2019 FinAccess HOUSEHOLD SURVEY

ACCESS | USAGE | QUALITY | IMPACT

APRIL 2019

2019 FINACCESS HOUSEHOLD SURVEY

ACCESS | USAGE | QUALITY | IMPACT

CENTRAL BANK OF KENYA

KENYA NATIONAL BUREAU OF STATISTICS

fsd Kenya

finaccess

TABLE OF CONTENTS

DEFINITION OF TERMS AND ABBREVIATIONS

Abbreviation/ concept	Definition
AFC	Agricultural Finance Corporation
ASCA	Accumulating Savings and Credit Association
ATM	Automated Teller Machine
Basic phone	CANNOT access internet, CANNOT send and receive email, does NOT have a camera/radio/media player
CBK	Central Bank of Kenya
Chama	Informal group
CMA	Capital Markets Authority
CRB	Credit Reference Bureau
DFI	Development Finance Institution
DFS	Digital financial service
DT–Sacco	Deposit Taking SACCO
EA	Enumeration Area
Equitel	A mobile app and Mobile phone–based banking services by Equity Bank Limited
Feature phone	CAN access internet, CAN send and receive email, has a camera/radio/media player, CANNOT download and install applications on the phone
Financial needs based framework	The Financial Needs framework based on Insight to Impact's (i2i) pioneering methodology, which measures the extent to which financial devices are being used to meet people's financial needs
FSD Kenya	Financial Sector Deepening Trust Kenya
HELB	Higher Education Loans Board
i2i	Insight to impact
ICDC	Industrial and Commercial Development Corporation
In kind	Refers to payment in form of a service or product but not in cash
Income earner	Individual who has work and/or investments that provide a defined income stream on a regular basis
IPA	Innovations for Poverty Action
IRA	Insurance Regulatory Authority
JLB	Joint Loans Board

Abbreviation/ concept	Definition
KDIC	Kenya Deposit Insurance Corporation
KIE	Kenya Industrial Estate
KISH	Sampling method for randomly selecting an individual in the household
KNBS	Kenya National Bureau of Statistics
KSh	Kenya Shilling
KYC	Know Your Customer
Merry–go–round	A group in which the members contribute a fixed amount for a fixed duration, and each member is paid the entirety of the collected money on a rotating schedule
MFB	Microfinance bank
MFI	Microfinance Institution
MNO	Mobile Network Operator
Mobile Money / Digital Apps	Financial services provided through mobile phone–based software applications such as BRANCH, TALA, etc.
Mobile phone banking	Mobile phone–based banking services and products by commercial banks such as Timiza, HF Whizz, M-Coop Cash, M-Shwari, Eazzy loan, and T-Kash.
Mobile money	Mobile phone financial services or simply mobile money offered by MNO
MTP	Kenya Vision 2030 Medium Term Plan
NASSEP	National Sample Survey and Evaluation Programme
NHIF	National Hospital Insurance Fund
NSE	Nairobi Securities Exchange
NSSF	National Social Security Fund
POS	Point of Sale Device
Poverty Probability Index (PPI)	A poverty measurement tool designed by IPA, which uses 10 questions about a household's characteristics and asset ownership which are scored to compute the likelihood that the household is living below the poverty line.
QTC	Questionnaire Technical Committee
RBA	Retirement Benefits Authority
ROSCA	Rotating and Savings Credit Associations
SACCO	Savings and Credit Co–operative
SASRA	Sacco Societies Regulatory Authority
Smart phone	A phone that CAN download and install applications
UNYMC	United Nations International Year of Microcredit
Wealth quintile	Each household respondent is given an affluence score based on household assets. The population is equally divided into groups (quintiles) and each respondent is placed in their corresponding quintile based on the level of affluence/ social strata

Dr. Patrick Njoroge
Governor, CBK

Zachary Mwangi Chege
Director General, KNBS

Dr. David Ferrand
Director, FSD Kenya

FOREWORD

It gives us great pleasure to present to our stakeholders the Financial Access (FinAccess) Household Survey 2019. Since 2006, FinAccess surveys have been established as the leading source of reliable data on financial access and usage in Kenya, and is widely relied on by the media, Government, researchers and development partners. The 2019 Survey seeks to improve on this track record by providing information beyond the conventional measures of access and usage. It provides new information on the quality and impact dimensions, examining financial health and livelihoods, consumer protection, financial literacy in addition to probing more deeply on the frequency of usage. The survey further includes independent business and agriculture modules to better understand usage of financial products and services within these livelihoods, crucial for the development of an all-inclusive financial ecosystem for all Kenyans.

Measurement of financial inclusion in Kenya commenced in 2006 through the creation of FinAccess surveys implemented over the years by the Central Bank Kenya (CBK), Kenya National Bureau of Statistics (KNBS) and Financial Sector Deepening (FSD) Kenya. Given the fast pace of financial sector development in Kenya, the FinAccess Survey constitutes an important tool for monitoring financial inclusion trends and dynamics, thus informing policy and industry on progress towards pro-poor and pro-growth financial sector development. Both the Central Bank of Kenya and The National Treasury and Planning have relied on FinAccess data to inform the development of policies that support inclusion. These include agency banking and national payments regulations as well as initiatives to improve transparency in the sector. Data generated from these surveys is also widely used by the private sector, development partners and researchers.

The 2019 Survey was jointly conducted by KNBS, CBK and FSD Kenya. The Statistics Act, 2006 is the legal framework under which these surveys are conducted. The implementation of 2019 FinAccess Survey followed the set statistical methodological standards of conducting surveys that promote best practices in the production cycle of survey planning and design, data collection, analysis and reporting. The survey targeted individuals aged 16 years and above, from scientifically selected households, designed to provide estimates at the national and regional level and by residence (rural and urban areas). The household sample selection was drawn from the fifth National Sample Survey and Evaluation Programme (NASSEP V) household sampling frame. KNBS gives assurances that the survey results are sound and will provide useful insights in making informed decisions on financial deepening and greater inclusion across the country. We, therefore, encourage all to use the data to promote evidence- based decision making.

The 2019 survey findings clearly show that Kenya's financial inclusion landscape has undergone a transformation since 2006. Formal financial inclusion has risen to 82.9 percent, up from 26.7 percent in 2006, while complete exclusion has narrowed to 11.0 percent from 41.3 percent in 2006. Furthermore, the disparities in financial access between rich and poor, men and women, and rural and urban areas have also declined remarkably. Key drivers of these changes include: the growth of mobile money, government initiatives and support, and developments in information and communications technology (ICT). The significant reduction in the proportion of the adult population totally excluded from financial services and products vindicates the policies, strategies and reforms undertaken by the government as well as the widespread adoption of digital technology and innovations by financial sector players. These have helped in deepening financial inclusion by enabling the population to overcome infrastructural constraints to access especially in rural areas.

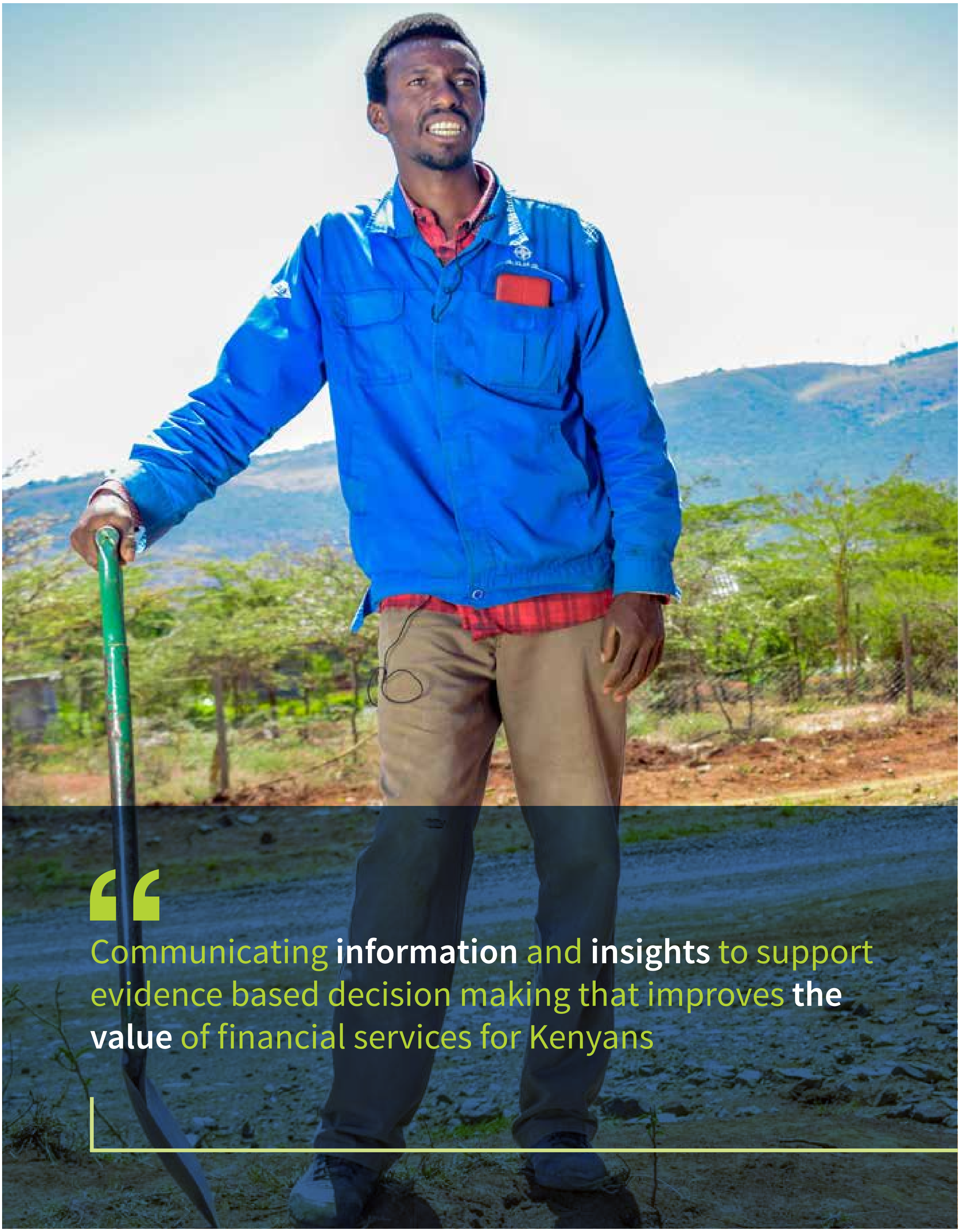
Despite the progress made so far, affordability and consumer protection issues such as unexpected charges remain barriers to formal service access. Even more notable is the considerable modesty of the developmental impact of formal financial access. Many Kenyans have formal accounts in various forms, but these accounts are rarely used because they are not solving real day-to-day problems for many households, smaller and micro scale businesses and farmers. Considerable reliance remains on the use of informal instruments – clearly demonstrated through the needs-based framework, an innovation in the 2019 FinAccess survey questionnaire.

The survey results will help unravel the constraints that still impede financial inclusion and foster the design of policy measures, products and delivery channels that match the population needs. Existing literature has demonstrated that demand for financial services and products from the poor, low-income households, micro- and small- scale businesses and farmers grow when the financial service providers understand what each population segment uses and values. It is only through good understanding of the needs of stakeholders, that services and products can be made more affordable, convenient, flexible, reliable, safe and sustainable to support the development of a more inclusive financial ecosystem for all Kenyans. In addition, given the significance of the data from FinAccess surveys, it is our hope that more private sector players will join the CBK, KNBS and FSD Kenya in supporting future surveys. We thank Airtel Kenya, Kenya Post Office Savings Bank, Diamond Trust Bank (DTB) and NIC bank for financially supporting the 2019 survey.

Dr. Patrick Njoroge
Governor, Central
Bank of Kenya

Mr. Zachary Mwangi Chege
Director General, Kenya
National Bureau of Statistics

Dr. David Ferrand
Director, Financial Sector
Deepening Trust- Kenya



> Communicating **information** and **insights** to support evidence based decision making that improves **the value** of financial services for Kenyans

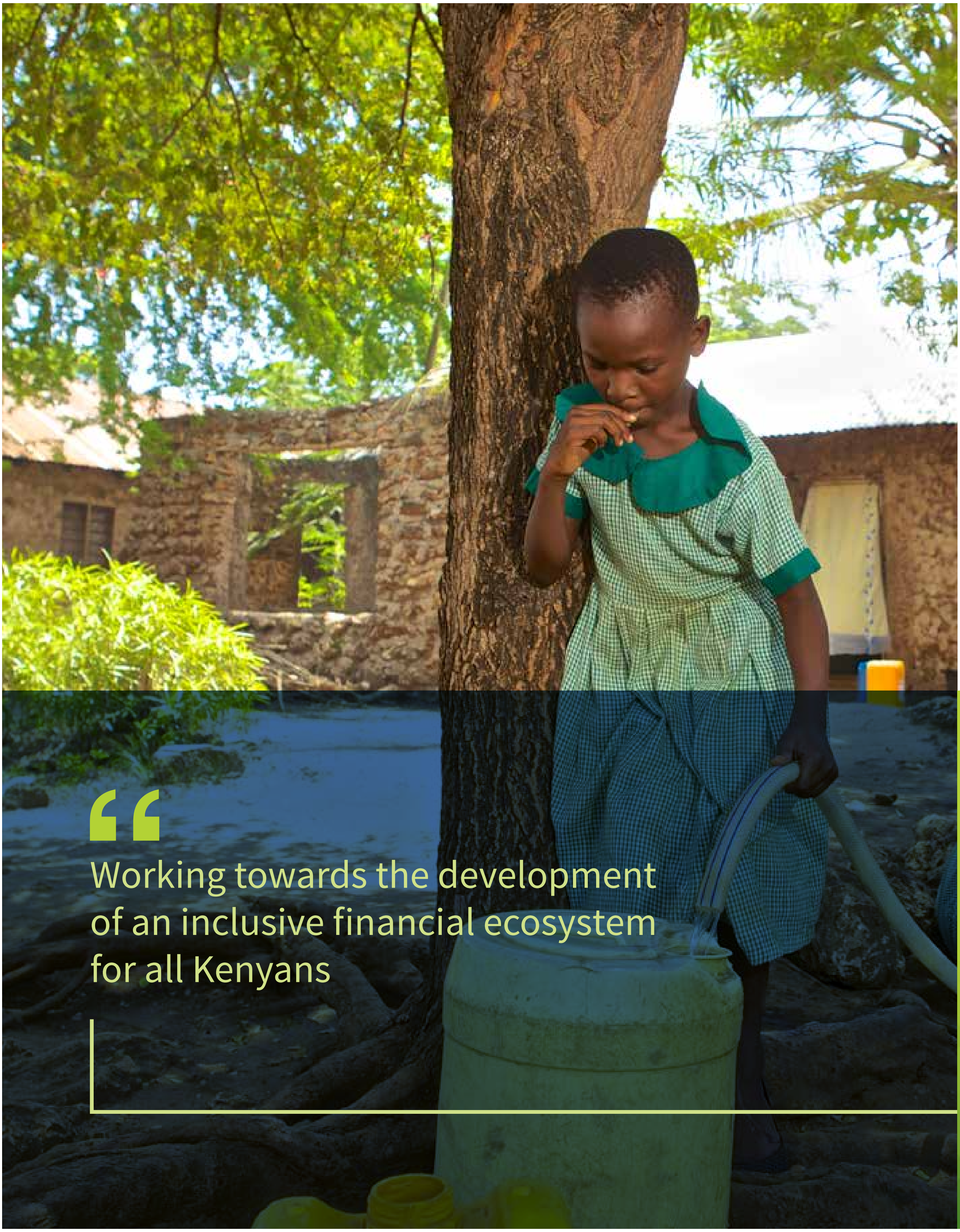
ACKNOWLEDGEMENT

This survey was made possible through the public-private partnership collaborative efforts of the Kenya National Bureau of Statistics (KNBS), Financial Sector Deepening Trust (FSD) Kenya and the Central Bank of Kenya (CBK) with funding contribution from Airtel Kenya Limited, Kenya Post Office Savings Bank, NIC Bank and Diamond Trust Bank. We take this opportunity to thank the leadership of the three institutions, namely Dr Patrick Njoroge, Governor and Ms Sheila M'Mbijjewe, Deputy Governor of the CBK, Mr Zachary Mwangi, Director General of the KNBS and Dr David Ferrand, Director of FSD Kenya for their direction, stewardship, guidance and unwavering support.

We also thank the Financial Access Management (FAM) Team comprising Mr Raphael Otieno, Acting Director of the Research Department at the CBK supported by Mr Daniel K.A. Tallam, Assistant Director, Financial Sector Analysis Division in the Department; Mr Collins Omondi, Director of Macroeconomic Statistics, KNBS; and Dr Amrik Heyer, Head of Research (FSD Kenya) for providing invaluable support and guidance in planning and conducting the survey. Overall co-ordination was led by Dr Isaac Mwangi of CBK supported by Mr. William Etwasi of KNBS and Ms. Geraldine Makunda of FSD Kenya. Immense support was provided throughout the survey by staff from the three partner institutions, namely: CBK (Mr Cappitus Chironga and Ms. Maria N. Ng'ethe), KNBS (Benjamin Avusevwa, John Bore, Mutua Kakinyi, Paul Samoei, Paul Waweru, Peter Kamau, Samuel Kipruto, Tabitha Wambui and Zachary Ochola) and FSD Kenya (Peter Gakure).

The Team was supported by Mr Amos Odero, Mr. David Taylor, Mr. Paul Gubbins and Ms. Carol Matiko consultants with FSD Kenya, and the Communication team comprising of Mr Wallace Kantai and Chris Mwangi of CBK Communications Office as well as Winnie Mokaya and Conrad Karume of FSD Kenya, and Trizer Mwanyika of KNBS who dedicatedly designed the layout of the report and provided media support. We take this opportunity to also recognise and thank all other persons who in one way or another contributed to this survey including officers from the three partner institutions involved in the field work, administrative and logistical coordination. Lastly, special thanks go to Ipsos Kenya, insight to impact (i2i) and Innovations for Poverty Action (IPA) for providing advisory input in designing and incorporating new concepts into the questionnaire.

Asanteni Sana!



> “Working towards the development of an inclusive financial ecosystem for all Kenyans

01

INTRODUCTION

This Financial Access (dubbed FinAccess) Household Survey 2019 is the fifth in a series of surveys that measure and track developments and dynamics in the financial inclusion landscape in Kenya from the demand–side. This follows the successful rollout of the 2006 baseline survey, and the subsequent FinAccess surveys of 2009, 2013 and 2016.

The surveys constitute an important tool for providing better measurement and understanding of the financial inclusion landscape in four dimensions – *Access, Usage, Quality* and *Impact/ Welfare*. This is in line with Kenya's Vision 2030 financial sector development agenda outlined in the Medium –Term Plan (MTP) III.

This Survey was conducted through a public-private sector partnership comprising the Central Bank of Kenya (CBK), the Kenya National Bureau of Statistics (KNBS) and Financial Sector Deepening Kenya (FSD Kenya) with funding support from Airtel Kenya Limited, Kenya Post Office Savings Bank (Postbank), Diamond Trust Bank (DTB) and NIC Bank.

finaccess

Survey objectives

- Strengthen financial inclusion measurement using demand–side data.
- Provide indicators that track progress and dynamics of the financial inclusion landscape in Kenya.
- Provide data to stakeholders including policy makers, private sector players and researchers.

The survey introduced new perspectives on measurement of financial inclusion by taking into consideration the improved usage dimension, needs based approach, and emerging innovations, while maintaining time series to track progress since 2006.

This chapter provides the survey rationale, approach and methodology, data processing and dissemination, and survey demographics as outlined below.

1.1 Economic context

The Kenyan economy remained strong and expanded at an average of 6 percent in the first three quarters of 2018 compared to 4.7 percent in the first three quarters of 2017. Inflation has remained within the CBK target range of 2.5-7.5 percent throughout 2018, reaching a 5-year low of 3.7 percent in April 2018 and then increasing moderately in the second half of 2018 to an average of 5 percent.

During 2018, CBK decreased its policy rate two times from 10 percent in January 2018 to 9.5 percent in March then to 9 percent in July 2018, and was retained at that level for the rest of the year. Following the introduction of interest rate controls in 2016, the Finance Act 2018 in September 2018 amended the Banking Act to remove the minimum interest on savings, which was previously set at 70 percent of the Central Bank Rate (CBR). The cap on lending rates was however retained at a maximum of 4 percentage points above CBR, restricting commercial banks' lending rate to a maximum of 13 percent.

1.2 Survey objectives

The survey objectives were to:

- Strengthen financial inclusion measurement using demand–side data;
- Provide indicators that track progress and dynamics of the financial inclusion landscape in Kenya; and
- Provide data to stakeholders including policy makers, private sector players and researchers.

Since the 2006 baseline survey, Kenya has made significant progress in fostering financial inclusion. The report presents the survey methodology and key findings to the public. The stakeholders will find the report useful in providing information on – *Access*, *Usage*, *Quality* and *Impact* – to support evidence–based decision making and financial services sector development that improves the value of financial services and products for all Kenyans. Additional analysis will be made available through issue–based reports as we encourage various researchers to write topical research papers. The data will also be disseminated through the KNBS, CBK and FSD Kenya websites and consultative fora with all stakeholders.

1.3 Survey methodology

This 2019 Survey was household population–based, targeting household individuals aged 16 years and above and designed to provide national, regional and residence (rural and urban areas) level estimates. The survey used the fifth National Sample Survey and Evaluation Programme (NASSEP V) household sampling frame. The frame consists of 5,360 clusters and is stratified into urban and rural areas within each of the 47 counties resulting in 92 sampling strata with Nairobi and Mombasa Counties being wholly urban. NASSEP V frame was designed in a multi-tiered structure with four sub-samples (C1, C2, C3 and C4) each consisting of 1,340 Enumeration Areas (EAs) that can serve as independent sampling frames. The frame used Counties as the first level stratification which were further stratified into rural and urban strata apart from Nairobi and Mombasa Counties which are classified as urban areas only, resulting in 92 strata. The sampling of EAs into the frame was done independently within each stratum. Each sampled EA was developed into a cluster through listing and mapping process that standardized them into one measure of size having an average of 100 households (between 50 households and 149 households). In situations where a stratum did not have sufficient clusters from the two sub-samples, the other sub-samples were included.

1.3.1 Survey instrument design

The survey instrument (questionnaire) was finalized by the Questionnaire Technical Committee (QTC), which draws membership from the three partner institutions with co-opted experts, scripted successfully and signed off by FAM to pave way for the piloting and commencement of the survey on October 1,2018. This followed several consultative fora with CBK internal departments, FSD Kenya, Ipsos Synovate Kenya, KNBS, Capital Markets Authority (CMA), SACCO Societies Regulatory Authority (SASRA), Insurance Regulatory Authority (IRA), and Retirement Benefits Authority (RBA). The 2019 survey introduced new perspectives on financial inclusion measurement including improved usage dimensions factoring in digital innovations, consumer protection, financial literacy, and over-indebtedness, etc.; aligned to global financial inclusion indicators; and incorporating the needs based approach, while maintaining time series to track progress since 2006.

1.3.2 Sampling

Sampling for the 2019 Survey utilized a two-stage stratified cluster sampling design. This was geared towards providing valid and reliable estimates at national level, regional levels and rural and urban areas separately. The first stage entailed selecting 1000 clusters from NASSEP V. The second stage involved random selection of a uniform sample of 11 households (434 in urban and 566 in rural areas) in each cluster from a roster of households in the cluster using systematic random sampling method.

The third stage involved selection of the individual at the household level using an inbuilt Computer Aided Personal Interview (CAPI) KISH grid to select one eligible individual (16+ years) from a roster of all eligible individuals in the household. All the selections were done without replacement. The data has been weighted back to the population to be representative at both the national level as well as at the regional levels. The distribution of the sample is shown in **Table 1.1**.

1.3.3 Piloting and scripting of the survey instrument

Piloting of the survey instrument was conducted in selected counties covering both rural and urban areas prior to the rollout of the survey across the country. Findings from the pilot exercise guided the final script that was used in the field. This was done to ensure that there was strict conformity to international standards of surveys and also in ensuring the flow, consistency and skip routines were observed.

1.3.4 Recruitment and training of fieldwork personnel

All survey personnel were centrally contracted by the KNBS on behalf of the three collaborating partner institutions – KNBS, CBK and FSD Kenya. The survey personnel comprised of coordinators and supervisors drawn from the three institutions, 15 Research Assistants (RAs) for the pilot exercise and 45 RAs for the main fieldwork data collection exercise.

The recruitment and eventual posting of the research assistants factored in their education and knowledge of local language in their areas of posting. This was aimed at increasing the efficiency of delivery of the questionnaire through verbal translations. In total, there were 45 research assistants and 15 supervisors. There were two trainings, one for the pilot survey and a subsequent one for the main survey exercise.

Table 1.1: Sample allocation for the 2019 finaccess household survey

	Allocation of Clusters			Allocation of households		
Region (Group of Counties)	Rural	Urban	Total	Rural	Urban	Total
Nairobi	na	74	74	na	814	814
North Rift	36	14	50	396	154	550
Central Rift	70	46	116	770	506	1276
South Rift	52	31	83	572	341	913
Nyanza	71	41	112	781	451	1232
Western	64	31	95	704	341	1045
Central	70	47	117	770	517	1287
Lower Eastern	52	32	84	572	352	924
Upper Eastern	18	13	31	198	143	341
Mid-Eastern	51	22	73	561	242	803
Coastal Region	45	25	70	495	275	770
North Eastern	37	19	56	407	209	616
Mombasa	na	39	39	na	429	429
Kenya	**566**	**434**	**1,000**	**6,226**	**4,774**	**11,000**

Note: Nairobi and Mombasa counties have only urban areas. na = Not applicable

1.3.5 Fieldwork data collection

Data collection employed the new technology of CAPI system which was developed by KNBS, as opposed to the traditional method of Paper Assisted Personal Interview (PAPI). Pilot exercise data collection started on September 9, in select Counties for a period of 6 days, while the main exercise commenced on October 1, 2018 and ended on December 15, 2018 for a period of 75 continuous working days including weekends and public holidays for all field teams.

1.3.6 Data processing – cleaning and weighting

Weights for the 2019 Survey were computed and applied to the primary datasets during analysis. This is because data from the survey was not self-weighting since the sample allocation was not proportional to the size of the strata. Additionally, some of the sampled households did not respond to the interviews, while others could not be accessed due to various reasons. Accordingly, the sample required weighting adjustments to cater for non-proportional distribution of clusters and non-response, in order to provide estimates that are representative of target population at national and sub-regional levels.

