintech in Enhancing Credit Usage Among the Un(der)-Banked

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Key Messages

Market regulator need to develop mechanisms to make digital loan data publicly available to assist in drawing broad market trends.

Need to tame predatory lenders to protect the consumers and competitors and increase consumer trust through a sound regulatory framework.

Level the playing ground through common market standards to enhance competition and business conduct for the regulated and unregulated digital lenders.

Context

The un(der)-banked lack financial histories and financial strength to be attractive to financial institutions, and this limits their ability to access credit. In 2015, around 36.1 percent of Kenyans were classified as poor. Access to micro-credit loans through financial technology (Fintech) can promote individual outcomes while contributing to several of the United Nations' Sustainable Development Goals (Hove and Dubus, 2019).

Some of the un(der)-banked perceive technology to be risky and not easy to use. A study in 2016 found that M-Pesa had lifted 2 percent of Kenyans out of poverty and reduced the unbanked population (Hove and Dubus, 2019). A Financial Access Household Survey in 2016 noted that individuals seek financial products that cater to their small and inconsistent incomes, offer better tools for managing day to day transactions and risks, while supporting them to face major life transitions (FSD, 2016). This profile of consumers requires an innovative approach, for example, through the use of big data and artificial intelligence deployed by Fintech firms, to cater for their lack of financial histories in the credit lending process. The availability of soft information means that Fintech can cater for this market gap to further enhance financial inclusion if vibrant, competitive and sound credit market practices are introduced and enforced.

The level of financial access is measured through the number of firms, people and households receiving credit and using other financial products; a means to increase financial inclusion to foster economic development. The future of Kenya's credit access is Fintech, as penetration of smartphones is 91% and availability of big data continues to permeate our lives providing the soft information for automated credit decision-making processes. Fintech's ability to develop more consumer sensitive products, tap into the evolving consumer perceptions, behavior, trust and access will drive sustainable credit usage.

There is a correlation between financial trust and credit usage with multiple sources of information altering consumer perceptions of credit. In 2018, there were 6 million digital loan borrowers in Kenya, and the numbers were increasing daily. However, of the 10.6 million borrowers listed in the credit reference bureau in 2017, around 2.7 million are negative due to non-performing loans and of which 400 thousand are listed due to amounts below US$ 2.0, credit from Fintech firms (Gubbins and Totolo, 2018).

Approach and Results

The study adopted a mixed methods research design to determine the influence of Fintech on credit usage. The data was collected in 2015 from 8,665 households in a survey on financial access and usage in Kenya, covering knowledge and understanding of financial products and services.

The logistic regression analysis found that overall credit usage depended on the source of financial advice ($B=-0.52$, $p<0.001$), how they trust the financial institution ($B=0.78$, $p<0.001$), cost of credit ($B=0.47$, $p<0.001$) and the characteristics of the financial products on offer ($B=0.29$, $p<0.001$). This highlights that the reputation of the Fintech, availability of credit at market rate and developing of products to meet the consumer needs are attractive in increasing Fintech usage as a source of credit among the un(der)-banked.

Desktop reviews brought out three messages. First, technology is instant to register, score, allocate and disburse credit even for consumers with scanty financial histories, thus creating wider access and usage. Second, changing consumer trends and behavior, propensity to use technology among young consumers, and social media influence the dynamics in the credit market through Fintech. Third, the market regulators need to increase public awareness, form a joint coordinated approach and a sound regulatory framework to enhance the competition in the market among the players.

Policy Recommendations

Short-Term

- Develop a coordinated and regulatory approach to spur competition among the Fintech and general financial ecosystem in Kenya.
- Encourage Fintech firms to improve trust through the design of the purchase process to increase consumer attention to the loan terms and conditions.

Medium-Term

- A sound regulatory framework is required to minimize Fintech perceived technological risk, enhance competition and protect the consumers from

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predatory lenders. Regulation will, amongst others, increase consumer protection through privacy in use of data from utility bills, social networks, insurance claims and bank account transaction details without their consent.

- Assist the market players to improve on cyber-risk controls due to new technologies and business models.

Acknowledgements

This policy brief is the outcome of a larger research study entitled "Can Fintech Shape the Dynamics of Consumer Credit Usage Among the Un(der) banked?". The research was funded by the Kenya Bankers Association Research Conference in 2018.

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