The design weights incorporated the probabilities of selection of the clusters from the census EAs database into the NASSEP V sample frame: the probabilities of selection of the survey clusters from NASSEP V frame; the probabilities of selection of the households from each of the sampled survey clusters; and the probabilities of selection of an individual among other eligible individuals at the household level. These design weights were then adjusted for individual, household and cluster non-response. Non-response was adjusted at stratum level. In doing this, the following mathematical relation was employed:

$$W_{hi}=D_{hi} \times \frac{S_{hi}}{l_{hi}} \times \frac{C_h}{c_h} \times \frac{I_{hij}}{1}$$

where;

W_{hi}	Overall cluster weight for the i-th cluster in the h-th stratum
D_{hi}	Sample cluster design weight obtained from cluster selection probabilities for the i-th cluster in the h-th stratum
S_{hi}	Number of listed households in the i-th cluster in the h-th stratum
l_{hi}	Number of responding households in i-th cluster in the h-th stratum
C_h	Number of clusters in h-th stratum
c_h	Number of selected clusters in the h-th stratum
I_{hij}	Number of listed eligible individuals within the j-th household in the i-th cluster in the h-th stratum

Eventually, the weights were adjusted to ensure consistency with the projected population figures. The weights were applied to each individual item to obtain estimates on any given variable in a specified domain or category.

Table 1.2: Survey response rates (%)

Result	Residence		Total
	Urban	Rural	
Household interviews			
Households Selected	4,774	6,226	**11,000**
Eligible households	4,148	5,561	**9,709**
Households interviewed	3,611	5,058	**8,669**
Household response rate	87.1	91.0	**89.3**

The survey achieved a response rate of 89 percent as shown in **Table 1.2.** In total, 11,000 households were selected for the survey out of which 9,709 were occupied at the time of the survey. Out of these occupied households, 8,669 households responded to the questionnaire representing a response rate of 89 per cent at the national level. There was a slight variation in response rates between urban and rural households of 87 percent and 91 percent, respectively.

1.4 Survey demographics

The survey sample was designed to achieve a statistically valid and reliable nationally representative sample of individuals aged 16 years and above. Unless otherwise stated, the report focuses on adults aged 18 years and above, which is the legal age for obtaining a national identification document that forms the main basis for Know Your Customer (KYC) identification document used by all financial service providers comply with KYC. The adult population (18 and above) comprised of 92.4 percent (25,104,967 people). The 16 to 17 year olds total 7.5 percent (2,040,042 people). The survey demographics are broken down as indicated in **Figure 1.1** and **Table 1.3.**

Figure 1.1: Demographics

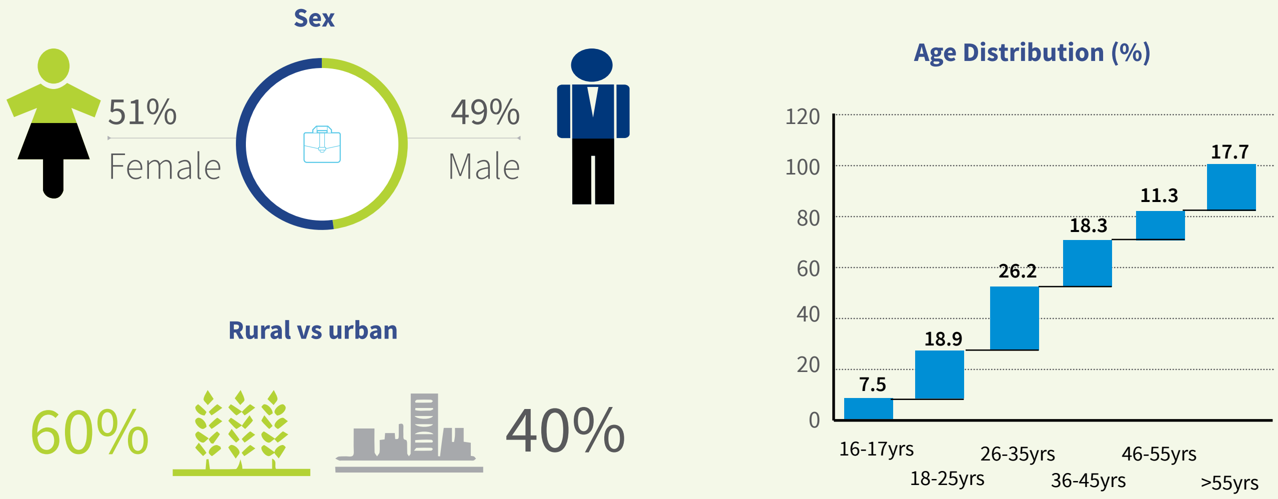


Table 1.3: Education by age (%)

Education level of Respondent	16-17yrs (%)	18-25yrs (%)	26-35yrs (%)	36-45yrs (%)	46-55yrs (%)	>55yrs (%)	Total (%)	N
None	0.8	4.5	6.7	9.7	10.4	33.6	11.6	3,141,306
Primary	32.9	33.2	44.1	49.2	47	45.7	42.8	11,607,789
Secondary	65.4	43.2	30.9	29.2	28.8	14.5	32.4	8,785,766
Tertiary	0.8	19	18.1	11.8	12.8	5.6	13	3,529,092
Other	0	0.1	0.2	0.1	0.9	0.6	0.3	81,056
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**27,145,009**

The rest of the report is organized as follows: Chapter Two presents Access to Financial Services and Products; Chapter Three – Usage of Financial services and Products; Chapter Four – Financial Relevance; Chapter Five – Financial Health and Livelihoods; Chapter Six – Consumer Protection and Financial Literacy; and lastly Chapter Seven – provides a Summary and Conclusion.

02

ACCESS TO FINANCIAL SERVICES AND PRODUCTS

This chapter tracks financial inclusion using the access dimension according to different measures. This is cross tabulated along the demographic characteristics of the population such as age, sex, education and the socio economic characteristics including livelihoods, income and expenditures.

2.1 Access to financial services

Access to finance classifies consumers/users on the basis of registration and regulation (Formality and Informality) as well as the excluded as indicated in the **Table 2.1**. In particular, consumer is classified in the formal category if he/she has access to any formal financial service or product. However, the same consumer may also be accessing informal financial services or products. Where a consumer accesses only informal financial services or products, he/she is classified as informally included. A consumer who does not access any financial services or products from any formal or informal categories, he/she is classified as excluded.

Table 2.1: Classification of the Access to Finance

Classification	Definition	Institution type	FinAccess survey cycles				
			2006	2009	2013	2016	2019
■ **Formal** (prudential)	Financial services and products used through prudentially regulated and supervised financial service providers by an independent statutory Government Agency including CBK, CMA, IRA, RBA and SASRA	Commercial banks including mobile phone bank products offered by banks in partnership with MNOs such as KCB M-PESA, MCo-op Cash, M-Shwari, Eazzy loan, Timiza and HF Whizz	✓	✓	✓	✓	✓
		Microfinance banks including mobile banking products offered by microfinance banks			✓	✓	✓
		Insurance service providers	✓	✓	✓	✓	✓
		Deposit Taking SACCOs			✓	✓	✓
		Capital markets intermediaries			✓	✓	✓
■ **Formal** (non-prudential)	Financial services and products offered through service providers that are subject to non-prudential regulation and supervision (oversight) by Government Ministries/ Departments with focused legislations	Mobile Money		✓	✓	✓	✓
		Postbank	✓	✓	✓	✓	✓
		NSSF	✓	✓	✓	✓	✓
		NHIF		✓	✓	✓	✓
■ **Formal** (registered)	Financial services and products offered through providers that are legally registered legal persons and/ or operate through direct Government interventions	Credit only microfinance institutions (MFIs)	✓	✓	✓	✓	✓
		Non-deposit taking SACCOs	✓	✓	✓	✓	✓
		Hire purchase companies	✓	✓	✓	✓	✓
		Development financial institutions (DFIs) e.g. AFC, HELB, ICDC & JLB	✓	✓	✓	✓	✓
		Mobile Money Apps/ Digital Apps				✓	✓
■ **Informal**	Financial services offered through different forms not subject to regulation, but have a relatively well–defined organizational structure	Groups e.g. ASCAs, *chamas* & ROSCAs	✓	✓	✓	✓	✓
		Shopkeepers/supply chain credit	✓	✓	✓	✓	✓
		Employers	✓	✓	✓	✓	✓
		Moneylenders/shylocks	✓	✓	✓	✓	✓
■ **Excluded**	Individuals who reported using financial services and products only through family, friends, neighbours or keep money in secret places or not using any form of financial service	Social networks and individual arrangements (e.g. secret hiding place)	✓	✓	✓	✓	✓

2.2 Access to financial services and products, 2006 - 2019

Overall access to formal financial services and products improved to 82.9 percent in 2019 from 75.3 percent in 2016 (**Figure 2.1 and 2.2**). 89 percent can access any form of financial services. This shows that Kenya has made progress in expanding financial access from 26.7 percent in 2006, resulting in a significant dip in the financially excluded adult population to 11 percent in 2019 compared to 17.4 percent in 2016.

Figure 2.1: Access trends (%)

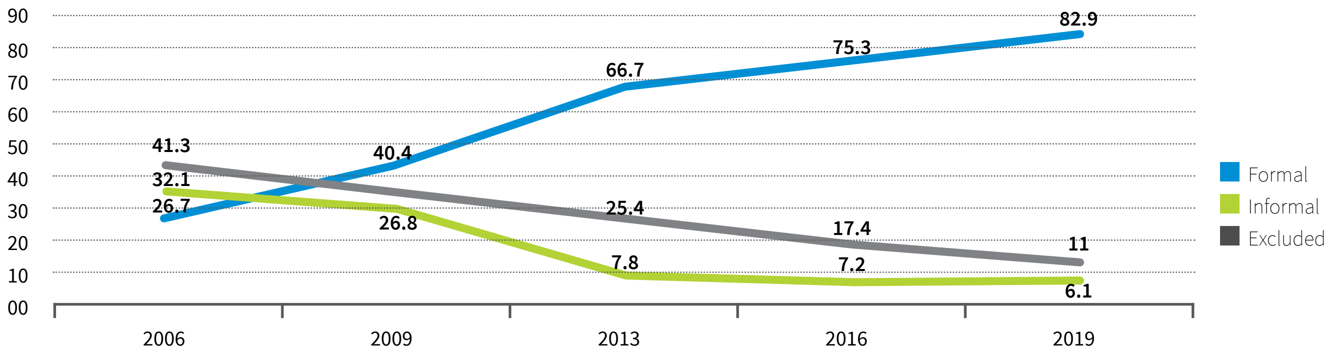
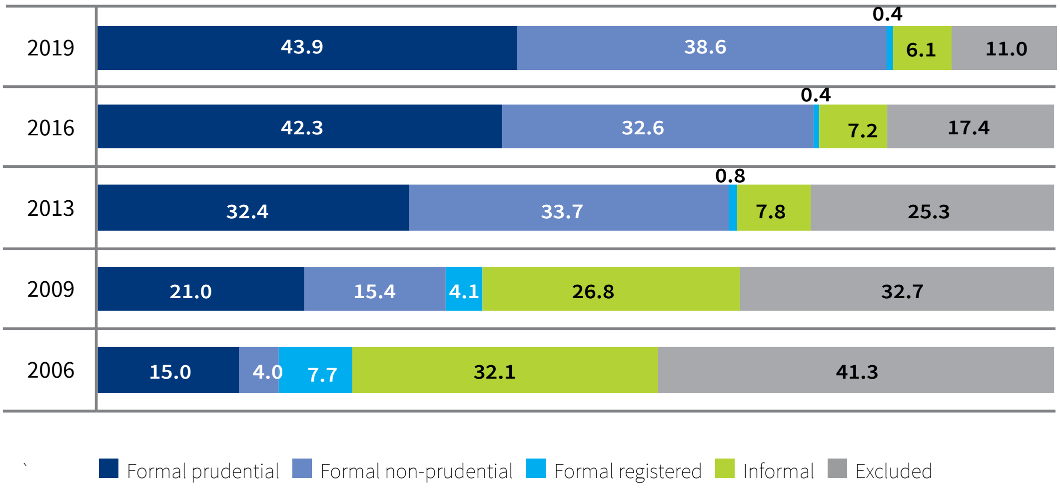


Figure 2.2: Access by categories (%)



The survey findings show that formal financial inclusion has increased over the period 2006 – 2019. The informal and excluded categories declined from 32.1 percent and 41.3 percent in 2006 to 6.1 percent and 11 percent in 2019. These developments could be attributed to the introduction of mobile financial services in 2007, followed by increased partnerships and innovations such as mobile banking, agency banking, digital finance and mobile apps. Mobile money has acted as an 'on-ramp' for formal financial inclusion especially via digital finance. Despite advances in formal financial inclusion, the informal still persists although it's on a decreasing trajectory.

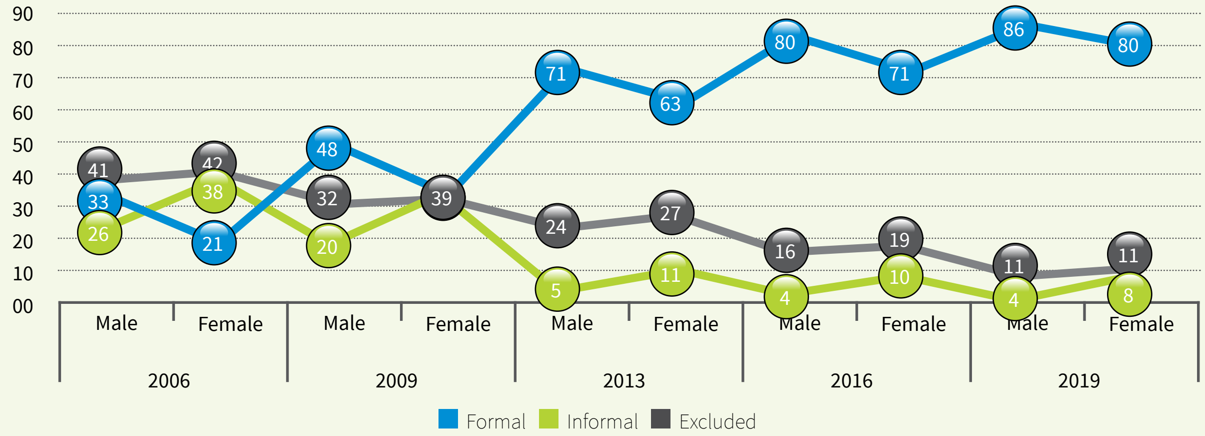
2.3 Access to financial services across different segments of the population

Despite the significant improvement in access to finance over the period 2006 – 2019, financial inclusion gaps persist as measured by sex, age, education, residence, income, livelihood and wealth quintiles. However, these financial inclusion gaps are narrowing.

2.3.1 Access by sex

While the financial access gap between male and female is closing, disparities still remain (**Figure 2.3**). Access to finance by males is higher than that for females in the population.

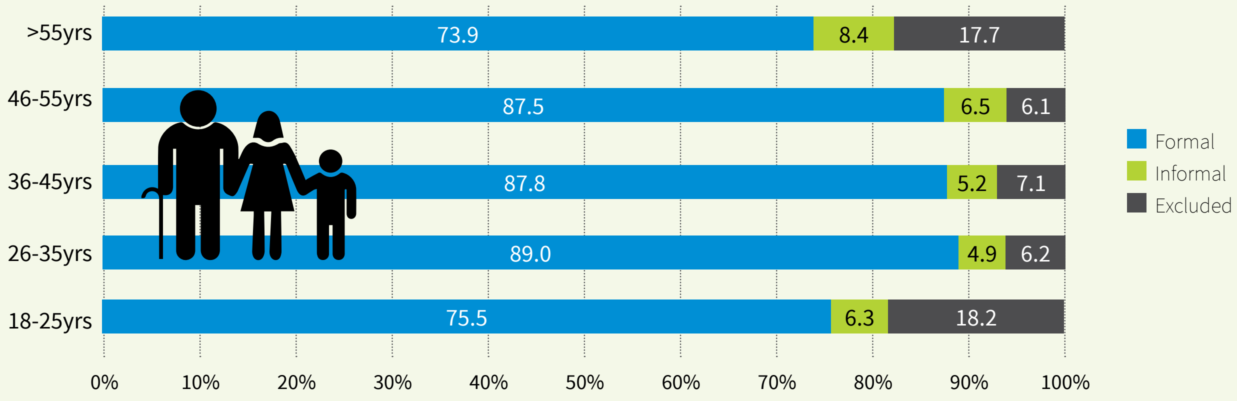
Figure 2.3: Access by sex (%)



2.3.2 Access by age

Access to finance is highest for the 26–35 year–old segment of the population (**Figure 2.4**). Majority of respondents aged 18–25 years and those over 55 years are more financially excluded.

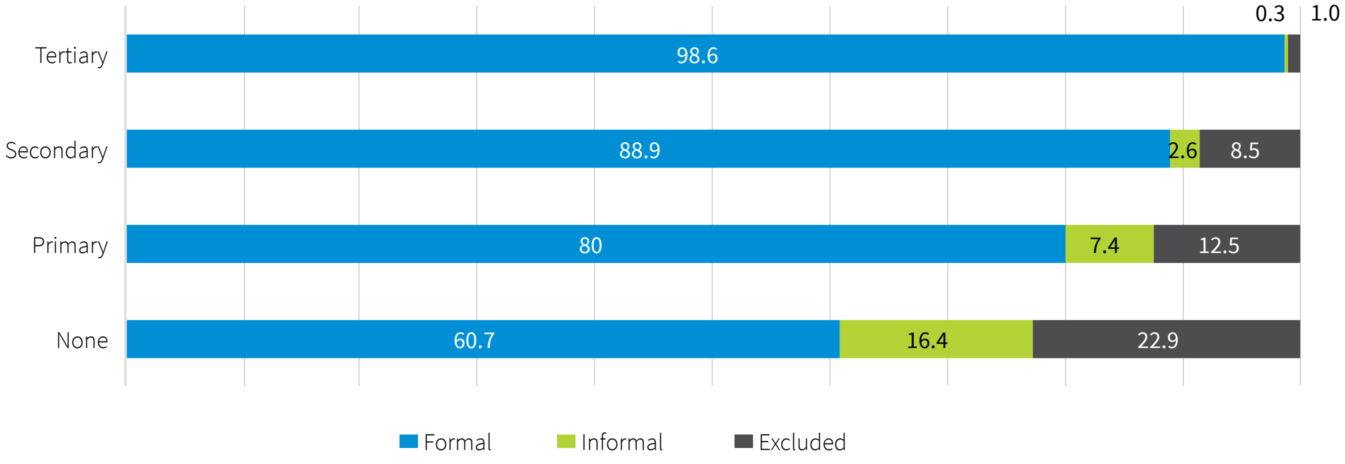
Figure 2.4: Access by age



2.3.3 Access by education

Access to formal financial services increase with education. This is evidenced by the 98.6 percent access to formal financial services by households who have attained tertiary level of education compared to 60.7 percent without education (**Figure 2.5**).

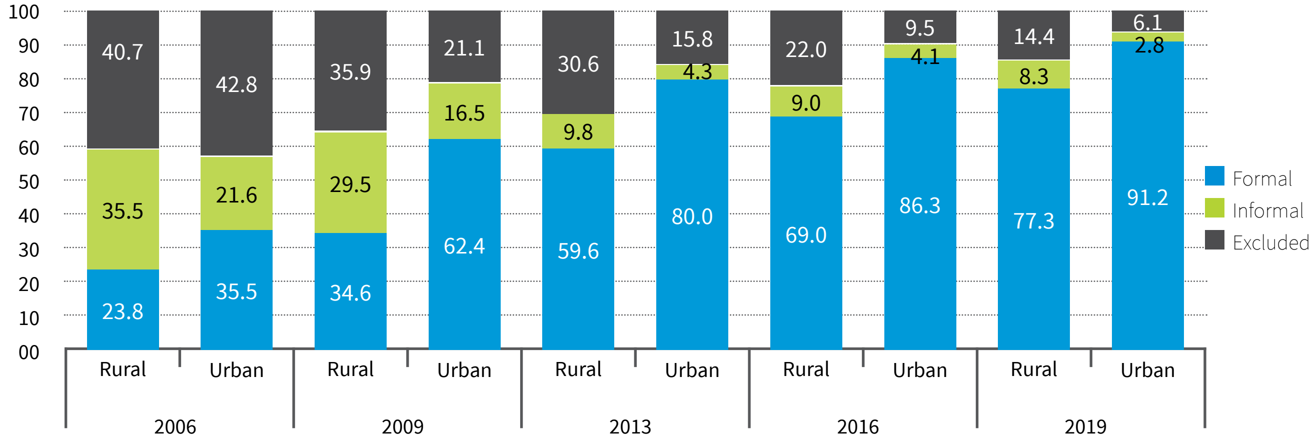
Figure 2.5: Access by education (%)



2.3.4 Access by residence

The rural-urban gap in access to financial access has declined due to faster uptake by rural residents (**Figure 2.6**).

Figure 2.6: Access by residence



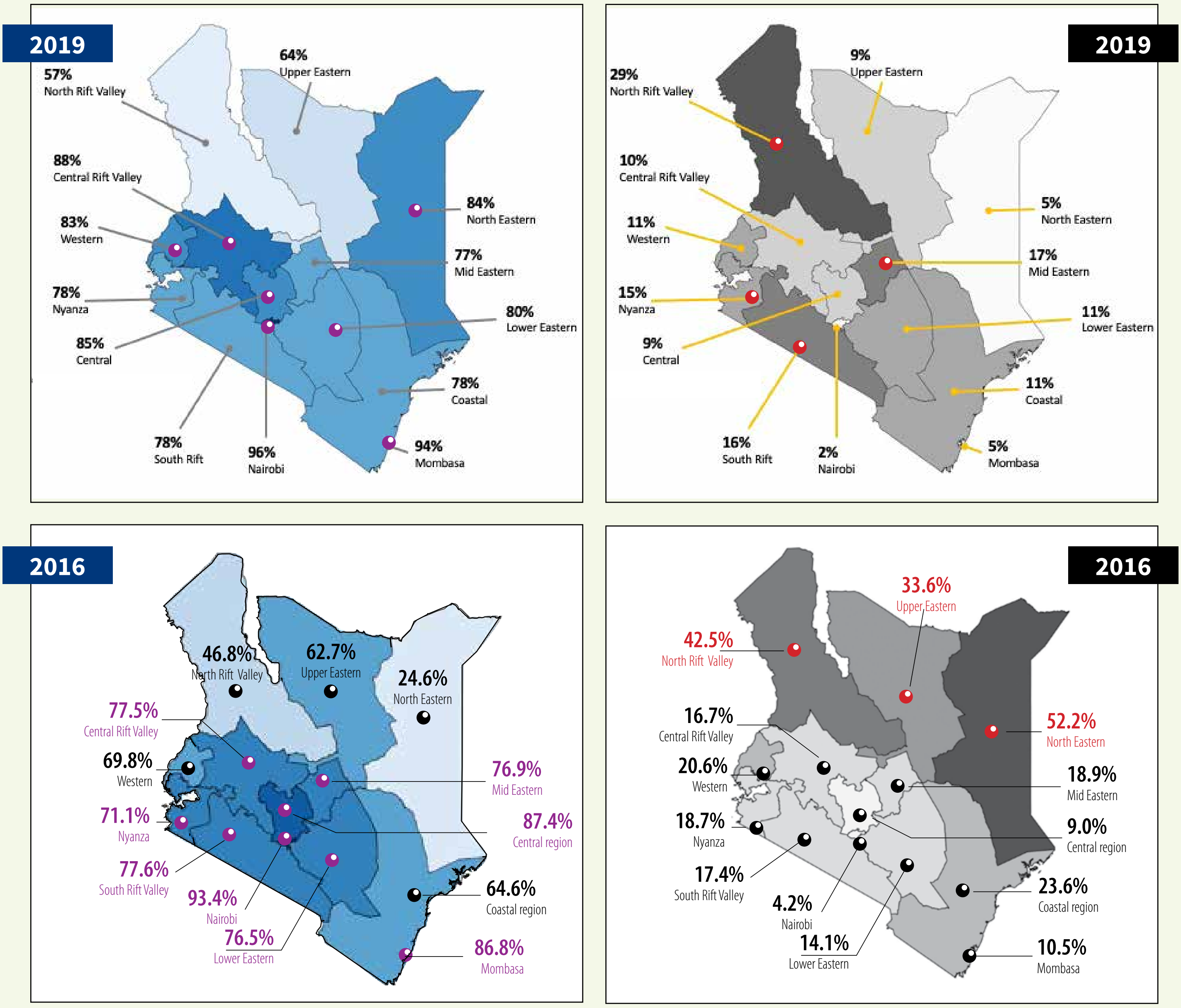
2.3.5 Access by region

Access to finance by region shows wide disparities with the North Rift region comprising of Turkana, Samburu and West Pokot counties recording the highest exclusions (29 %) in 2019 (**Figure 2.7**). Nairobi County is ranked the highest in terms of access to formal financial services followed by Mombasa and Central Rift region, respectively. Significant drop in the excluded populations was recorded in North Eastern, Upper Eastern and Coastal regions.

Figure 2.7: Regional maps of inclusion and exclusion (%)

(a) Formal inclusion

(b): Financial exclusion



2.3.6 Access by livelihood

The term livelihood refers to the economic activities/occupation that the household earns an income to support life. It's broadly categorized into; employed, running own business, working as a casual labourer, practising agriculture or are part of the dependent population which relies on pension, money from family/friends/spouse or aid agency. Access to formal financial services and products increases with the degree of formalization in the labour market. The survey results show that households who own business and employed have 93.3 percent and 98.7 percent access to formal financial services (**Figure 2.8**). Exclusion from access to formal financial services is highest (23 %) for the dependent population. Despite agriculture being the mainstay of the Kenyan economy, formal access to households engaged in agriculture remains low with an exclusion of 12.6 percent.

2.3.7 Access by wealth quintiles

Access to financial services was also analysed based on the wealth categorization. Five wealth quintiles (1 being lowest and 5 highest) were derived from the Probability of Poverty Index (PPI). The PPI was generated from select variables comparable with the Kenya Integrated Household Budget Survey (KIHBS) 2015/16 from the KNBS. The variables include; county of residence, education level, asset base and housing conditions. The quintiles therefore reflect the economic status of the population. In this regard, the survey results indicate that access to formal financial services increased with the wealth quintiles, the lowest having an exclusion rate of 22.1 percent, while the highest had a 3.3 percent exclusion rate (**Figure 2.9**).

Figure 2.8: Access by livelihood (%)

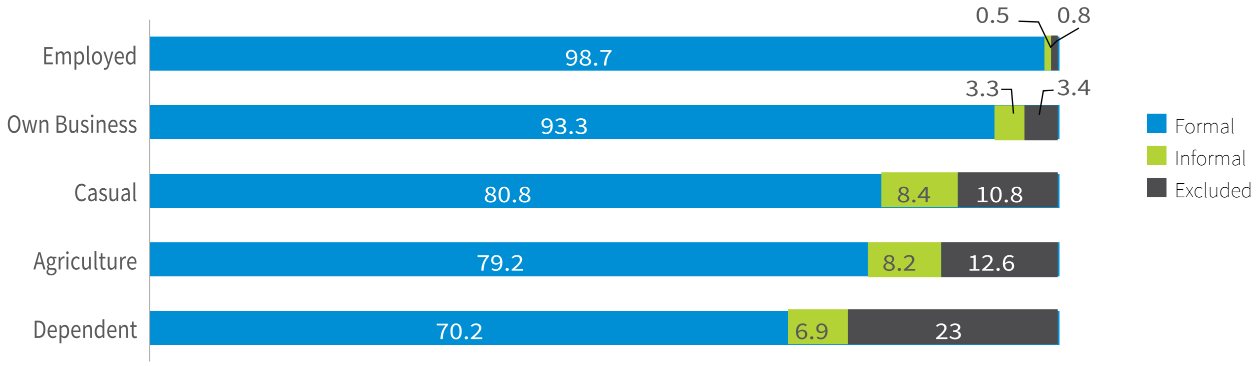
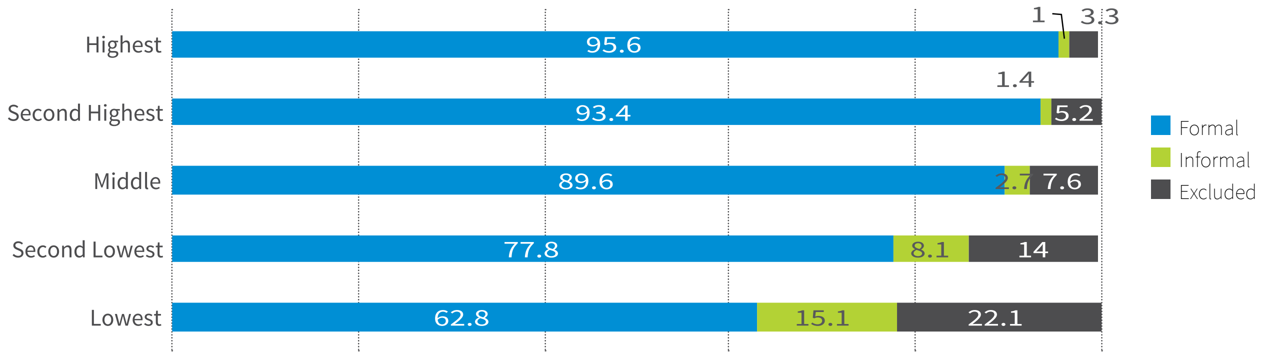


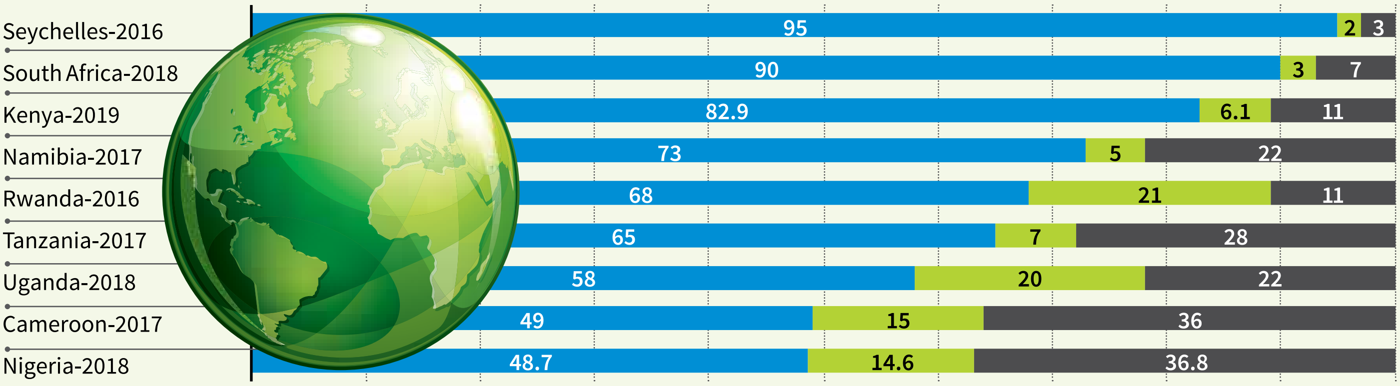
Figure 2.9: Access by wealth quintile (%)



2.3.8 Country comparison of access

Kenya is ranked highly in financial inclusion, second only to Seychelles and South Africa (**Figure 2.10**).

Figure 2.10: Country comparison of access in the region (%)



Source: Finscope surveys

03

USAGE OF FINANCIAL SERVICES AND PRODUCTS

> “ Innovation driving usage of Financial services and products

Usage” dimension of financial inclusion refers to the depth or extent to which financial services and products are used as measured by regularity, frequency and duration of their use over time.

Usage provides information not only on the value that financial services and products contribute to the economic lives of users, but also whether business models that provide such services are commercially viable or not. While the previous FinAccess surveys focussed more on access dimension, the FinAccess Household Survey 2019 report has significantly focussed on Usage dimension, with additional work on impact and welfare dimensions. Of particular prominence is the role of digital transformation in influencing the uptake of financial services and products.

In this chapter, we analyse how the usage of; financial services providers, financial products, and digital platforms have evolved since 2006 when the first baseline survey was conducted. The chapter discusses drivers and barriers of usage of financial institutions and products. The chapter concludes with key observations.

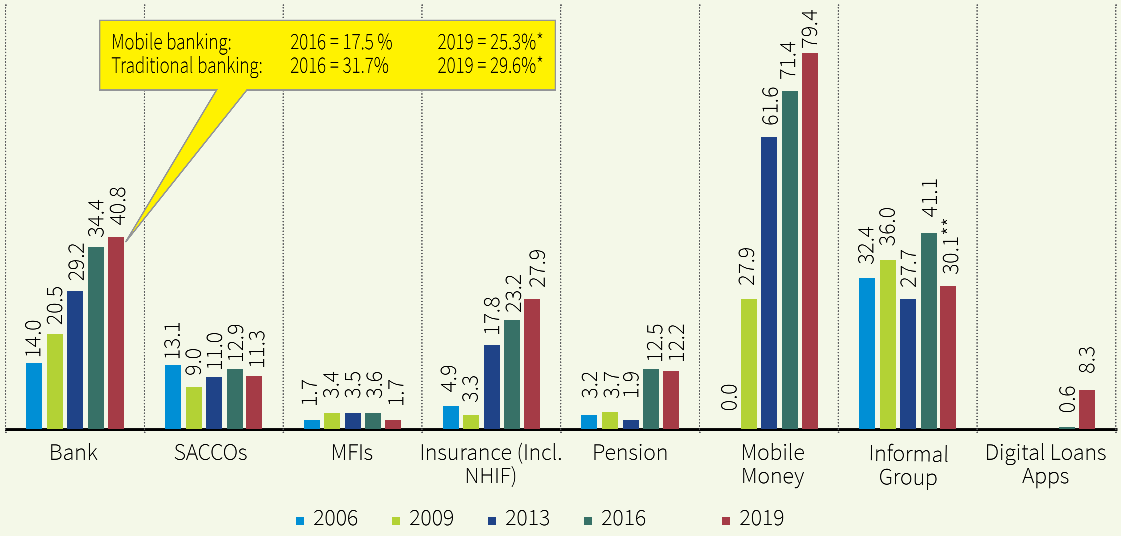
3.1 Financial service usage by institution

This Survey sought to establish how adult population Kenya use different institutions providing financial services. At 79.4 percent and 8.3 percent, mobile money services providers and digital loans apps recorded the highest increase in usage by Kenyans (**Figure 3.1**).

THE NUMBERS AT A GLANCE

79%	Mobile money accounts
25%	Mobile bank accounts
30%	Traditional bank accounts
26%	National Hospital Insurance Fund
8%	Digital App loans

Figure 3.1: Changing landscape of financial service providers in 2006 - 2019 (%)



Note: *Pension category includes NSSF; Bank includes traditional banks, mobile banking (e.g. Mshwari, KCB Mpesa, Equitel Money), Post bank and Microfinance Banks; Saccos include deposit and non-deposit taking Saccos; and mobile money includes Mpesa, Mobile Pay, Airtel Money, and T-Kash.*

* *not exclusive users hence not additive to 40.8 percent.*

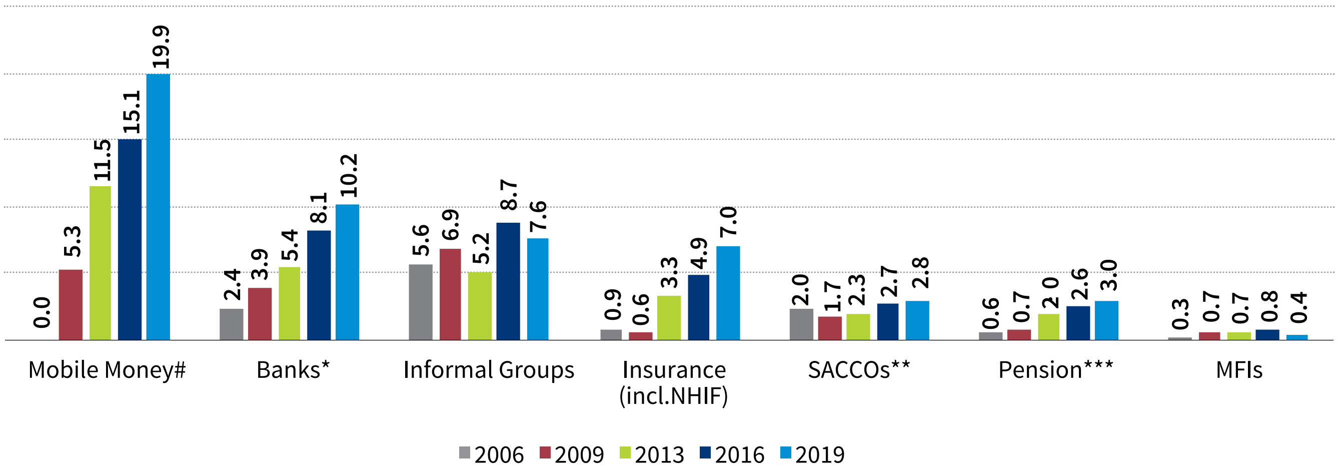
** *this figure does not include group of friends.*

The significant decline in the MFIs usage to its 2006 level 1.7 percent could be attributed to increased uptake of mobile banking products, emerging rapid uptake of digital loans apps and increasing role of mobile money. We also note the volatility in the use of informal sources, but usage remains significantly high at 30.1 percent in 2019, implying informal groups are still a key source of financing in Kenyan households. We however, with advent of mobile money, this channel is becoming more formalized as noted in 11.3 percentage points decline in usage between 2016 and 2019.

Strong growth in uptake of digital apps loans from 0.6 percent in 2016 to 8.3 percent in 2019 indicates the role unregulated service providers are playing in financial services space.

In terms of the number of users by institution, mobile money service providers served close to 20 million adults out of the 25.1 million analysed. This was about 5 million increase in users in just years, highlighting the significant role this innovation continues to play in the economy (**Figure 3.2**). Most of the shift in usage came from informal groups' users and new entrants in the financial services space.

Figure 3.2: Adults using financial services providers (millions)



Notes:

* Includes commercial banks, mobile banking (e.g. Mshwari, KCB Mpesa), Post bank and Microfinance Banks;

** Includes deposit and non-deposit taking Saccos; *** Includes NSSF

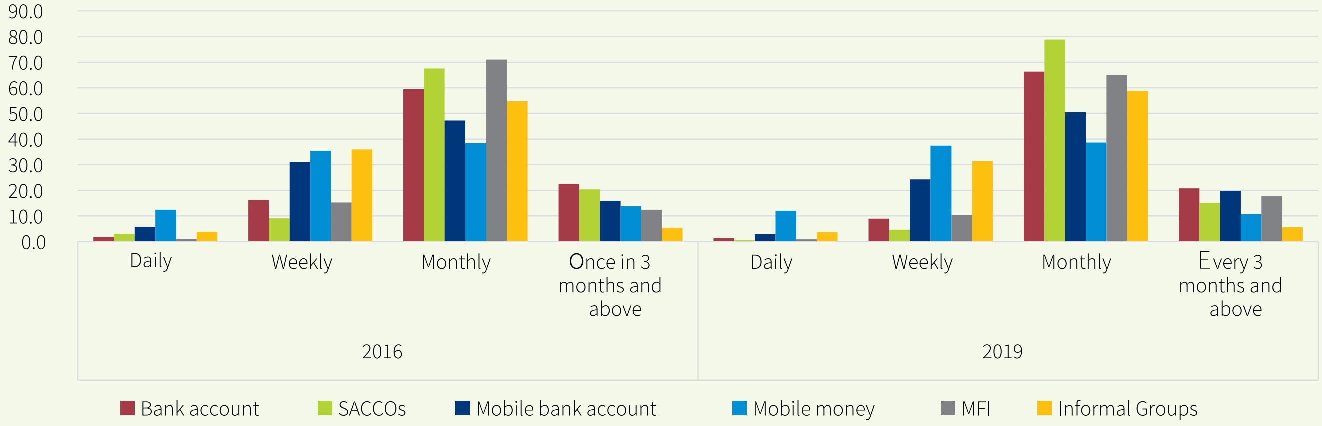
Comprises Mpesa, Mobile Pay, Airtel Money, Equitel Money and T-Kash.

The Government policy initiatives on universal healthcare together with other policy measures led to increased usage of NHIF uptake leading almost doubling of the usage of insurance services. Initiatives by Retirement Benefits Authority and NSSF has gradually raised uptake of pension services to about 3.01 million adult users in 2019. While the use of informal groups declined marginally to 7.6 million adults in 2019 from 8.8 million in 2016, these service providers remain a critical source of financing to the Kenya's households.

3.2 Frequency in usage of financial services by institution

As an indicator of measuring Usage, frequency of use of an institution or a product is very important. The survey results indicate that a majority of Kenyans use financial service providers on monthly basis. This may imply that most of the users are salaried employees, remittances to Saccos and loan repayments to service providers (**Figure 3.3**).

Figure 3.3: Frequency of usage (%)



As the country becomes more digitalized, the survey results show that the frequency of transactions through mobile money increases while that of bank account reduces. High frequency in the use of mobile money, mobile banking and informal service providers on basis, could be a reflection of increasing liquidity needs of the respondents, convenience and ease of access.

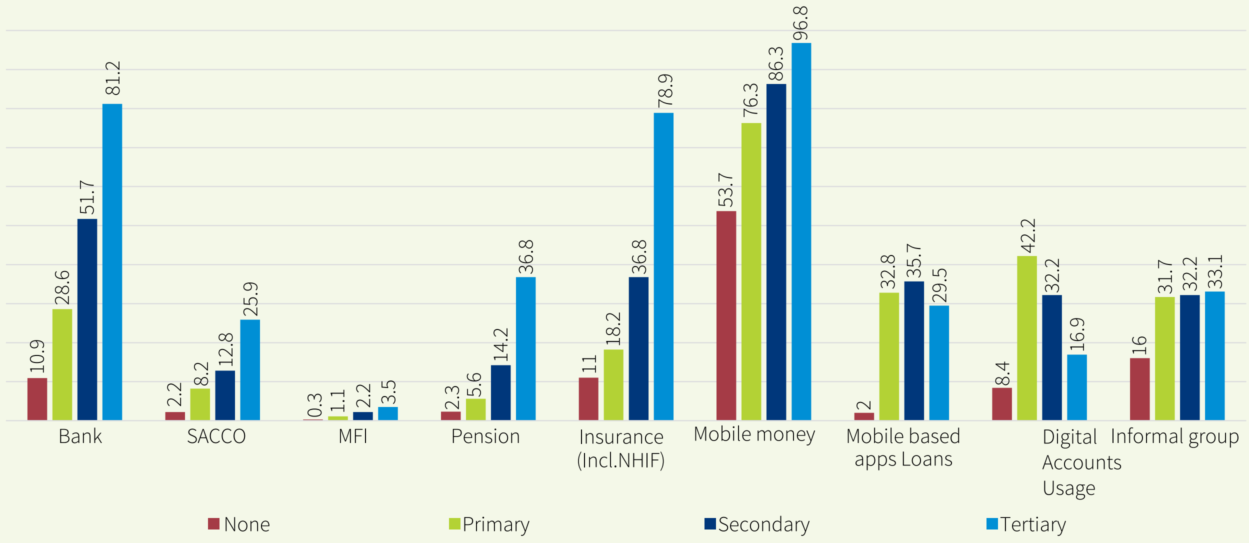
3.3 Use of financial service providers by demographics

Financial service providers serve different classes of people located in different geographical areas in the country. We look at how education level, residence, sex and wealth influence use of different financial service providers.

3.3.1 Education level

Usage of mobile money, informal groups and digital loans apps have traction across all the education levels (**Figure 3.4**). We however note the 11 percent adults with no any form of education using financial services from banks, implying no discriminatory tendencies education basis by banks.

Figure 3.4: Usage by education level (%)



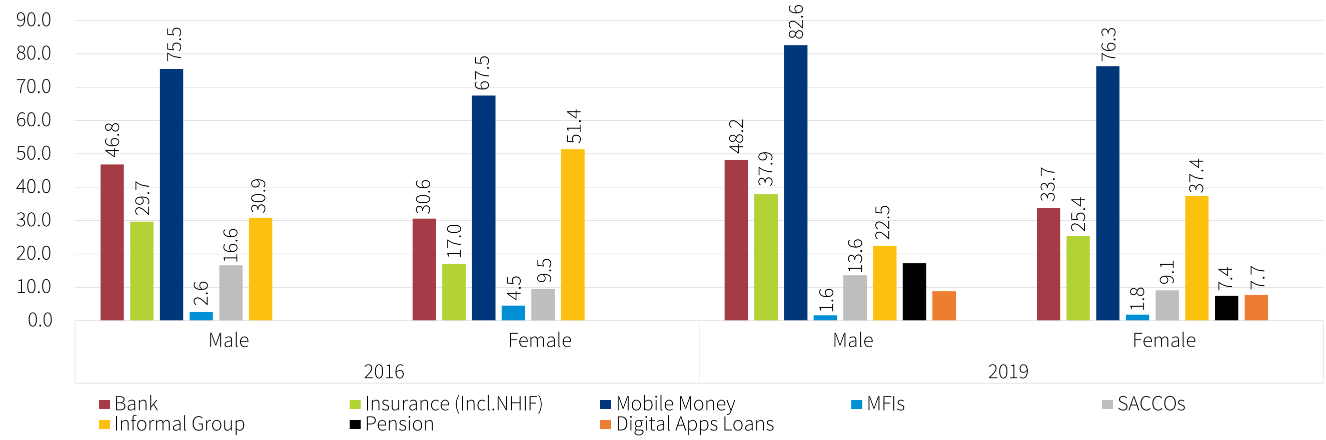
3.3.2 Narrowing gap between male and female

Digital financial services provide the optimal market-based solution in narrowing the gap in usage of financial services between male and female. The gap in Mobile money usage between the two gender narrowed to 7 percent in 2019 from 8 percent in 2016. For banks and insurance, gender gaps were 14 percent and 13 percent in 2019 compared with 16 percent and 13 percent respectively in 2016 in favour of male.

There is no gap between male and female in the use of digital apps loans, reflecting strong uptake in just three years (**Figure 3.5**).

Although the female gender remains the majority users of informal groups in both years, the gap in the gender divide has narrowed from 20 percent in 2016 to 14 percent in 2019, underlining the role of digital financial services in bringing more women into formal financial services.

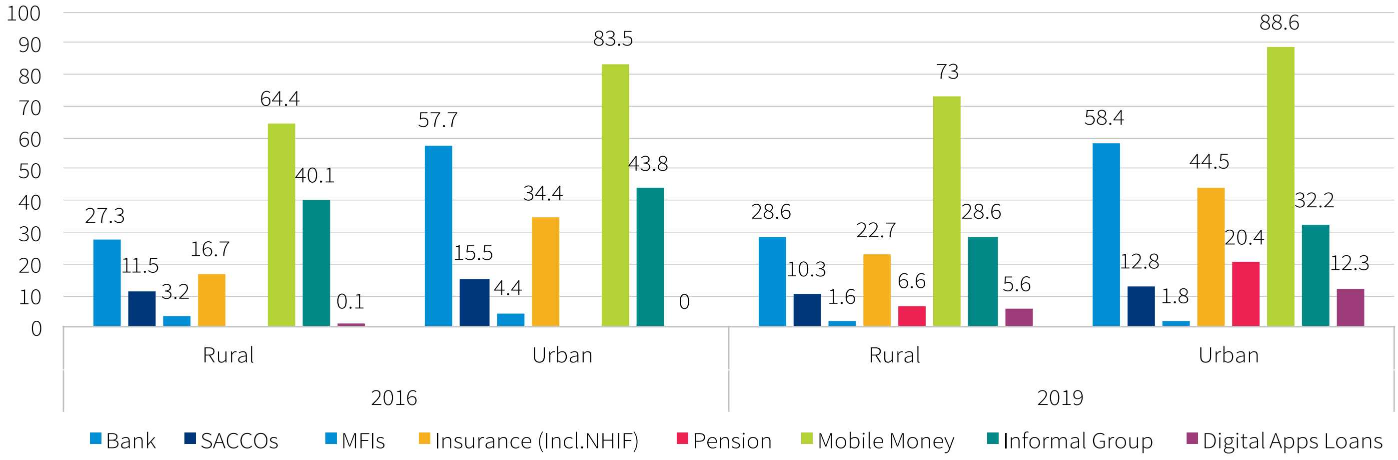
Figure 3.5: Usage by sex (%)



3.4 Drivers of usage

Mobile money is the key driver of narrowing the gap between rural and urban users of financial services. The improved uptake in both rural and urban areas by 10 percentage points and 5 percentage points respectively, signifies its importance.

Figure 3.6: Usage by residence (%)

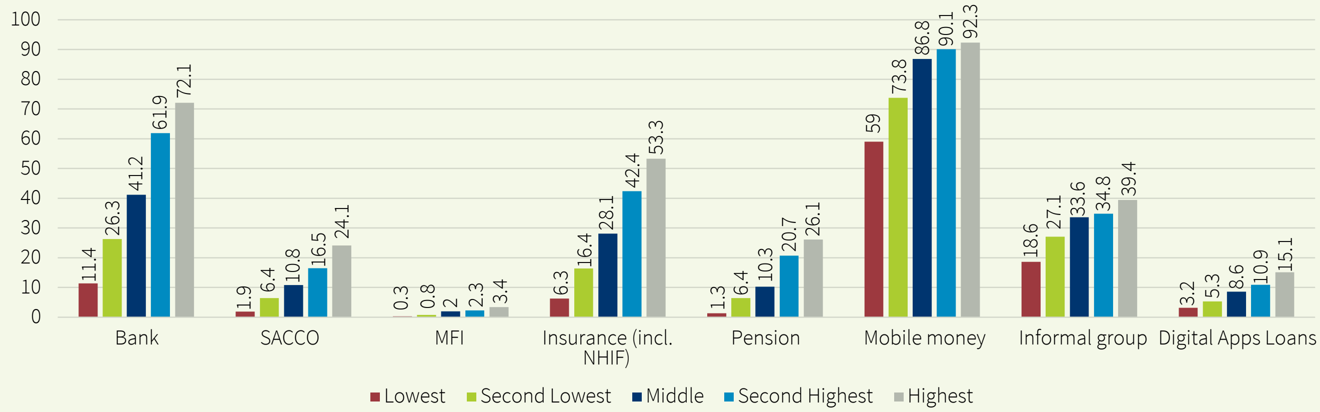


The use of informal financial services remains significant in both rural and urban dwellings highlighting a financial need this group serves. The double digit gap in usage of banks (29%), mobile money (16 %), and insurance (22 %) in favour of the urban residents in 2019 is an improvement from the 31 percent and 20 percent for banks and mobile money but worsening gap for insurance.

3.5 Financial services by wealth quintile

Use of mobile money and bank remain key providers of financial services across all the social strata (**Figure 3.7**). Informal group usage plays an important role to all social class.

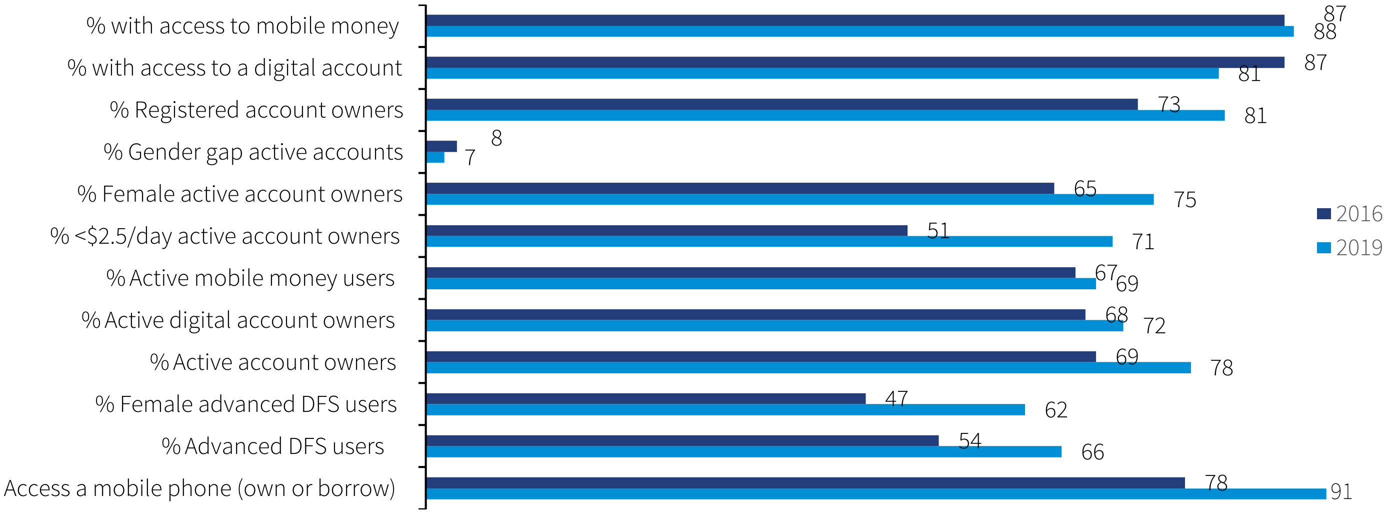
Figure 3.7: Usage by wealth quintile (%)



3.6 Digital activity in usage

Significant growth in digital accounts ownership and registration was recorded in 2019 compared to 2016, reflecting high adoption of digital accounts (**Figure 3.8**).

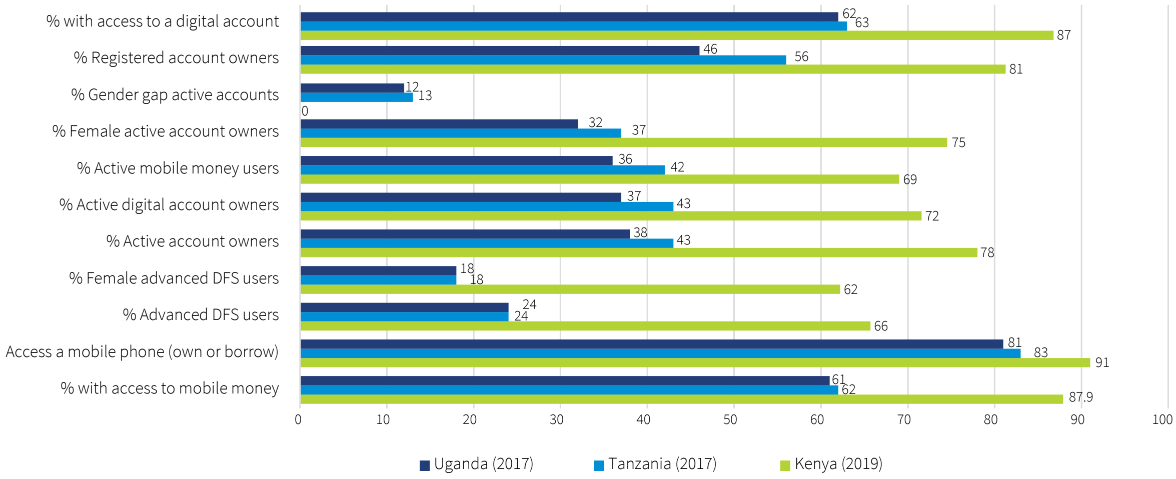
Figure 3.8: Active digital accounts in Kenya: 2016 versus 2019 (%)



**Active digital account refers to the use of a bank, mobile bank, mobile money, or regulated MFI, SACCO through transactions or access via mobile phone app, website, debit/credit card or other means, without using cash, in the past 90 days.*

Despite differences in the years of the survey, the 2019 survey data indicate significant digital accounts usage for both savings, borrowing and for transactions purposes (**Figure 3.9**).

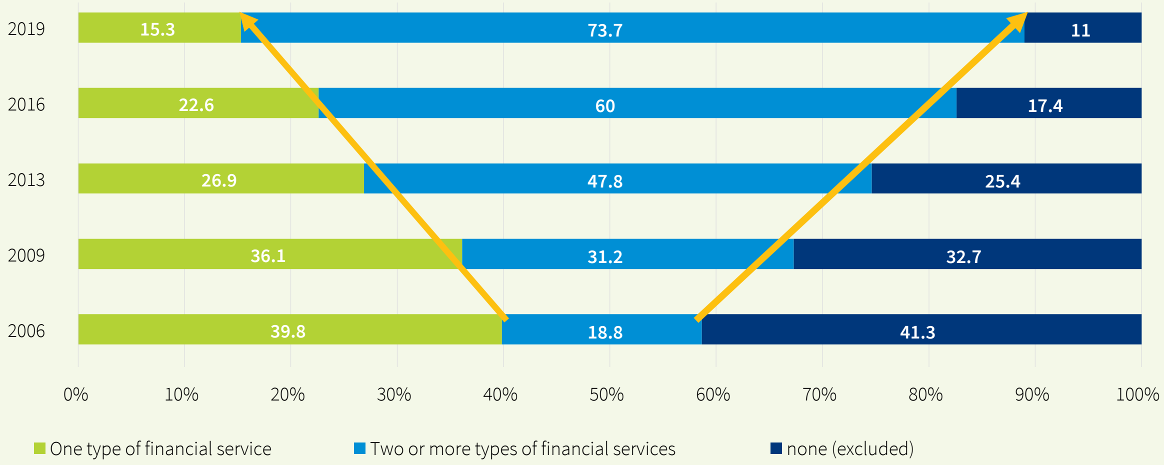
Figure 3.9: Active digital accounts: Country comparisons (%)



3.7 Use of a portfolio of financial service providers

The number of Kenyans using more than one type of financial services has increased significantly over the period between 2016 and 2019 (**Figure 3.10**), perhaps highlighting interlinkages between mobile money, digital platforms and traditional financial services providers.

Figure 3.10: Overlaps in the use of financial services 2006 – 2019 (%)

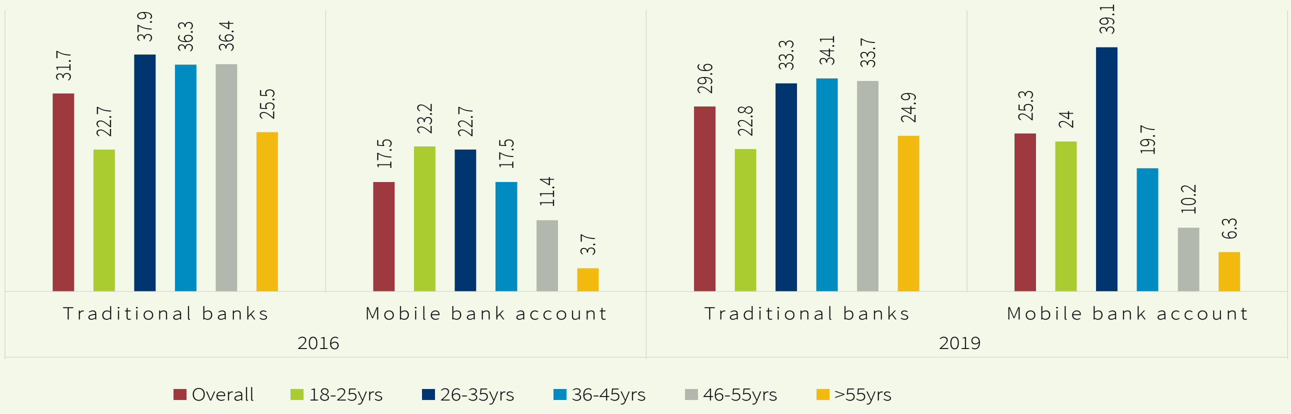


3.8 Financial services usage by products

3.8.1 Bank account usage

While the usage of traditional accounts declined from 31.7 percent in 2016 to 29.6 percent in 2019, mobile banking accounts usage increased to 25.3 percent in 2019 from 17.5 percent in 2016. Growth in mobile banking account usage is mainly driven by young people below the age of 35 years (**Figure 3.11**). Note however that regardless of the age, users combine mobile and traditional banking services.

Figure 3.11: Mobile bank versus traditional bank accounts usage by age in 2016 and 2019 (%)



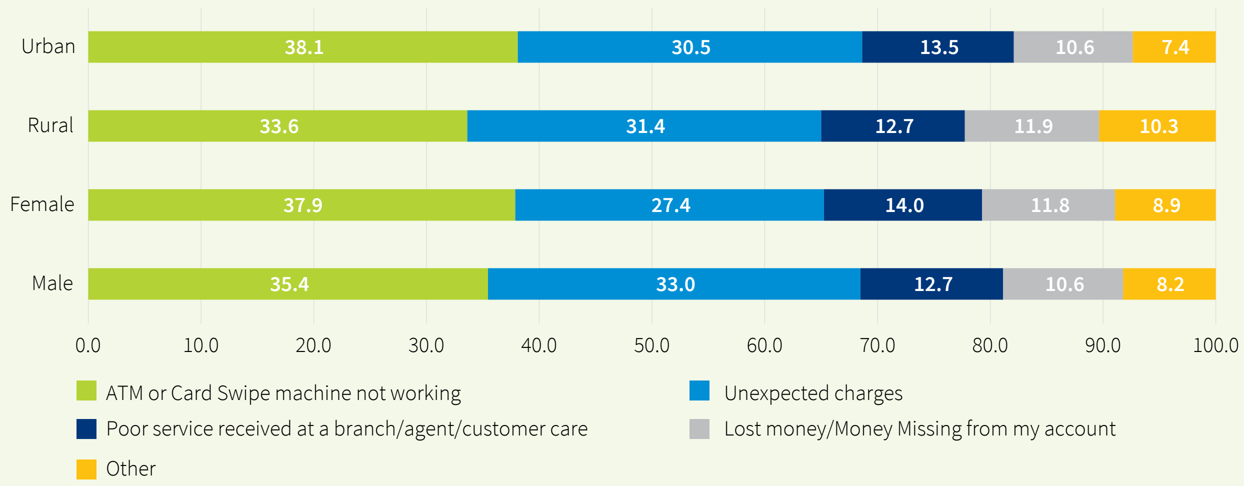
income were the top three reasons cited, in total accounting for 70 percent of response rate. This concludes that demand side factors rather than supply side constraints do influence use of bank services. Other reasons such as long distance to nearest bank, lack of trust, financial literacy limitations, among others were not significant.

Challenges faced in use of a bank account

There are two main challenges customers cited in the use of a bank account. These are; Automated Teller Machine (ATM) or card machine not working, and being levied with unexpected charges (**Figure 3.14**).

The ATM/ card machine not working was more pronounced in the urban areas and among the female users while the unexpected charges was more cited by male and rural users. The loss of money in the bank account was cited more by female users and those residing in rural areas.

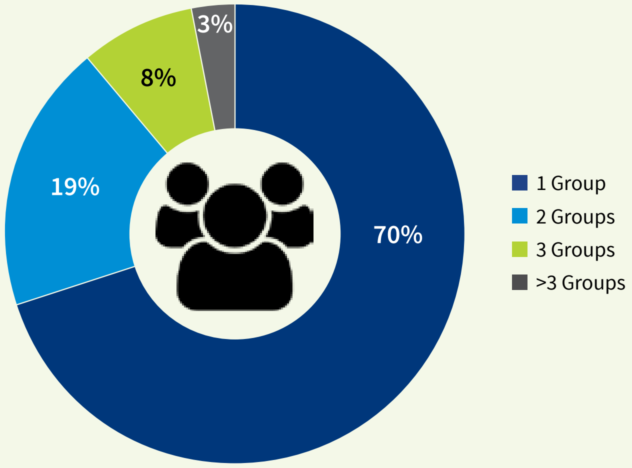
Figure 3.14: Top challenges cited in bank account usage (%)



3.8.2 Informal usage

Informal usage consists of groups or *chamas* (ROSCAs and ASCAs). In 2019, a majority of Kenyans, at 70 percent, used one group/*chama* in the last 12 months as a source of financial services (**Figure 3.15**).

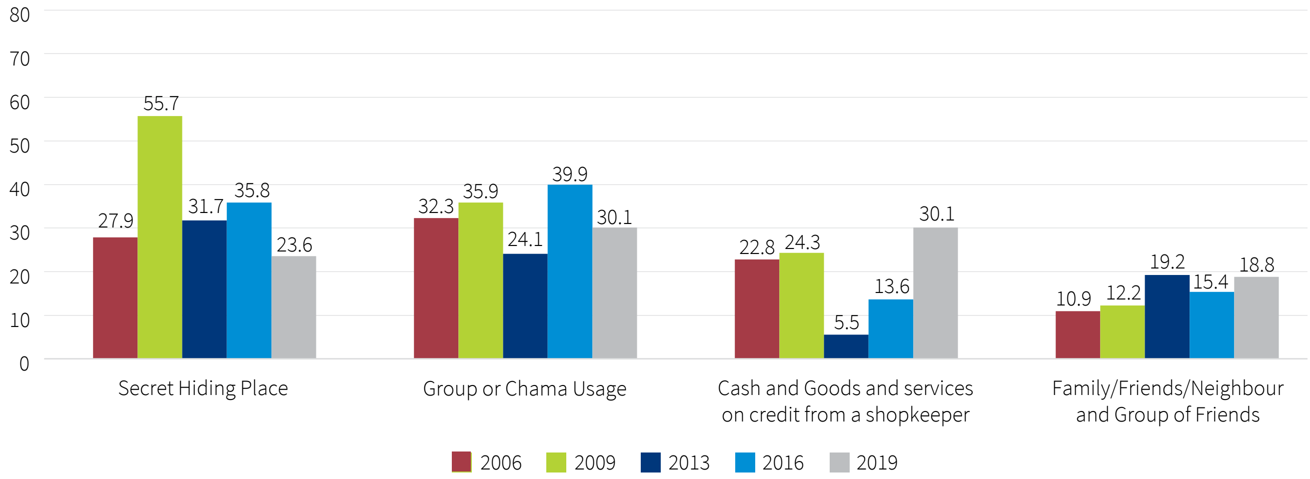
Figure 3.15: Usage by number of groups



Over time, use of informal groups has averaged about 32 percent and is volatile, but still higher than other forms of informal usage (**Figure 3.16**). Of importance to note is the significant decline in the use of a secret hiding place, (initially defined under the Excluded), from 55.7 percent in 2009 to 23.6 percent in 2019, perhaps reflecting the increased use of mobile money.

The significant increase in the use of shopkeeper financing between 2016 and 2019 may signal increasing role of social networks.

Figure 3.16: Breakdown in informal group over time (%)



A majority of groups have records on their members who have paid or received money, legitimately elected officials, validly registered and governed under a constitution (**Figure 3.17**). These are key requirements for well-run organizations that provide organized financial services and can attract external financing.

Figure 3.17: Features of groups in 2016 and 2019 (%)

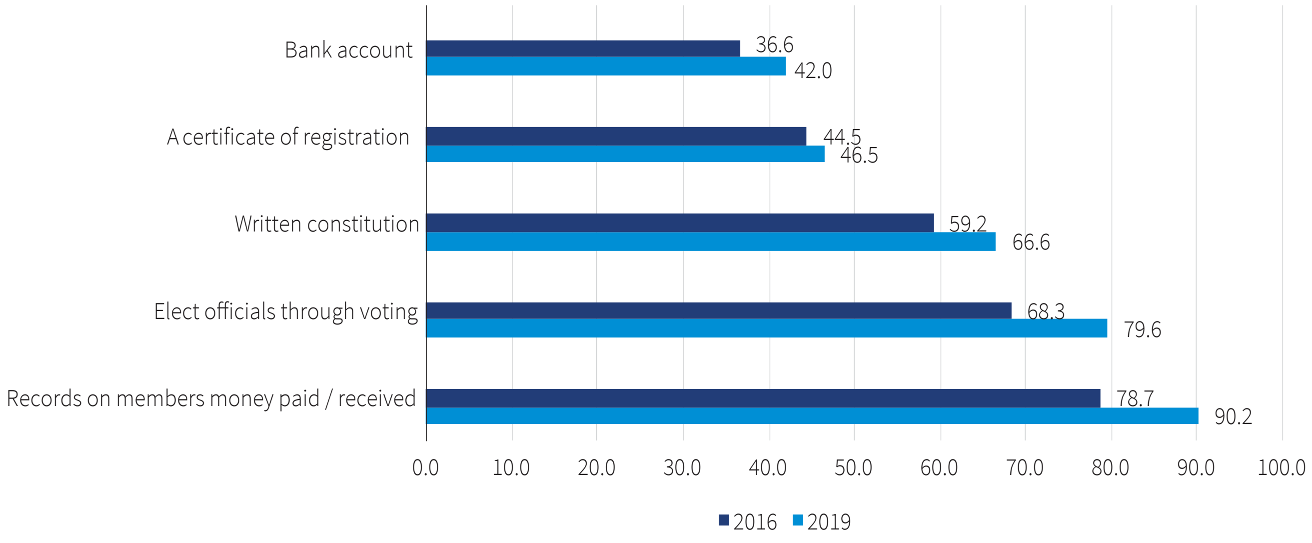
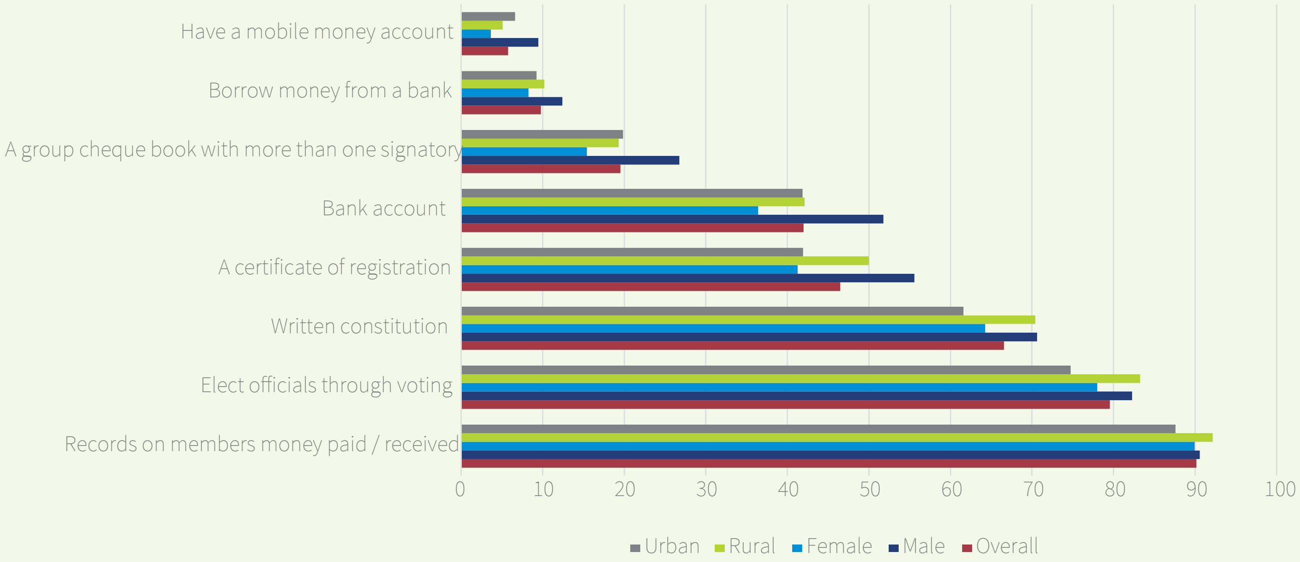


Figure 3.18: Features of groups by sex and residence (%)



To establish whether there are differences on how groups are run, the survey assessed group features in rural-urban dimension as well as between the two sexes. The results indicate that most groups, whether in rural or urban areas, or whether they are run by male or female have important records and documentation (**Figure 3.18**).

Most of the groups are yet to embrace use of mobile money or even borrowing from banks to undertake their financial obligations.

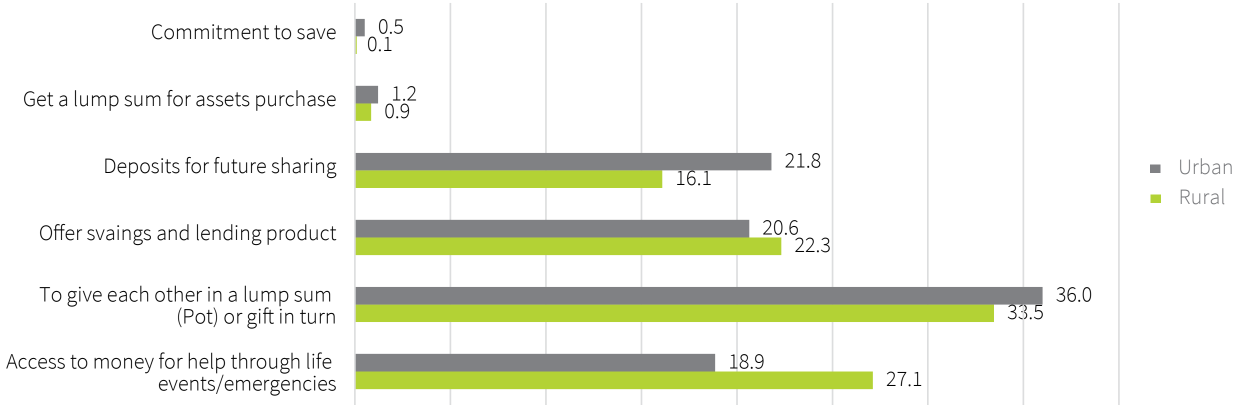
To establish the socio-economic contributions of groups, a question was asked on the main activities driving the use of groups. The survey results were compared with the results in 2016. Overall, while the groups remain very important in providing money to support their members overcome challenges in life, they have emerged strongly as avenues for financial intermediation (saving and lending for a return) and safe keeping (deposits for future sharing) (**Table 3.1**). However, the use of groups in obtaining lump sum money to purchase assets has declined significantly.

Table 3.1: Key activities driving groups (%)

Activity	2016	2019	Change
Access to money for help through life events/emergencies	25.4	23.7	-1.7
To give each other a lump sum (pot) or gift in turn	22.2	34.5	12.3
Offer savings and lending product	15.7	21.6	5.9
Deposits for future sharing	12.2	18.5	6.3
Get a lump sum for assets purchase	11.6	1.0	-10.6
Commitment to save	6.4	0.3	-6.1

The most cited reason by a majority of Kenyans for joining a group, whether by male or female across rural and urban areas, is the need to collect money in order to give each other a lump sum (pot) or as a gift in return. This is more so for female users in urban dwelling. Males residing in rural areas find this product more important in accessing lump sum money to meet emergencies (**Figure 3.19**).

Figure 3.19: Key activities of groups by gender and residence (%)



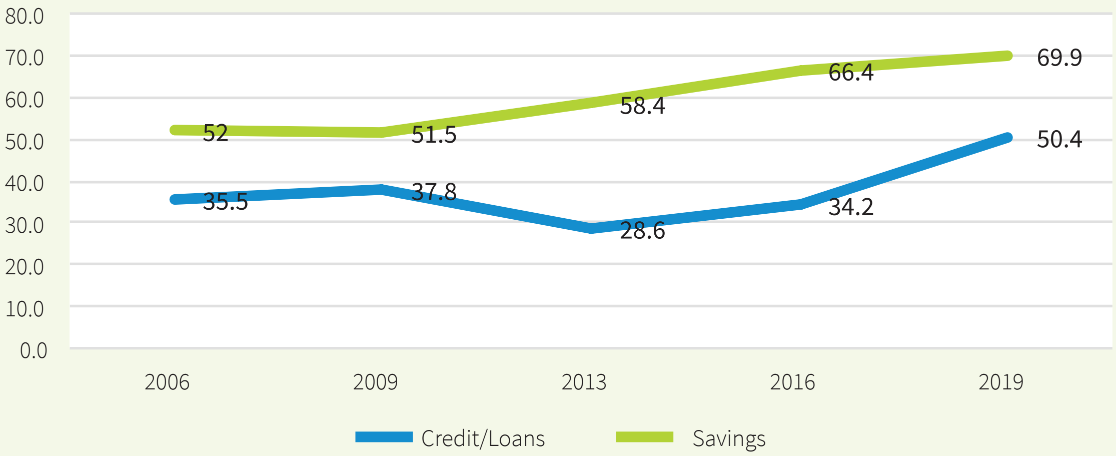
Just like other financial services providers, groups also face numerous challenges. The survey results indicate that dishonesty and high defaults rates on money given out to members and non-members was the main challenge cited by a majority of respondents at 48.7 percent in 2019 up from 12 percent in 2016. This was followed by fraud and theft of funds by committee members of the groups (**Table 3.2**).

Table 3.2: Top challenges facing groups in 2016 - 2019 (%)

Challenges	2016	2019	Change
Dishonesty or default by members	12.0	48.7	36.7
Theft or fraud by a committee member	6.2	25.6	19.4
Theft or fraud by a non-group member	3.7	7.4	3.8
Bad investment of funds	2.9	5.1	2.2
Acting as a guarantor*	n/a	11.3	n/a
Other*	n/a	1.9	n/a

** these questions were not in the 2016 survey.*

Figure 3.20: Overall savings and credit usage, 2006 – 2019 (%)



3.8.3 Savings and credit usage

The gap between savings and credit has narrowed in the period 2016 - 2019. Credit uptake has been rising steadily while savings rate remains gradual (**Figure 3.20**).

Growth in bank account savings instrument, is mainly driven by uptake in the use of mobile banking accounts (**Table 3.3**). Use of secret hiding place still remains high.

Table 3.3: Savings instruments use by type of provider (%)

	2006	2009	2013	2016	2019
Formal					
Bank Savings Account	12.4	12.4	9.8	24*	25.4**
Postbank Account	5.6	2.5	2.3	1.5	0.3
SACCO	12.8	8.9	10.6	12.6	9.4
MFI/MFB	1.5	3.2	3.1	3.3	0.7
Mobile Money	n/a	n/a	27	43.3	53.6
Informal					
Group/*Chama*	34.7	37.1	26.8	39.2	30.1
Group of Friends	10.9	5.5	12.2	9	4.6
Family/Friend	16.6	11.6	19.2	15.4	11.8
Secret Hiding Place	27.9	55.7	31.7	35.8	23.6

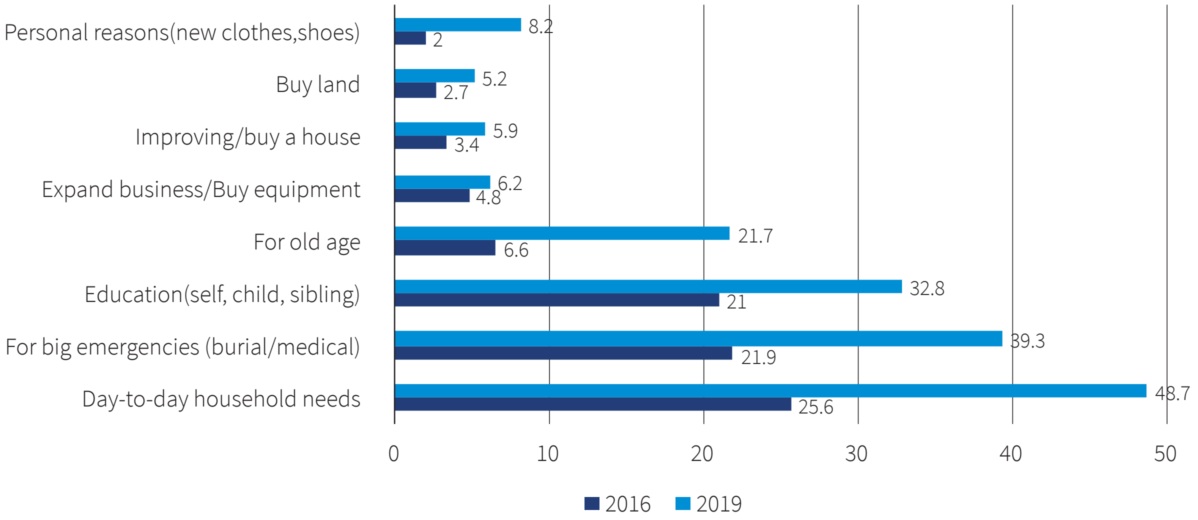
**constitutes 16.8% of savings in mobile bank accounts*

***constitutes 19.2% savings in mobile bank accounts*

Saving

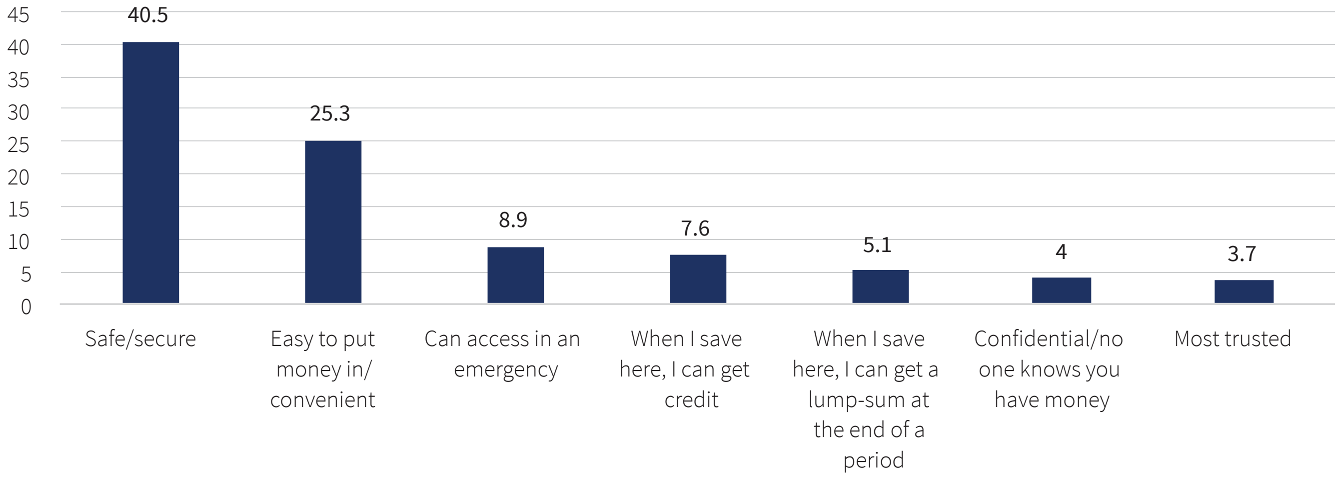
In both 2016 and 2019, the top three reasons why people save were meeting expenses arising from emergencies (burial, medical costs), household consumer needs and for education (**Figure 3.21**).

Figure 3.21: Key Reasons why people save in 2016 and 2019 (%)



Security and convenience are the main drivers influencing choice of a given savings instrument (**Figure 3.22**). Together, they account for 65.8 percent of reasons given by the respondents.

Figure 3.22: Top Consideration in choosing a saving instrument in 2019 (%)

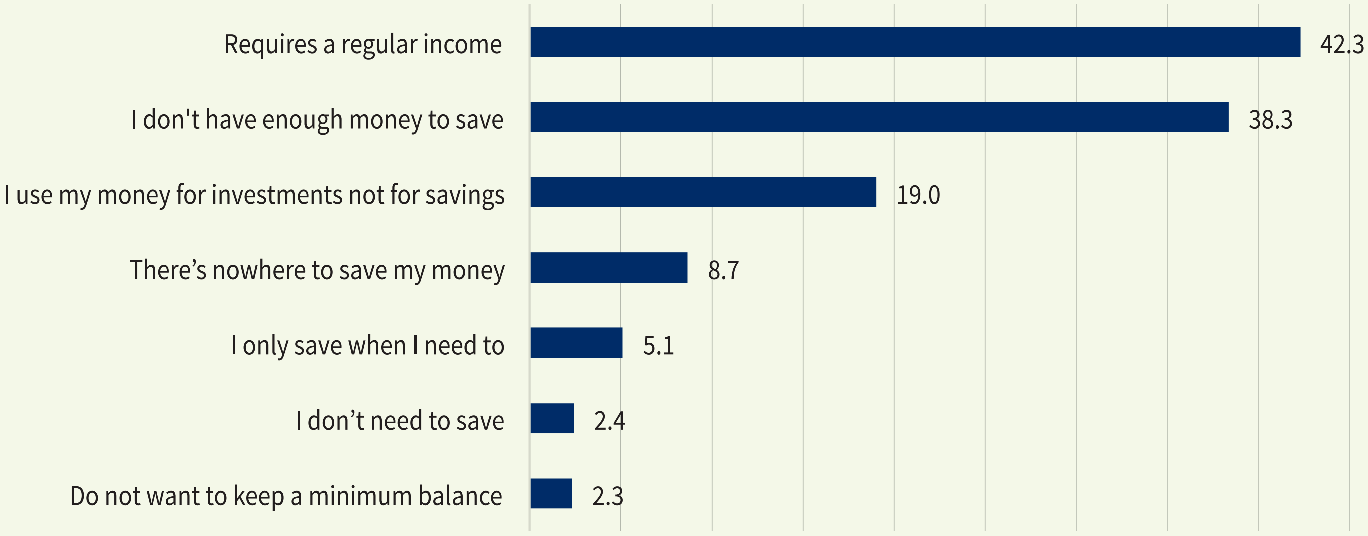


finaccess

> Kenyans need to generate a regular income to save

Challenges in having sufficient amount of money to save and lack of regular income were cited as the most constraining factors to savings among Kenyans, at 42.3 percent and 38.3 percent respectively in 2019 (**Figure 3.23**). This suggests that Kenyans have been able to generate an income over the years, but are unable to make savings, as they are not certain of when they'll make their next earnings.

Figure 3.23: Top Reasons for not saving (%)



Credit uptake

Credit uptake through formal and non-formal digital channels as well as informal sources, in particular shopkeeper credit and family/friends recorded notable increase in 2019 compared to 2016. The highest growth was in shopkeeper credit and digital app loans (**Table 3.4**).

2015/10/22 11:59
JJMOBSY4OC Confirmed
Your M-Shwari loan
request will be processed
shortly.

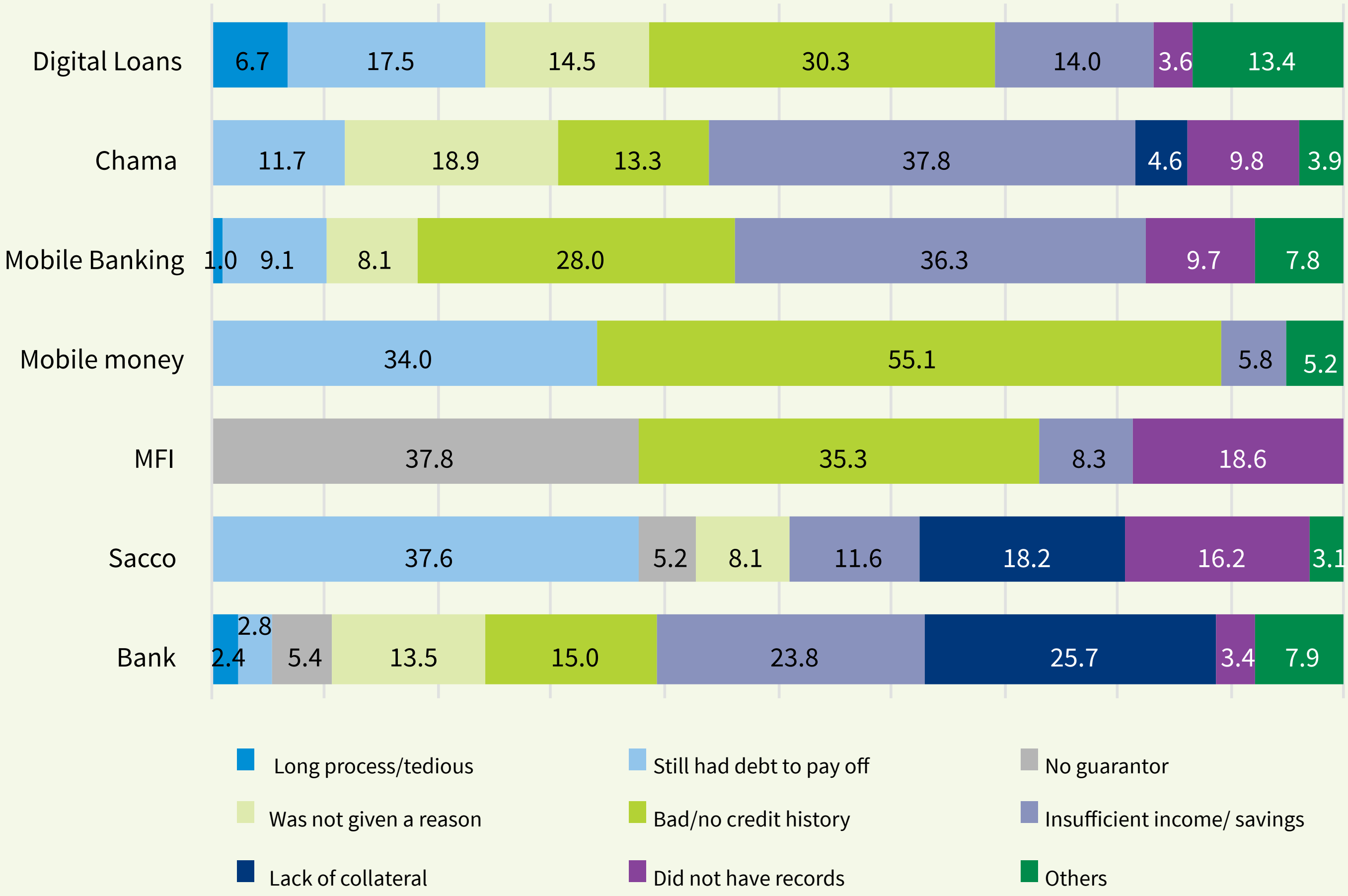
Table 3.4: Credit uptake by institution (%)

Credit	2006	2009	2013	2016	2019
Formal					
Personal Bank Loan	1.8	2.6	3.6	4.4	4.3
House/Land Bank/Building Society Loan	0.5	0.2	0.9	0.6	0.3
Overdraft	0.3	0.2	0.5	0.4	0.2
Credit Card	0.8	0.8	1.8	1.2	0.5
Mobile banking Loan	n/a	n/a	n/a	5.9	9.5
Sacco Loan	4.2	3.1	4	5	5.1
MFI Loan	0.8	1.8	1.6	1.8	0.9
Government Loan	0.9	0.3	0.6	1.3	1.3
Hire Purchase	0.6	0.1	0.2	0.1	0.6
Informal					
Employer Loan	0.9	0.5	1	5.1	1.4
Chama Loan	1.7	1.8	6	8.3	8
Informal Moneylender	0.7	0.4	0.4	0.4	0.5
Shopkeeper	22.8	24.3	5.5	9.9	29.7
Buyer Credit	0.9	1.2	1.1	0.3	1
Digital Loan apps	n/a	n/a	n/a	0.6	8.3
Family/friend/neighbor loan	12.6	12.2	5.2	6.6	10.1

Reasons for being denied credit

There are various reasons why many Kenyans are denied credit, which vary by institution. Overall, bad/ no credit history is the main reason cited by respondents for being denied credit by providers (**Figure 3.24**).

Figure 3.24: Reasons for being denied credit by institution in 2019 (%)

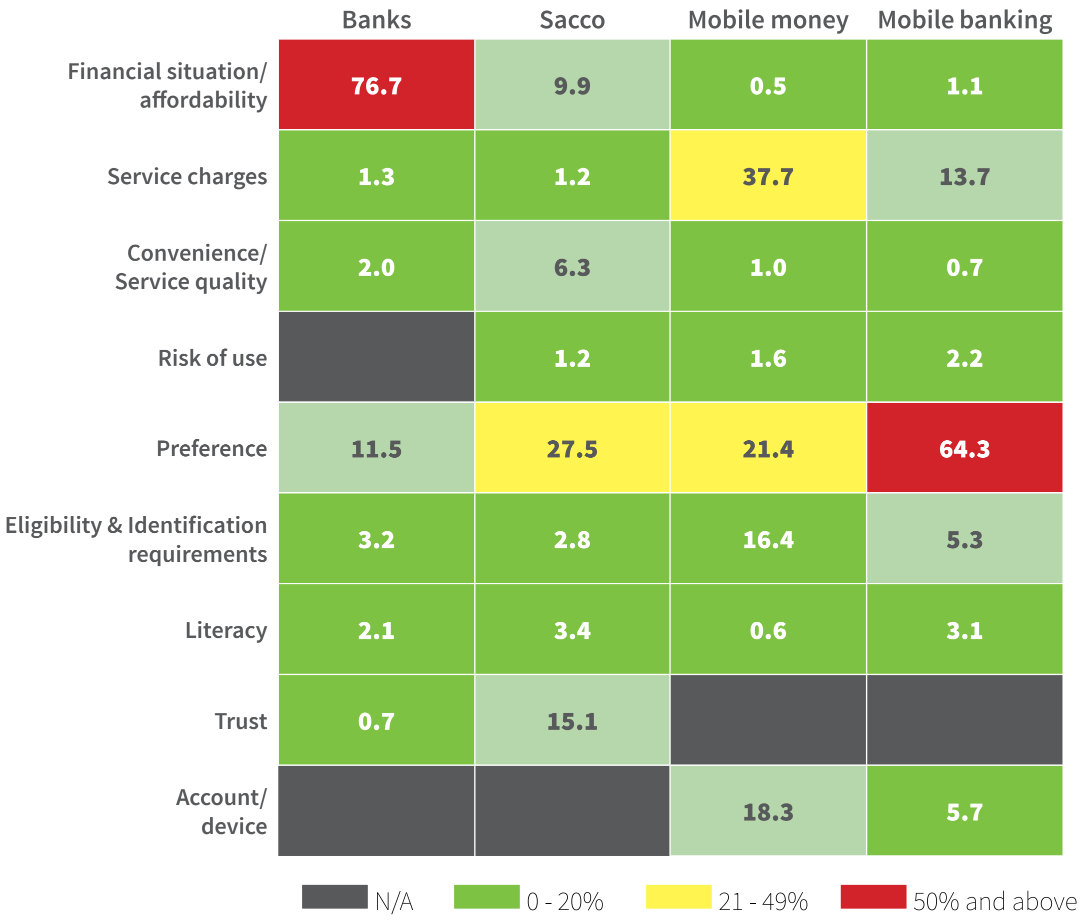


Different credit providers deny customers credit for various reasons. The survey results indicate that banks mainly denied potential borrowers credit on lack of collateral at 20.9 percent. Sacco customers, on the other hand, were denied credit on account of failure to clear outstanding loans. Mobile money, mobile banking and digital loan apps providers deny customers credit on a bad or no credit history, while MFIs mainly deny customers credit who have no guarantor. For those using groups, the main reason for being denied credit are low savings at 26 percent.

Reasons for non-use by provider

Among the leading reasons cited for lack of using banks is the lack of affordability or financial situation of households, with the highest score at 77 percent. For mobile banking, most people prefer not to use it for their own reasons (**Figure 3.25**).

Figure 3.25: Top reasons for non-use by provider (%)



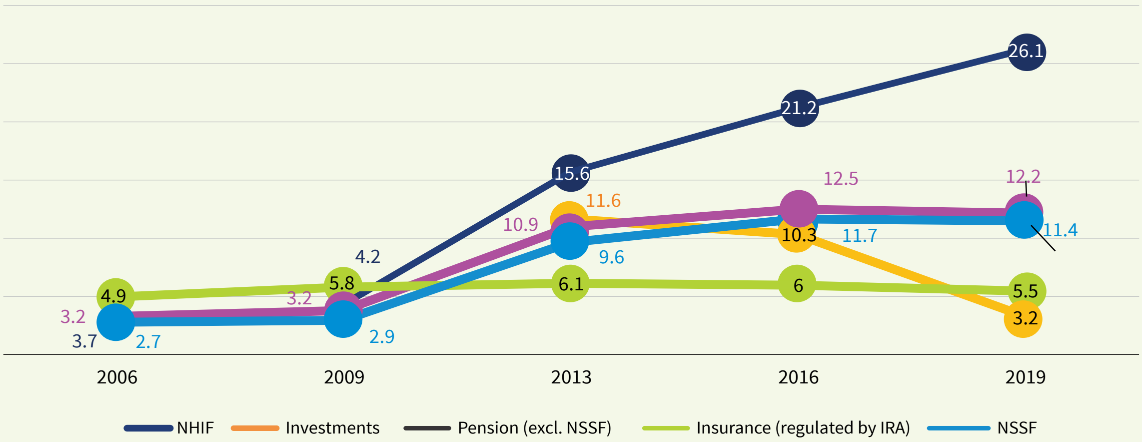
	Banks	Sacco	Mobile money	Mobile banking
Financial situation/ affordability	76.7	9.9	0.5	1.1
Service charges	1.3	1.2	37.7	13.7
Convenience/ Service quality	2.0	6.3	1.0	0.7
Risk of use	⬛	1.2	1.6	2.2
Preference	11.5	27.5	21.4	64.3
Eligibility & Identification requirements	3.2	2.8	16.4	5.3
Literacy	2.1	3.4	0.6	3.1
Trust	0.7	15.1	⬛	⬛
Account/ device	⬛	⬛	18.3	5.7

⬛ N/A 🟩 0 - 20% 🟨 21 - 49% 🟥 50% and above

3.8.4 Insurance, pensions and investments usage

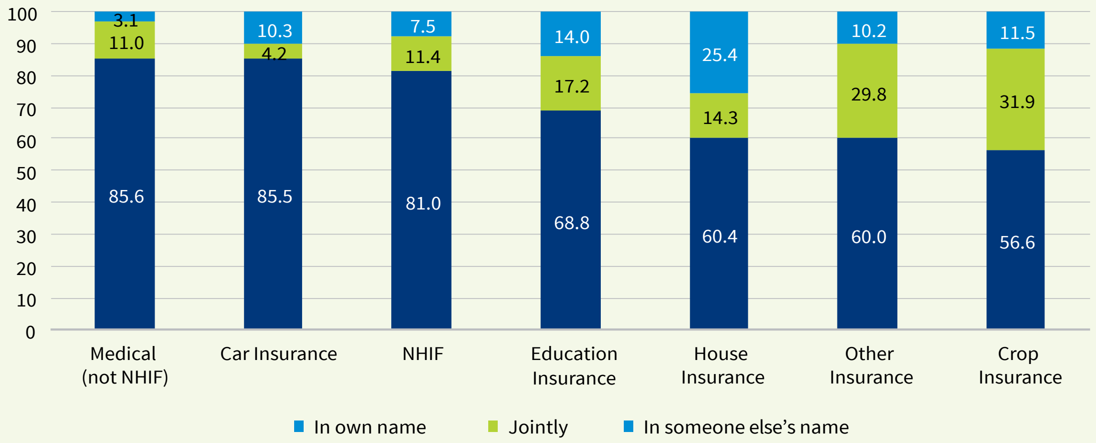
Survey findings show a significant uptake in NHIF driven by government policy on universal healthcare (**Figure 3.26**). However, investments in securities, shares and mutual funds, despite innovations such as M-Akiba recorded a steep decline requiring a deeper analysis.

Figure 3.26: Use of insurance, pension and investments providers (%)



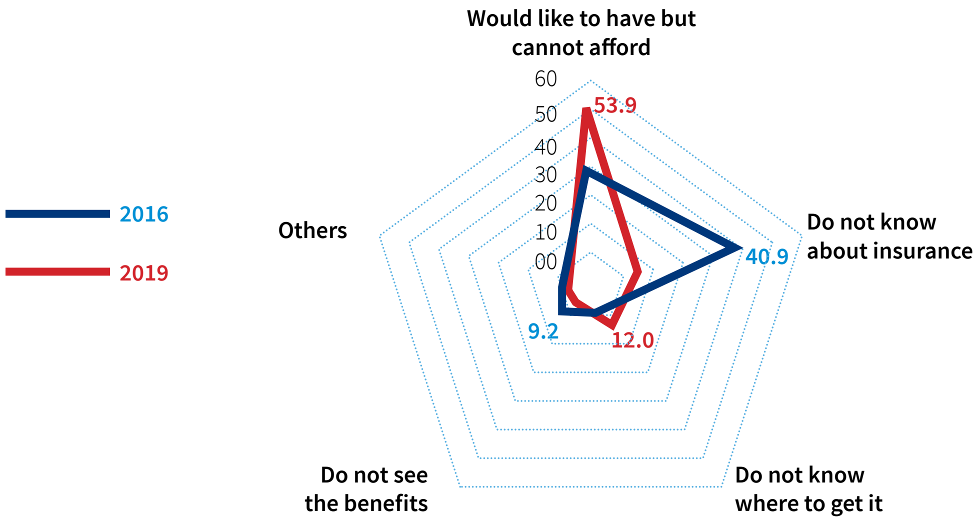
Most of the insurance products are directly owned by the individuals (**Figure 3.27**)

Figure 3.27: Ownership of insurance products by category, 2019 (%)



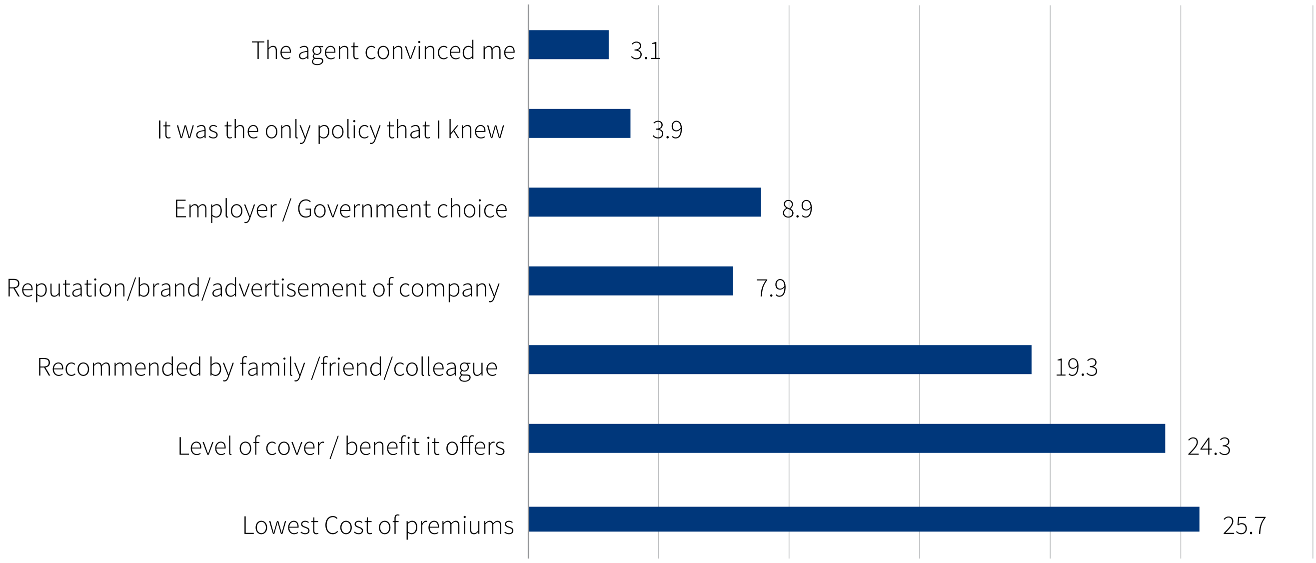
The inability to afford insurance has been cited as the main reason as to why most Kenyans lack insurance cover in 2019 as compared to 2016 where the major reason was lack of understanding insurance products (**Figure 3.28**).

Figure 3.28: Top reasons for lack of insurance (%)



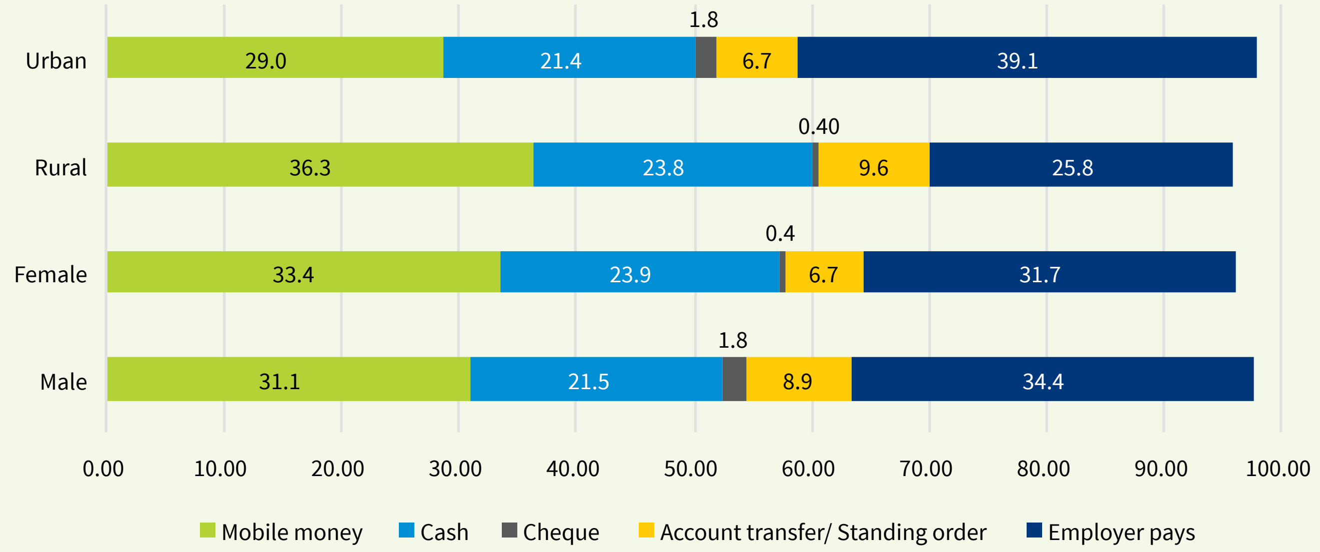
A majority of respondents indicated that the cost of insurance premium is the main reason for choosing insurance products (**Figure 3.29**).

Figure 3.29: Reasons for choosing an insurance policy (%)



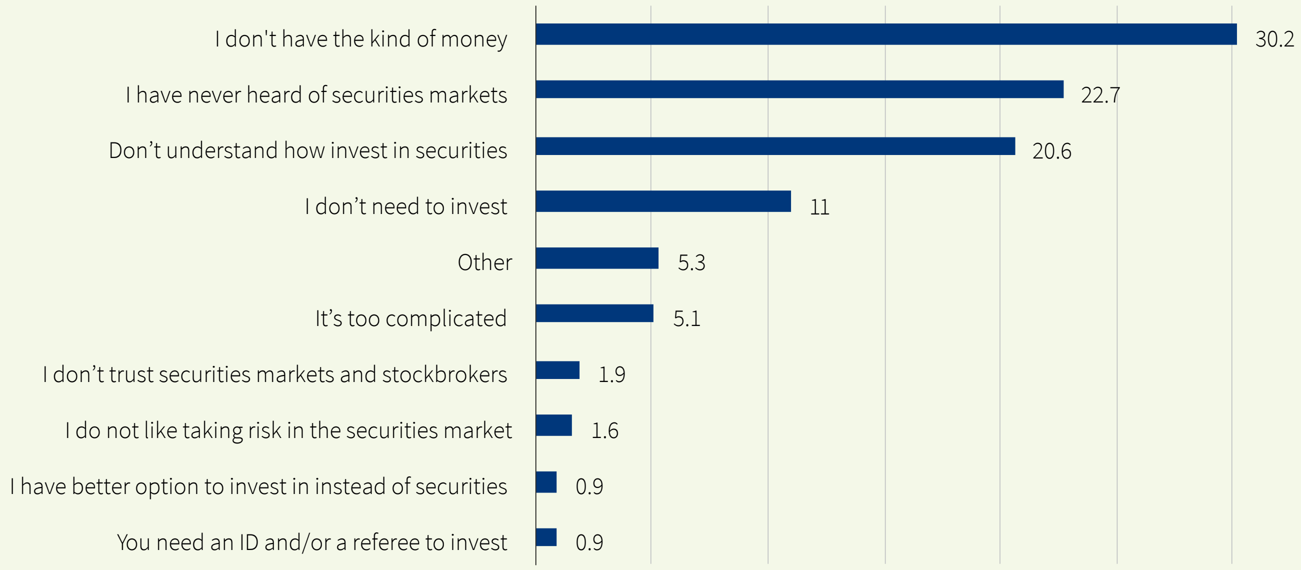
Mobile money has emerged as a dominant channel for paying insurance premiums, especially in rural areas (**Figure 3.30**).

Figure 3.30: Channels for paying insurance premiums (%)



Slightly over 30 percent of the respondents cited lack of money, as the main reason why they cannot invest in securities (**Figure 3.31**).

Figure 3.31: Reasons for not investing in securities (%)

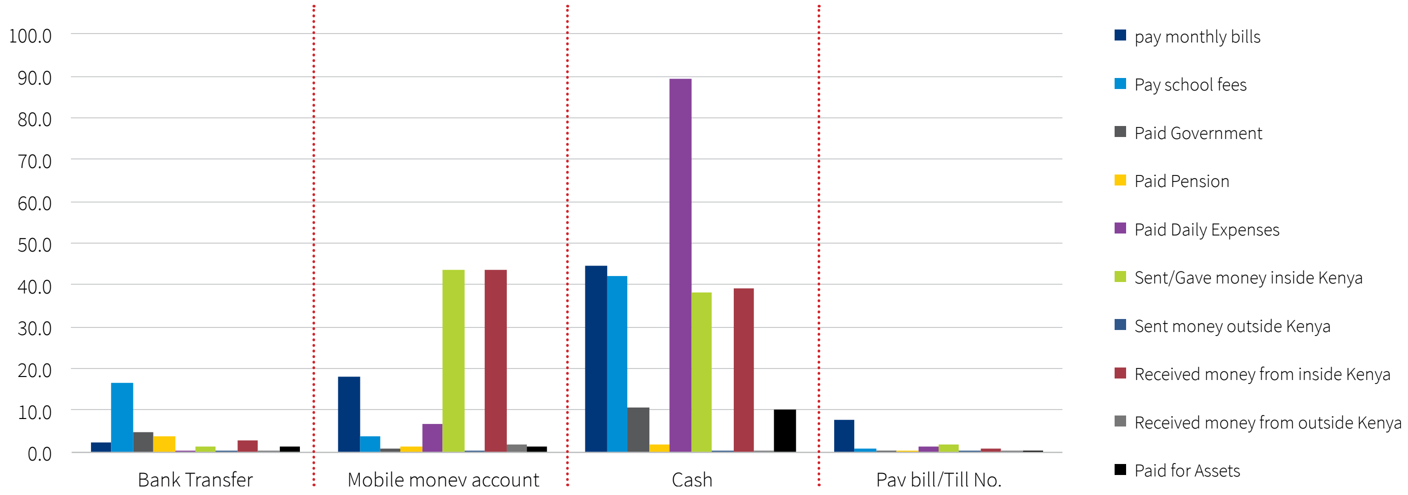


3.8.5 Transactions usage

The most used device for undertaking transactions is cash. Cash is used widely for daily expenses, monthly bills payments, fee payments, sent or receive money and purchase of assets (**Figure 3.32**).

It is closely followed by use of mobile money account. Use of other devices, such as bus or *matatus*, courier, money transfer services, international mobile transfers, *Hawala*, post office, mobile banking, credit/debit cards, cheques or in-kind, had less than 1 percent usage across a majority of uses.

Figure 3.32: Top four transactions instruments and purpose in 2019 (%)



Uganda and Tanzania accounted for the largest destinations of money sent out of Kenya. This might be attributed to many citizens of those countries who work in Kenya or do business in Kenya and remit money back home. (**Table 3.5**).

Table 3.5: Top eight countries from where money sent or received (%)

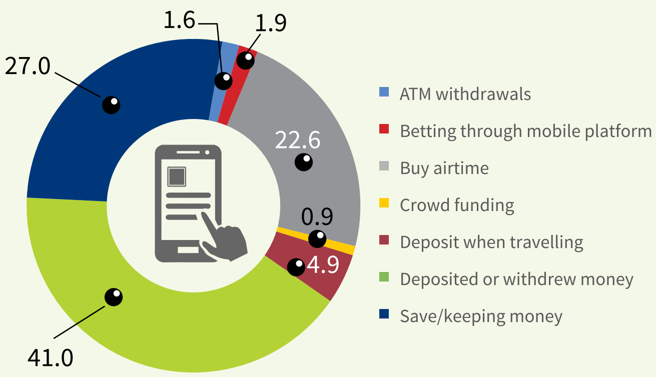
Country	Destination	Country	Origin
Uganda	24.0	United States of America	34.0
Tanzania	12.1	Uganda	9.2
United States of America	10.0	United Arab Emirates	8.4
Australia	7.9	Qatar	7.1
UK & Northern Ireland	3.4	Germany	6.0
India	3.4	UK & Northern Ireland	6.0
Canada	3.3	Tanzania	2.1
Rwanda	2.8	Saudi Arabia	2.4
United Arab Emirates	2.3	Canada	1.9

The U.S is the main source of remittances to Kenya, signifying the large population living and working in the U.S. Other significant sources of remittances are Uganda, Middle East and Europe.

3.8.6 Mobile money usage

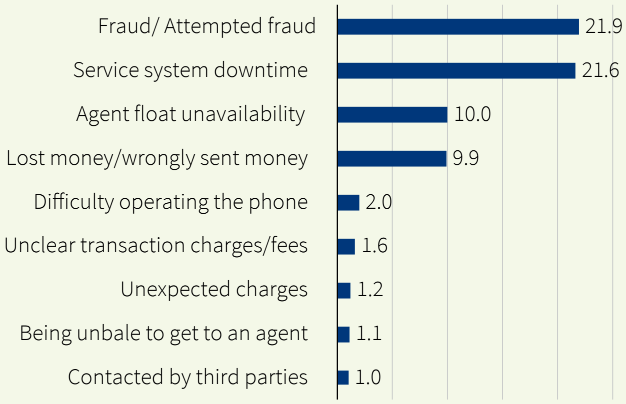
Mobile money was mainly used for deposits and withdrawals and safe keeping (**Figure 3.33**). Safekeeping money and purchase of airtime followed.

Figure 3.33: Purpose having mobile money (%)



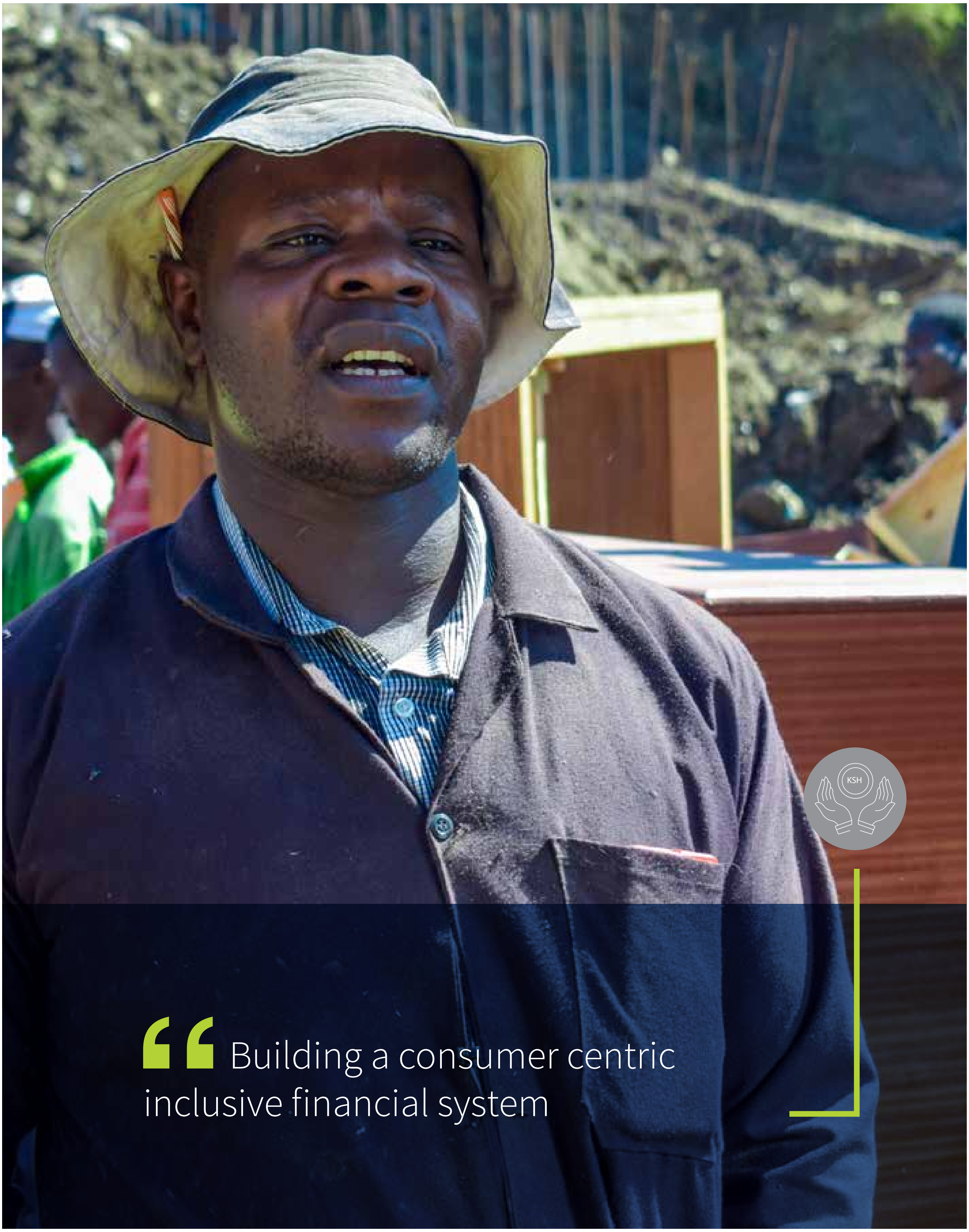
Fraud and system downtime were reported as the main challenges that face users (**Figure 3.34**).

Figure 3.34: Challenges in use of mobile money



Summary Conclusion

- Usage of financial services and products vary across providers. While the use of banks, mobile money, NHIF and digital apps loans increased, the use of insurance, Saccos, MFIs, investment and pension products declined in 2019 compared to 2016.
- The narrowing gap between sexes, residence and education level reflects the expansion in inclusion.
- The digital transformation noted in mobile banking and digital apps space raises cyber security, credit risk and consumer protection concerns.
- It is essential that policy makers and regulators pay attention to barriers and reasons that limit access to a wide range of financial service providers and products in order to come up with customer-centric solutions.



“ Building a consumer centric inclusive financial system

04

FINANCIAL RELEVANCE

Consumers have different goals and needs in life be they in their daily lives or for the future. Finance can play a significant role in attaining these human desired life outcomes and impact. This is the essence of building a financial system that works for Kenyans. The goal of financial inclusion is to have a financial system that drives the use of financial solutions.

Finance plays a significant role in attaining our aspirations and needs. Most measures of financial inclusion have focused on financial service providers and products with minimal attention on their relevance in meeting consumer needs.

The needs-based measurement framework reverses this traditional approach by focussing on consumer needs. This is in recognition that users do not think in terms of products; they think in terms of needs.

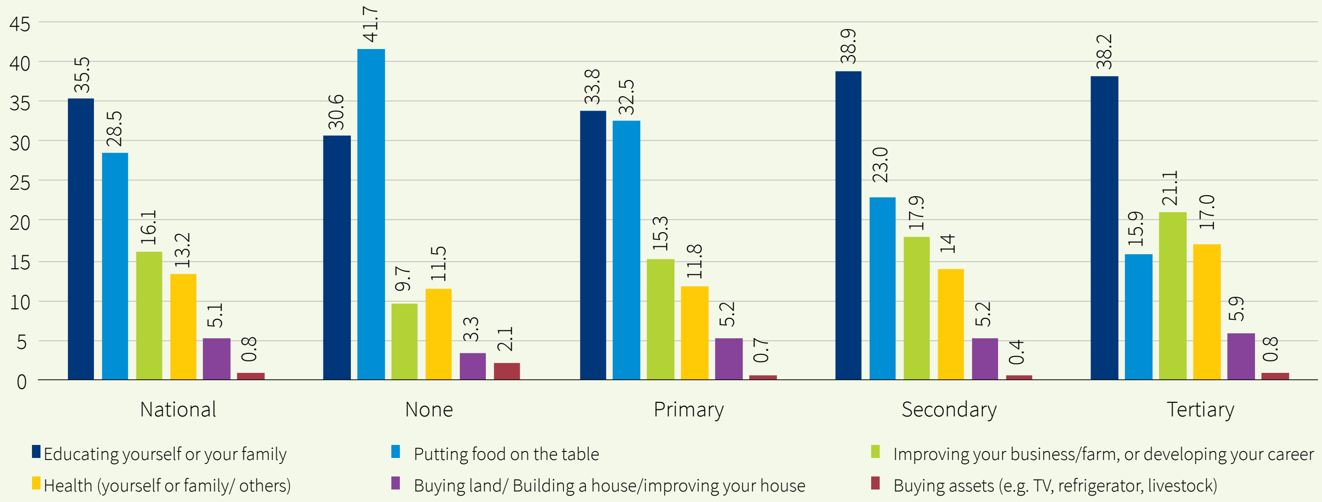
4.1 The biggest priority

This section gives an overview of the biggest priority in the lives of Kenyans, and indicates differences in priorities based on education, wealth, sex and residence.

4.1.1 Biggest priority by education level

Education is the leading life goal for Kenyans, cutting across income groups. It highlights how Kenyans view education as a means to access opportunities (upward mobility) and social status. Kenyans with no education prioritize putting food on the table as the main goal at 41.7 percent (**Figure 4.1**).

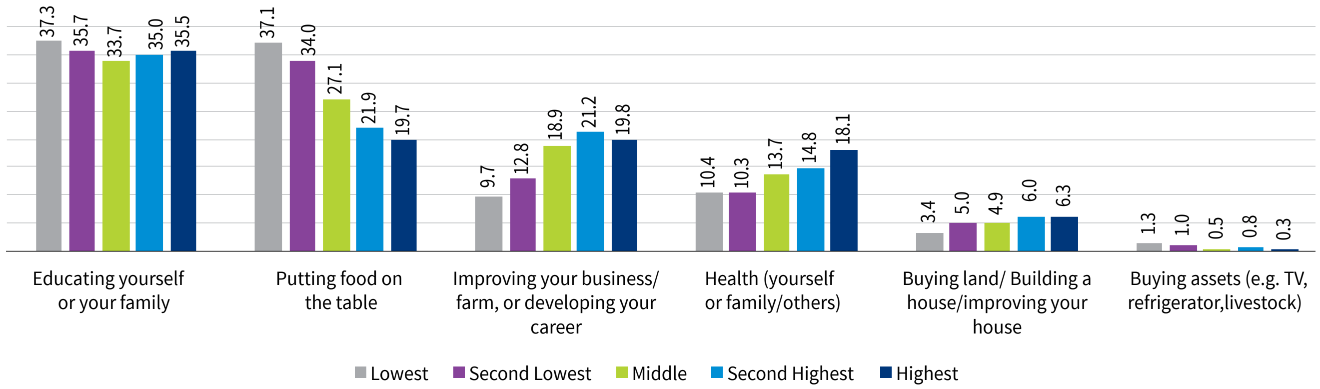
Figure 4.1: Biggest priority by level of education



4.1.2 Biggest priority by wealth quintile

Educating self or family members is the main goal for majority of Kenyans regardless of their wealth quintile status. The second most important life goal shifts from being able to cover basics (i.e. food) to improving livelihoods as income increases. Kenyan population in the lowest wealth quintile prioritizes health as their 3rd main goal compared to the population in all the other quintiles where health is the 4th main life goal (**Figure 4.2**).

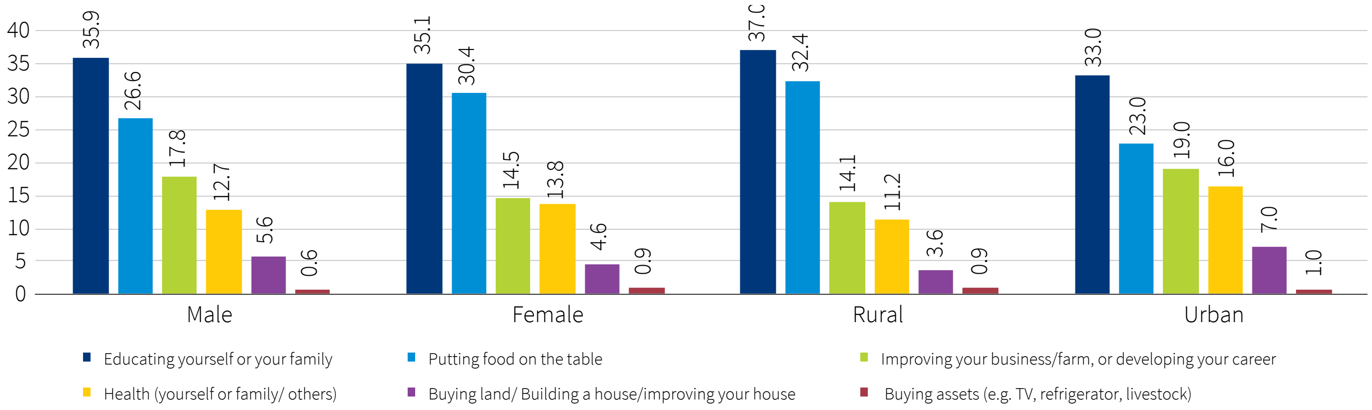
Figure 4.2: Biggest priority by wealth quintile



4.1.3 Biggest priority by sex and residence

Women are slightly more concerned about food, while men are slightly more concerned about livelihood (business/ farming etc). There are however significant differences between urban and rural residents in putting food on the table, health and improving livelihoods. Rural residents prioritize food, while urban residents put priorities on better health and improved livelihood (**Figure 4.3**).

Figure 4.3: Biggest priority by sex and residence



4.2 The Needs-based Framework

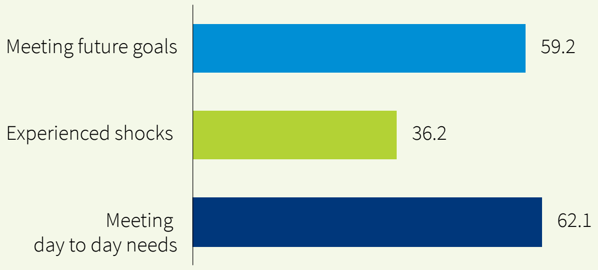
Consumers choose financial services and products based on their needs, which are reflected in their use of available solutions either formal and/or informal. This section explores the needs of Kenyans and demonstrates what financial solutions they rely on. The needs are summarised as follows;

- **Liquidity or meeting day to day needs:** People's ability to meet expenses in each income cycle. It is essential for survival and to maintain productive capacity through meeting day to day needs
- **Resilience/dealing with shocks:** Resilience refers to the ability to deal with unexpected shocks that have a financial impact
- **Meeting future goals:** The extent to which individuals utilise financial services to meet foreseeable, desired life objectives

4.2.1 Financial needs

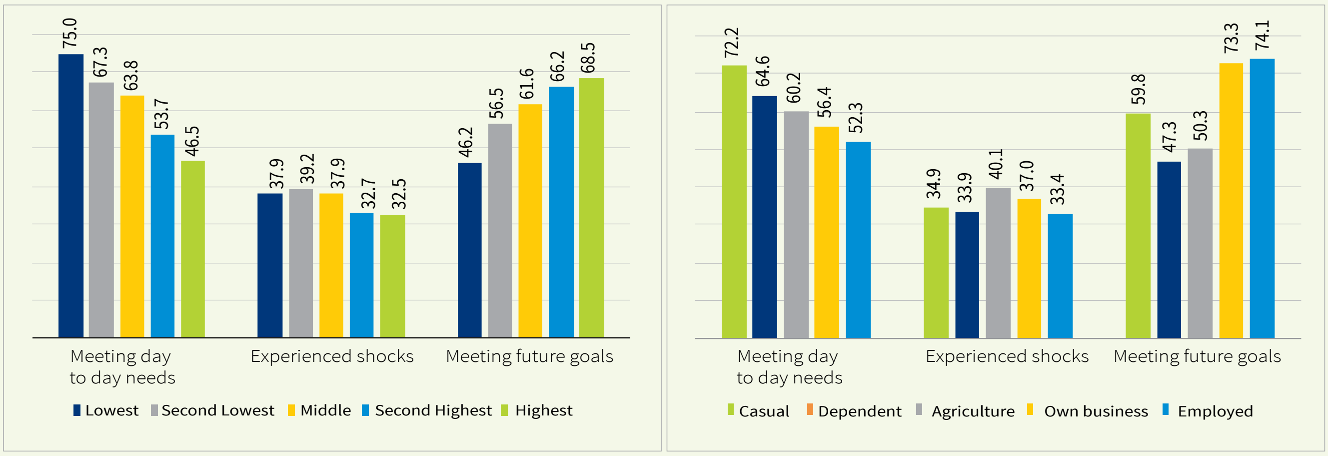
The survey results indicate that 62.1 percent of Kenyans were unable to meet their daily expenses in each income cycle. About a third (36.2%) of them have been faced with a shock in the past twelve months. The results also indicate that 59 percent of Kenyans are working towards meeting their future goals (**Figure 4.4**).

Figure 4.4: Proportion of adults mentioning a financial need (%)



Meeting day-to-day needs and keeping money aside to meet future goals is determined by the socio-economic status and the resilience of the source of income (employed/run own business are more stable sources than agriculture and casual labour). On the other hand, shocks affect all in similar magnitude (**Figure 4.5**).

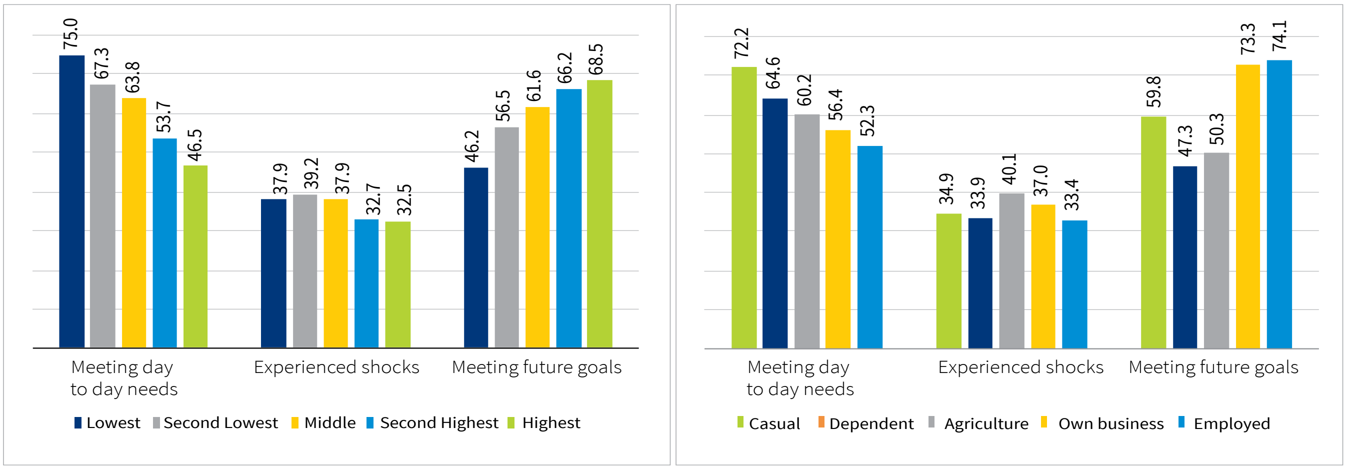
Figure 4.5: Needs by livelihood sources and wealth quintiles (%)



Shocks

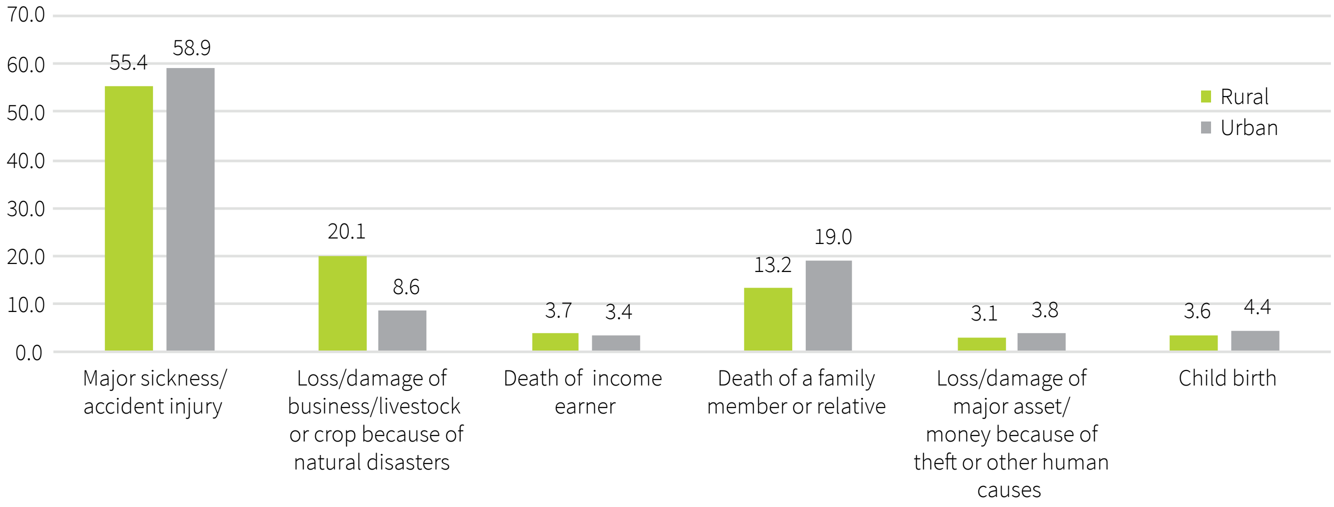
The most common shock that financially impacted most Kenyans was health related, with no major distinction between the wealth quintiles. However, the impact was more felt among the poorest. Death of a family member impacted the rich more than the poor (**Figure 4.6**).

Figure 4.6: Shocks experienced by wealth quintile and livelihood (%)



Rural households were most financially impacted by the loss of livelihoods, while urban households felt the death of a family member impacted on their finances most (**Figure 4.7).**

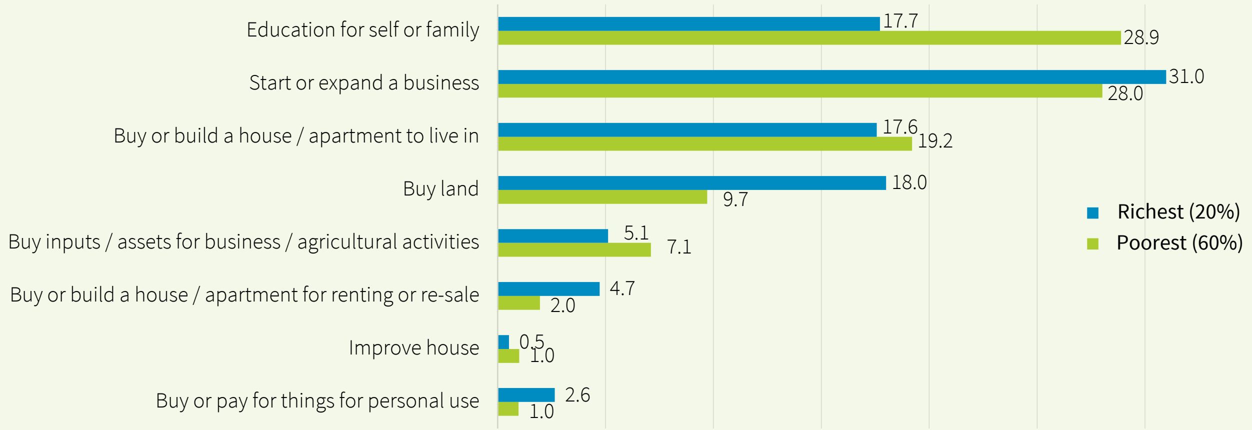
Figure 4.7: Shocks experienced by residence (%)



Goals

The main goal for the highest wealth quintile is expanding businesses, while the lowest wealth quintile is education (**Figure 4.8**).

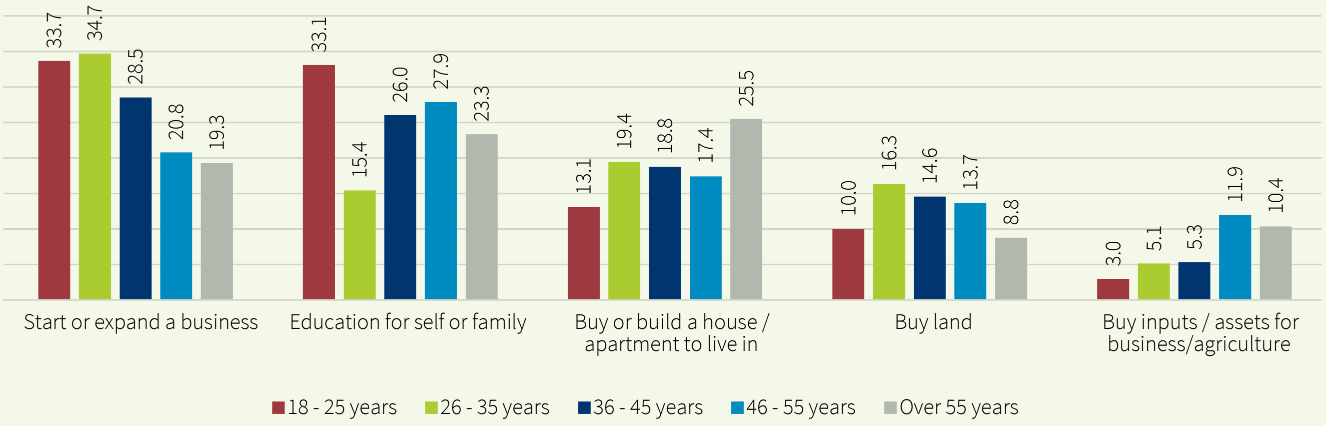
Figure 4.8: Most important future goal by wealth quintile (%)



***NB:** others include paying for holidays, weddings, clearing debts, getting employment*

The young adults aged below 35 years cited starting a business or education as their important life goal. For the population above 55 years old, their main goal is owning a house (**Figure 4.9**).

Figure 4.9: Most important future goal by age (%)

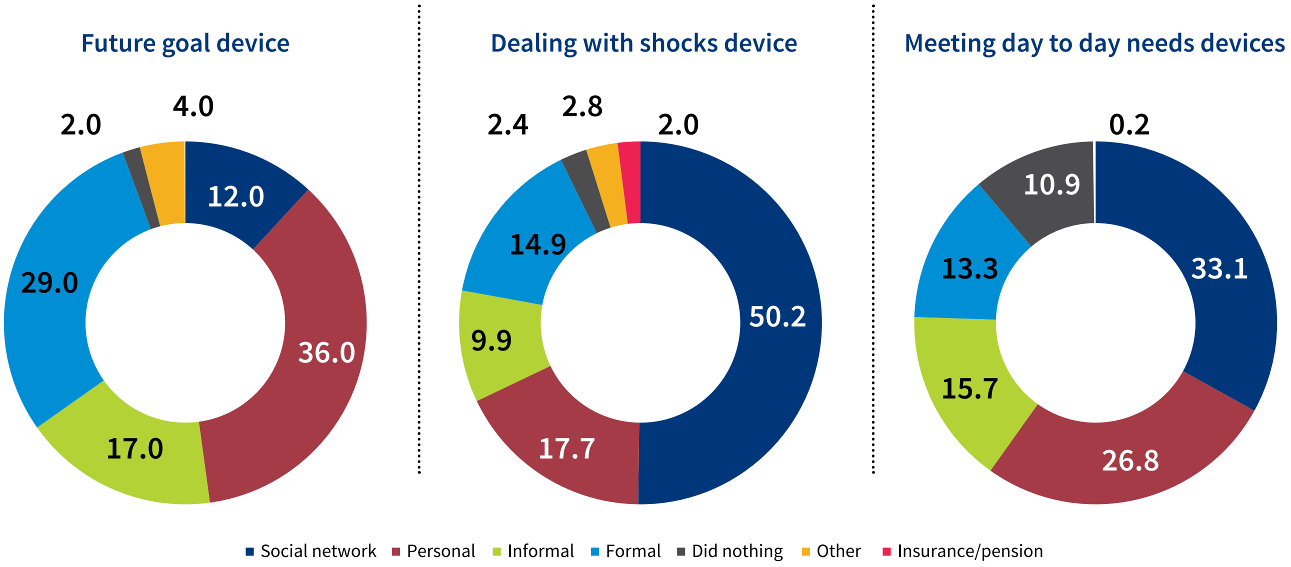


NB: others include paying for holidays, weddings, clearing debts, getting employment

4.2.2 Financial solutions used

Social networks are the main solutions to meeting day to day needs when the income cycle gets depleted before the end of the cycle and also dealing with shocks for most Kenyans. Formal solutions are mainly used to meet future goals though getting more jobs/cutting back on expenses are more commonly done to achieve these (**Figure 4.10**).

Figure 4.10: Financial solutions used towards meeting financial needs

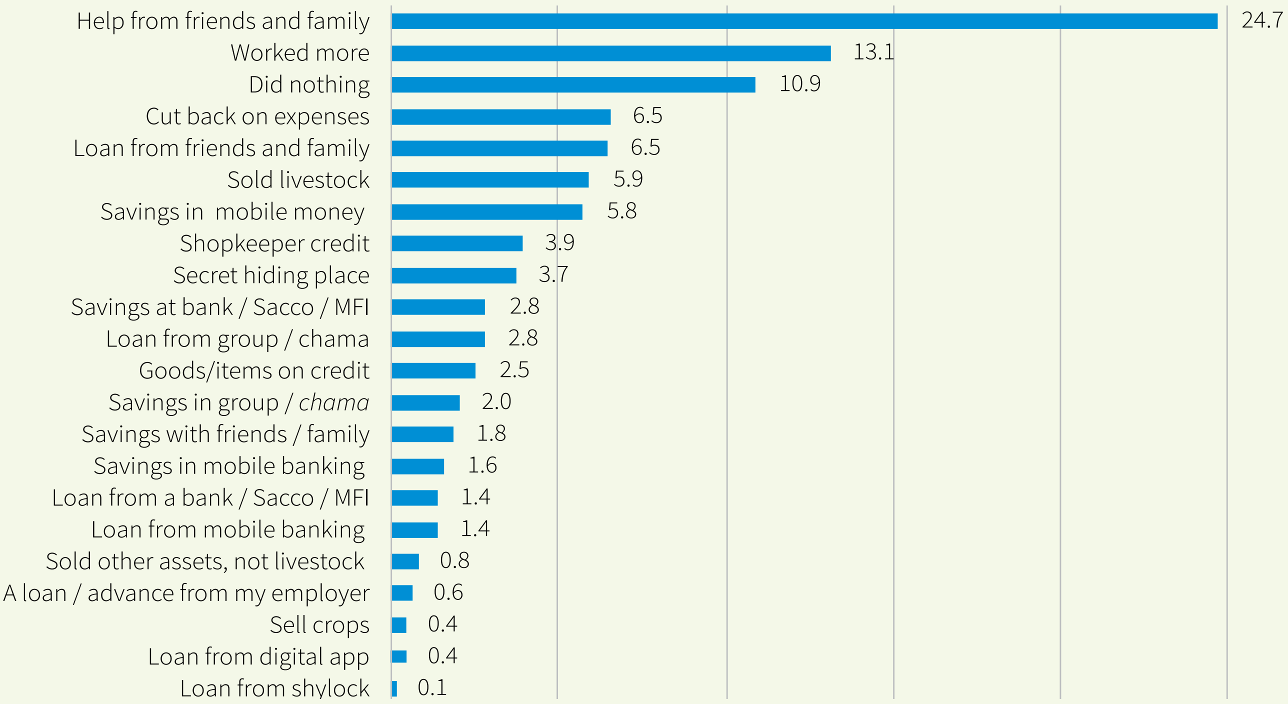


Classifications	
Social networks	Borrow from friends and family
Personal	Sell assets/livestock/poultry, get additional work, cut back on expenses
Formal	Use savings or borrow from formal institutions such as banks/MFIs/ SACCOs, excluding insurance
Informal	Borrow or savings from informal providers such as shylocks, *chama*, employers, shopkeeper, secret hiding place

Solutions for day-to-day needs

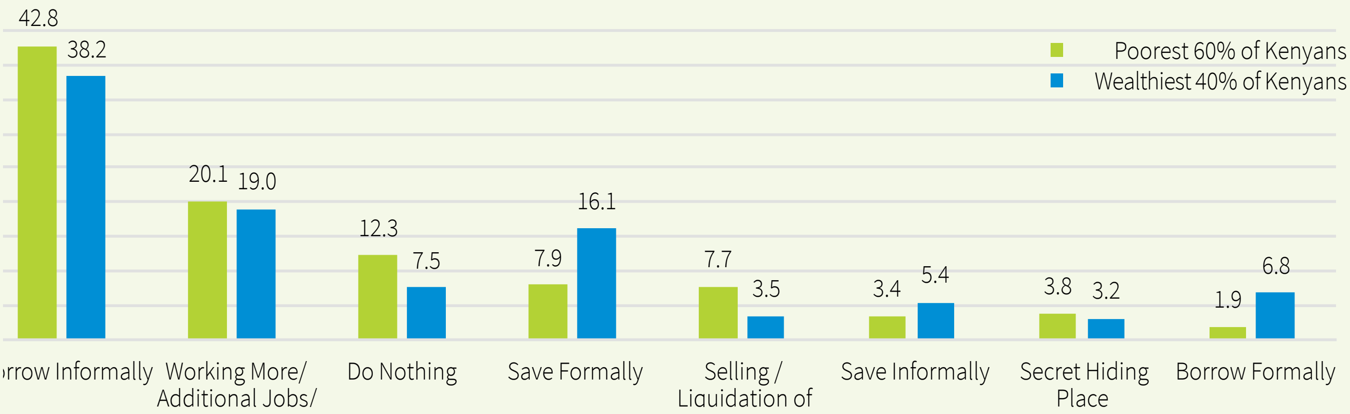
Friends and family are the main financial solutions used by majority of Kenyans when they run out of money to meet their day-to -day needs (**Figure 4.11**).

Figure 4.11: Financial solutions used towards meeting day to day needs (%)



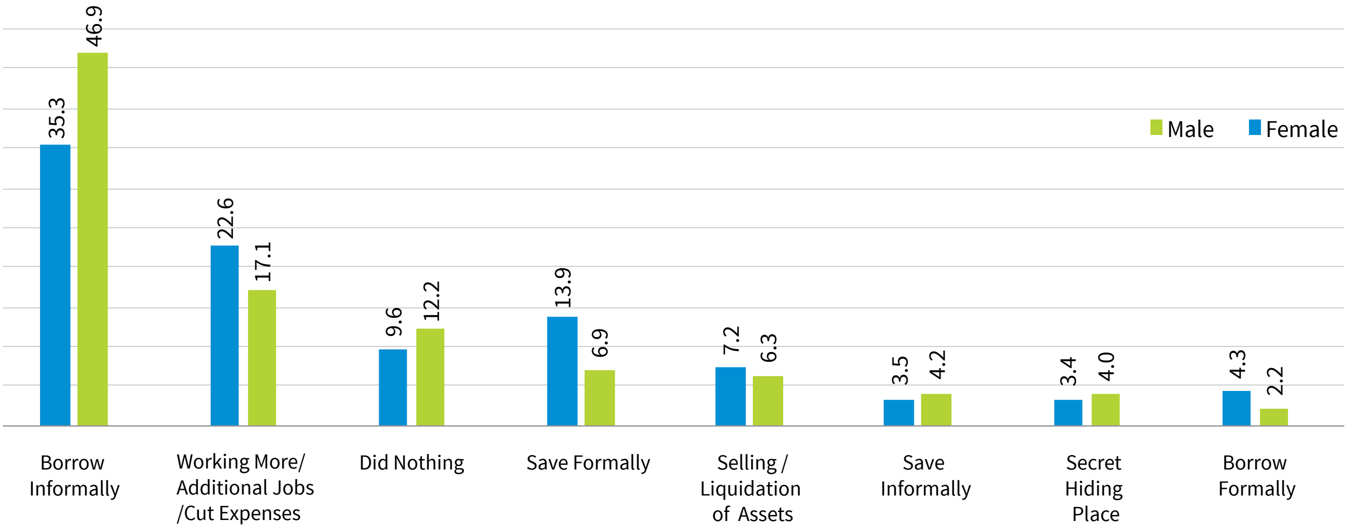
Use of informal solutions for dealing with day-to-day needs when money runs out cuts across the wealth quintiles. However, formal solutions are mainly used by the highest wealth quintile (**Figure 4.12**)

Figure 4.12: Solutions for day-to-day needs by wealth quintile (%)



The survey results indicate that more women than men use informal solutions compared to the use of formal, which is dominated by men (**Figure 4.13**).

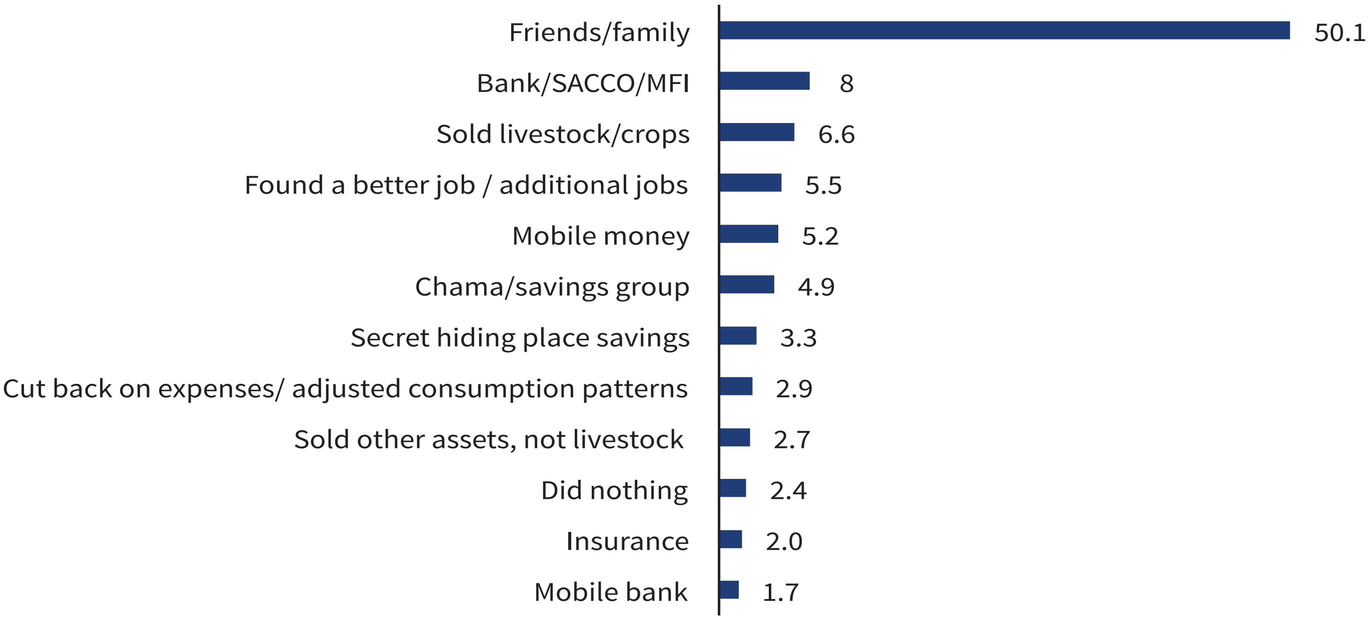
Figure 4.13: Solutions for day-to-day needs by sex (%)



Solutions for dealing with shocks

The survey outcomes show that more than half of Kenyans reported relying on friends and family (social networks) to mitigate shocks and emergencies (**Figure 4.14**).

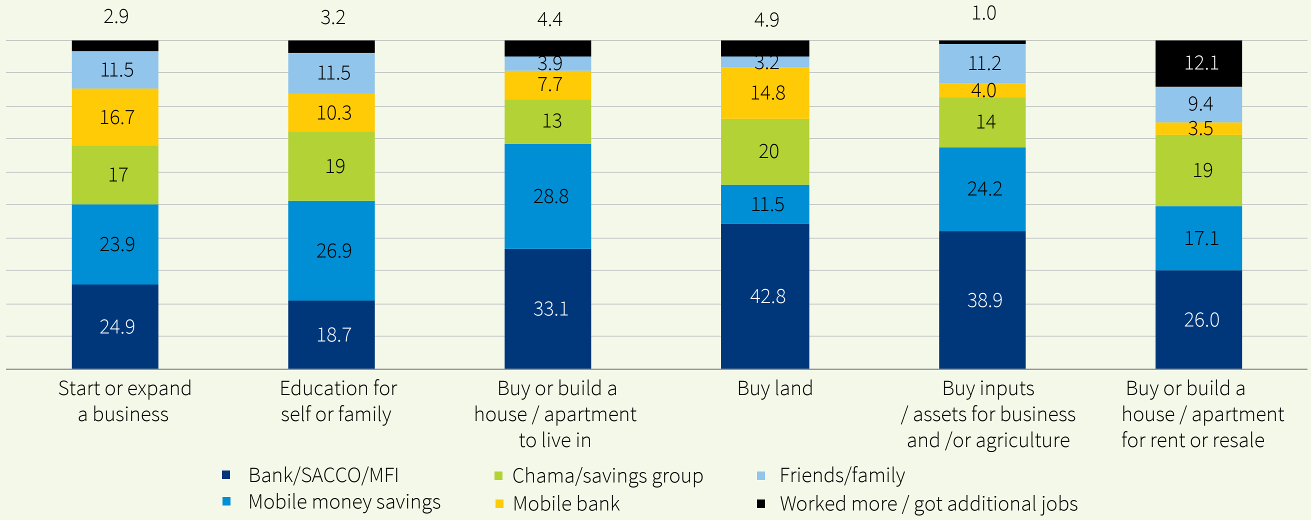
Figure 4.14: Solutions for dealing with shocks (%)



Solutions for future goals

The 2019 survey results revealed that Kenyans are use different devices/instruments to meet their future goals. Specifically, banks/ Sacco/MFI loans and savings were used for buy land and other assets, and construction of a house (**Figure 4.15**).

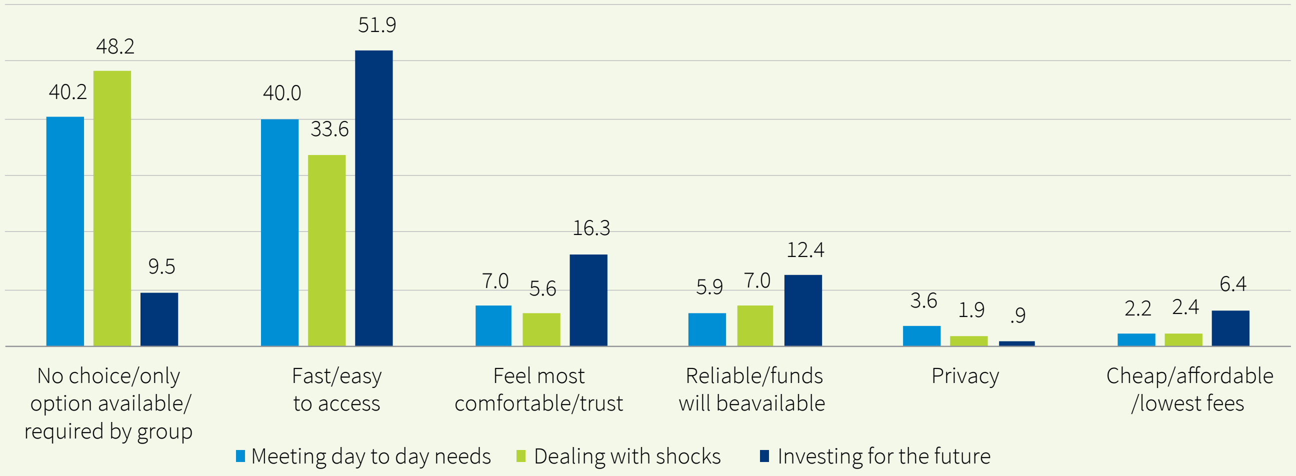
Figure 4.15: Solutions for meeting future goals



4.3 Selection of solutions for a financial need

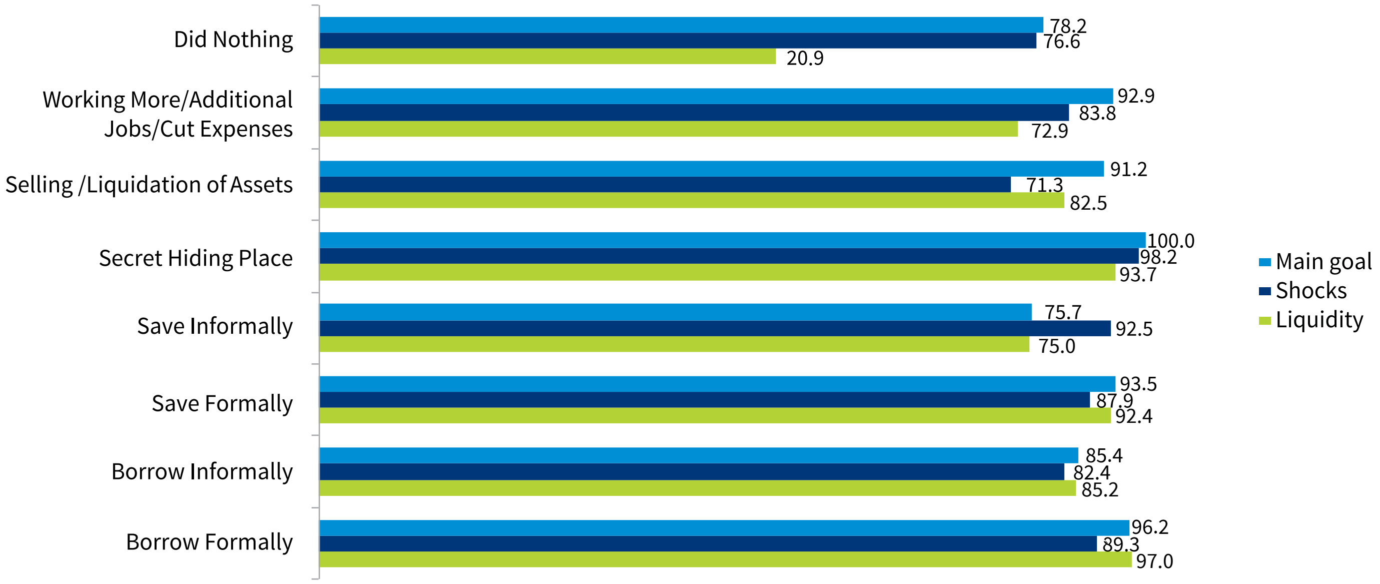
The survey results show that the ease of access to financial services and products is the main factor determining the selection of a solution by most Kenyans (**Figure 4.16**)

Figure 4.16: Reasons for selecting day to day financial need solutions (%)



On how effective the choices were, most Kenyans reported that the formal financial solutions were effective in keeping money aside to meet future goals. Informal savings were considered as most effective in meeting day-to-day needs (**Figure 4.17).**

Figure 4.17: Effectiveness of selected solution in meeting needs (%)

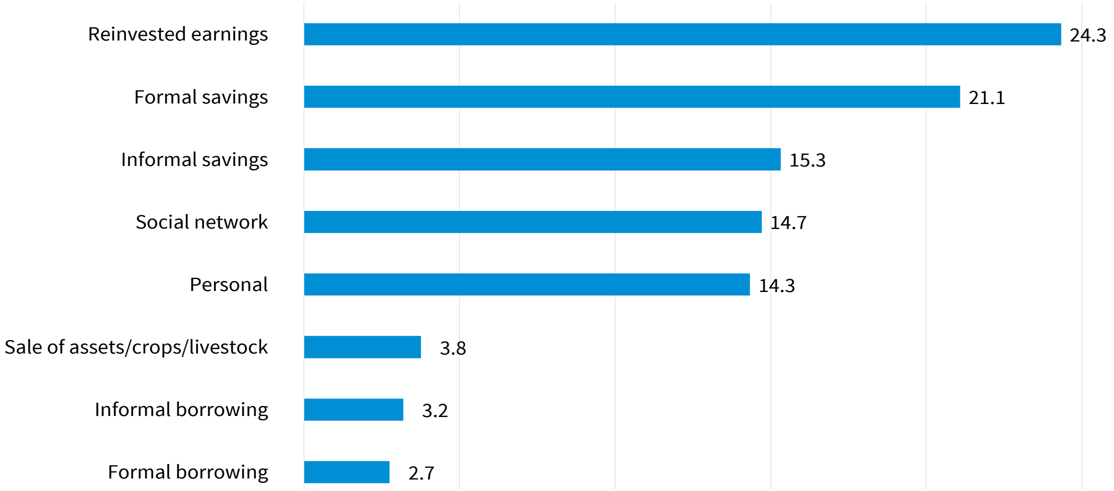


4.4 Meeting needs for business and agriculture

4.4.1 Business enterprise finance

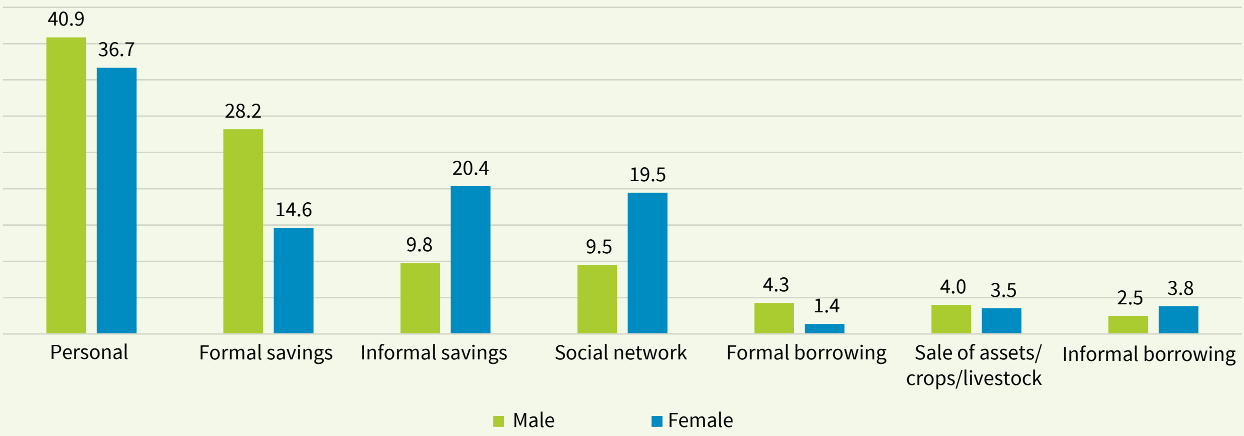
The survey questionnaire contained a business module which inquired the financing of business enterprises owned by individual household members. The survey results shows that business enterprises used re-invested earnings (24.3%)as the main source of financing, followed by formal savings (**Figure 4.18**).

Figure 4.18: Sources of operating capital for enterprises (%)



The survey results indicate that personal financing was the main source of operating capital for businesses with males (40.9%) and females (36.7%) as shown in **Figure 4.19**.

Figure 4.19: Operating capital for business enterprise by sex (%)



Social networks: *Borrow from friends and family*
Personal: *Sell assets/livestock/poultry, get additional work, cut back on expenses*
Formal: *Use savings or borrow from formal institutions such as banks/MFIs/ SACCOs, excluding insurance*
Informal: *Borrow or savings from informal providers such as shylocks, chama, employers, shopkeeper, secret hiding place*

Ease of access was the main reason cited for use of formal and informal borrowing except for loans from a government institution (**Table 4.1**).

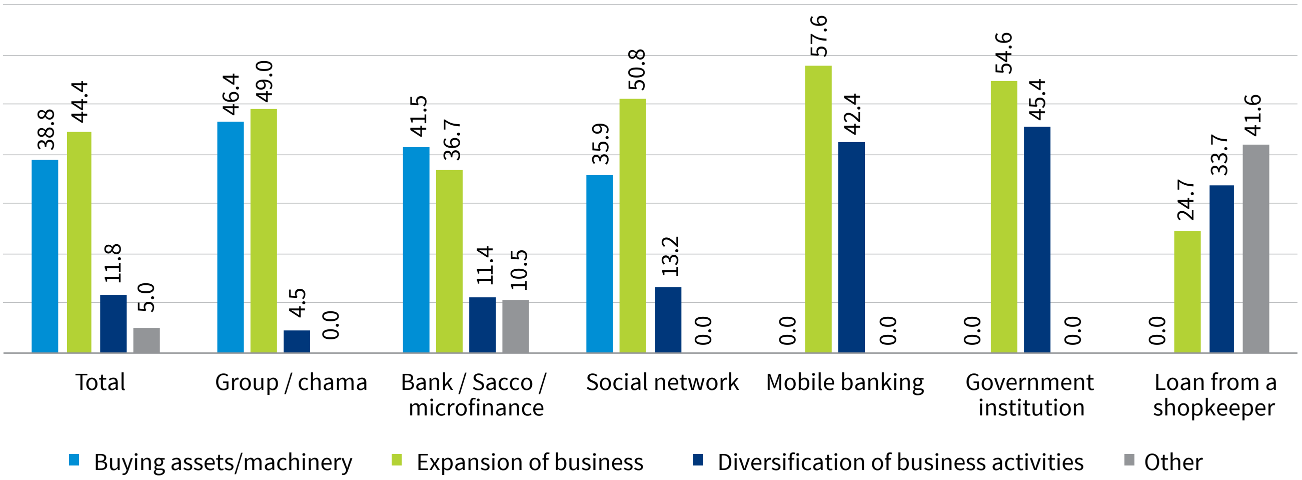
However, mobile banking loans were the most popular choice for financing business enterprises due to ease of access.

Table 4.1: Reasons for formal and informal borrowing

	Type of loan/	Fast/ easy to access	No choice/ only option/ required by group	Cheap/ affordable/ lowest fees	Feels most comfortable/ trust	Privacy	Reliable/I know funds will be available	I didn't want to use my own money/ savings /assets
Formal borrowing	Loan from bank / Sacco / microfinance	59.9	10.3	3.0	17.8	1.7	7.3	0.0
	Loan from mobile banking	100.0	0.0	0.0	0.0	0.0	0.0	0.0
	Loan from a Government institution	0.0	0.0	0.0	0.0	0.0	45.4	54.6
Informal borrowing	Loan from group / *chama*	45.4	13.2	21.4	19.9	0.0	n/a	n/a
	Loan from family / friends / community / church / mosque	35.8	32.9	1.0	22.5	3.1	n/a	n/a
	Loan from a shopkeeper	66.3	0.0	0.0	33.7	0.0	n/a	n/a

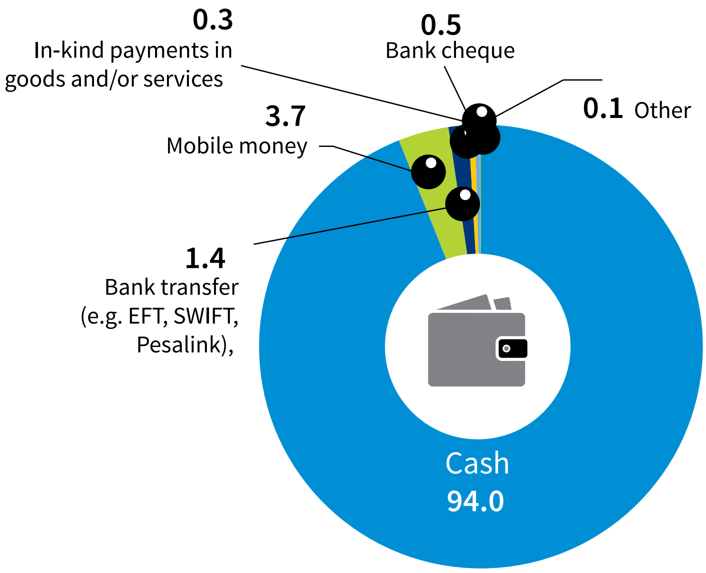
Majority of loans (41.5%) sourced from banks/Saccos/MFIs were used for purchase of assets and machinery and expansion of businesses (36.7%). Loans from mobile banking were mainly used for restocking and diversification of business (**Table 4.20**).

Figure 4.20: Use of business loans by source (%)



Unlike the widespread perception that mobile money is widely used, survey findings show that cash is the main payment channel used by business enterprises at 94 percent (**Figure 4.21**).

Figure 4.21: Payment mode used by businesses (%)



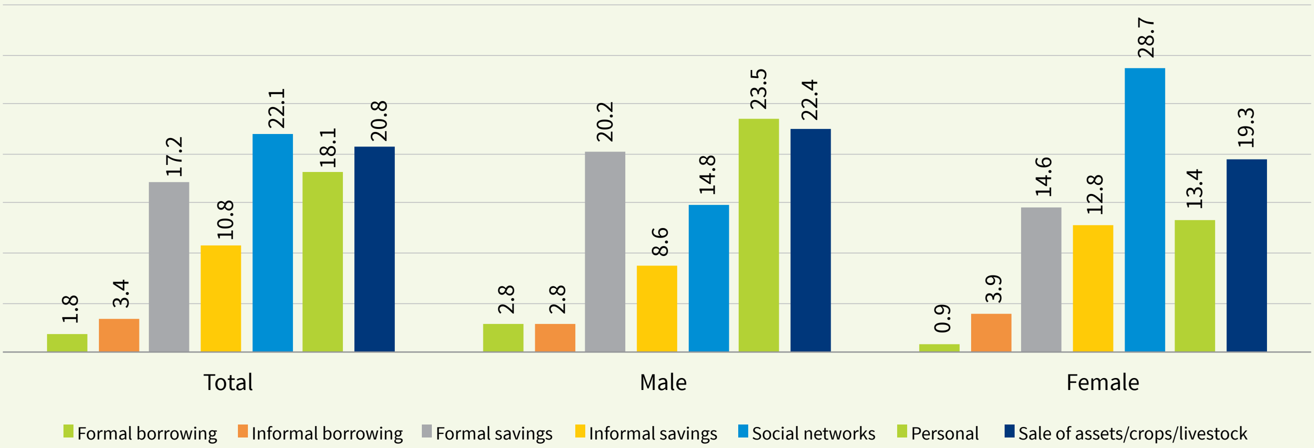
4.4.2 Agricultural finance

Financial inclusion is important for agriculture in assisting farmers purchase farm inputs, assets, mitigate risks and manage day-to-day cash flow needs.

Sources of agricultural finance by sex

The main sources of agricultural finance were social networks (22.1%), sale of assets/crops/livestock (20.8%) and formal borrowing (18.1%) as indicated in **Figure 4.22.** Sources of agricultural finance by female were mainly from social networks (28.7%), while for men, its formal borrowing (23.5%).

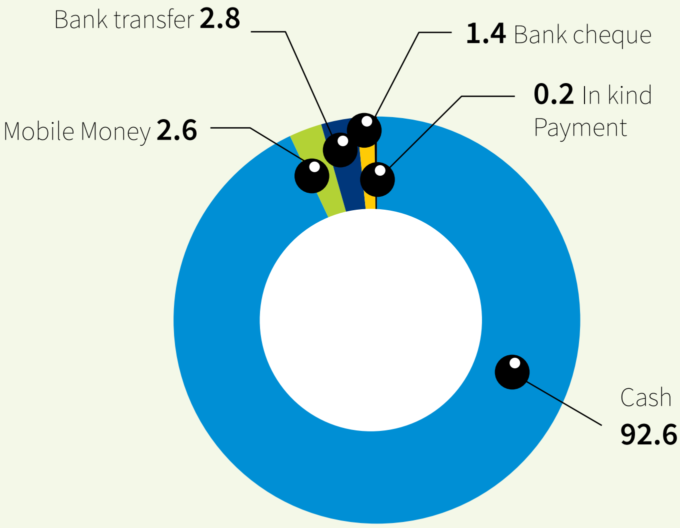
Figure 4.22: Sources of agricultural finance (%)



Agricultural finance payment modes used

The survey results indicate that the main modes of payment use in agricultural finance was cash (92.6%) followed by bank transfers (2.8%) as shown in **Figure 4.23.**

Figure 4.23: Top Payment modes used (%)



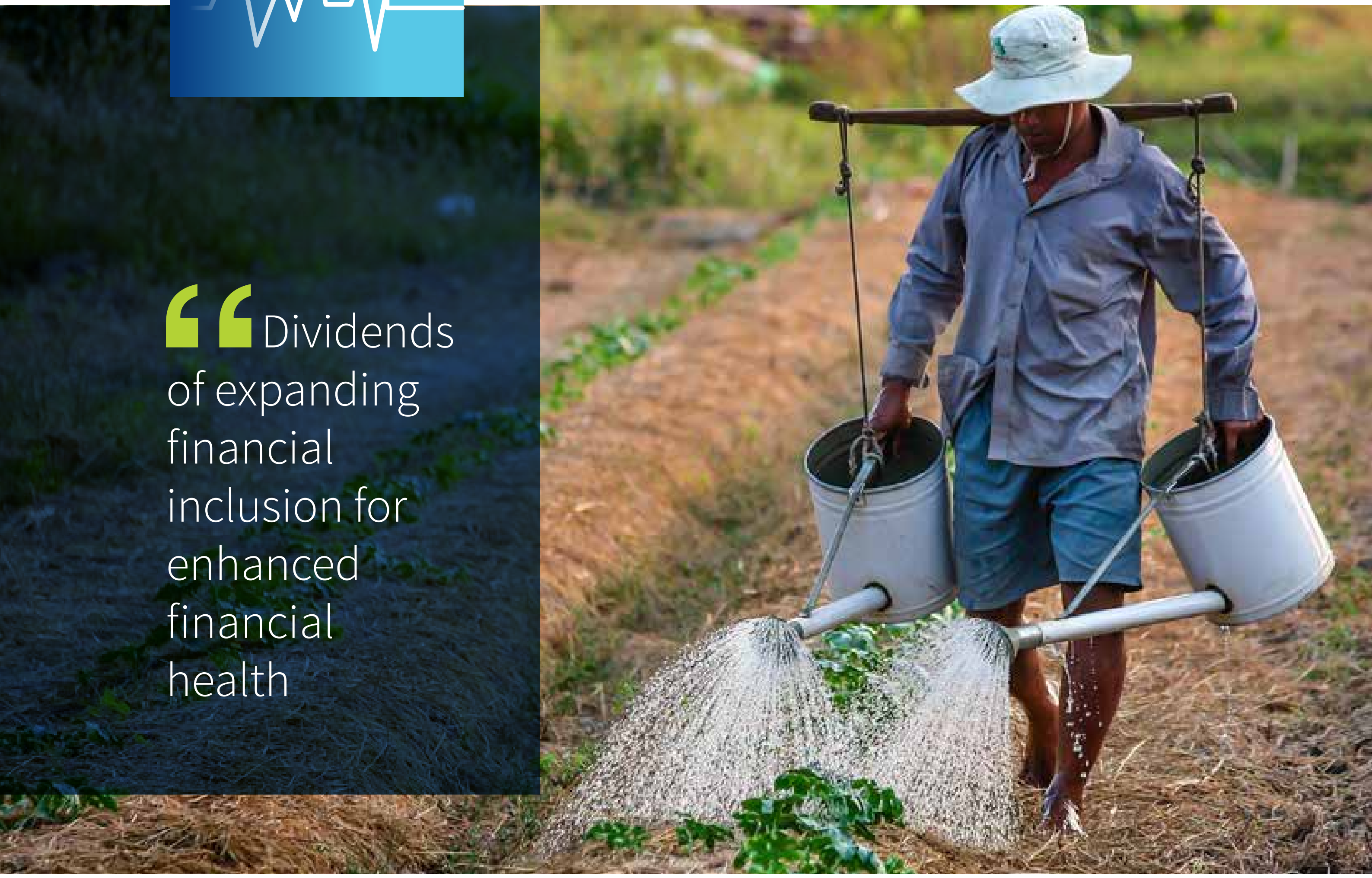
Summary and conclusion

- The top priority goal for Kenyans is education.
- Poor segments of the population and rural residents also prioritise putting food on the table. While the highest wealth quintile and urban residents prioritise improving health and business.
- Cash is a still the dominant mode of payment for agriculture and business.

05

FINANCIAL HEALTH AND LIVELIHOODS

Financial health refers to the ability of Kenyans to use financial services for managing daily needs, protecting themselves from shocks and helping to achieve their main goals. It is measured through a multidimensional financial health index covering three dimensions: ability to manage everyday finances, ability to cope with risk and ability to invest in livelihoods and future.



> “Dividends of expanding financial inclusion for enhanced financial health

The index is arrived at by summing equally weighted score of 11.3 points assigned to nine survey questions that map to the three dimensions of financial health. An individual is considered to be financially healthy if he/she satisfies at least six of the nine questions. The survey results indicated that at the national level 21.7 percent were financially healthy in 2019 compared to 39.4 percent recorded in 2016 (**Figure 5.1**). However, financial health as measured by ability to put food on the table improved from 58.1 percent in 2016 to 66.6 percent in 2019.

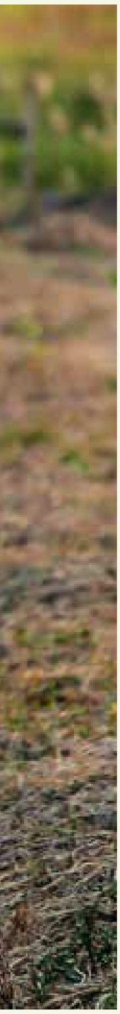
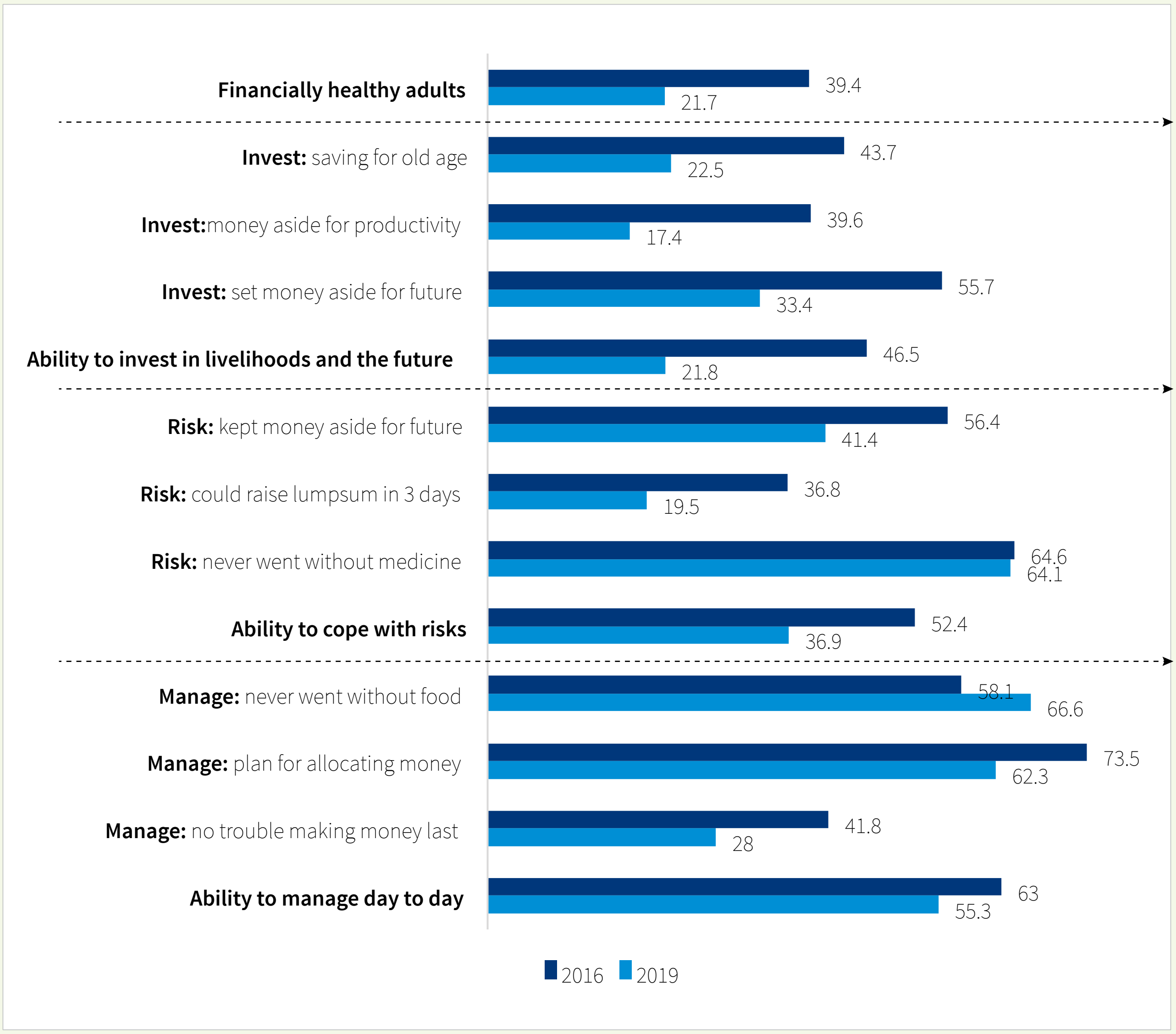


Figure 5.1: Overall financial health and its dimensions, 2016 and 2019 (%)

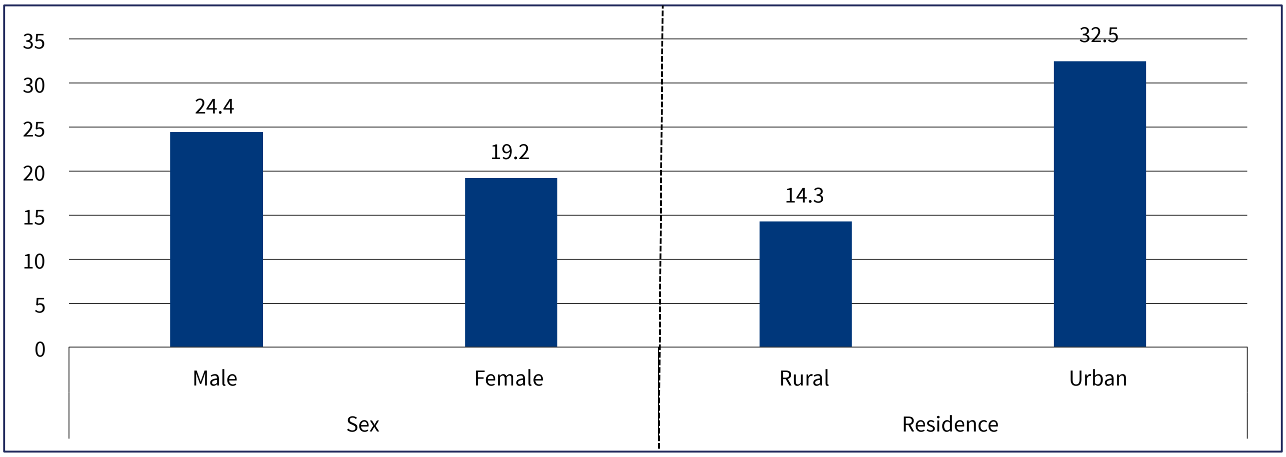


5.1 Financial health by categories

5.1.1 Financial health by sex and residence

Male population were more financially healthy at 24.4 percent compared to the female at 19.2 percent. Similarly urban residents were financially healthy at 32.5 percent compared to rural residents 14.3 percent (**Figure 5.2**).

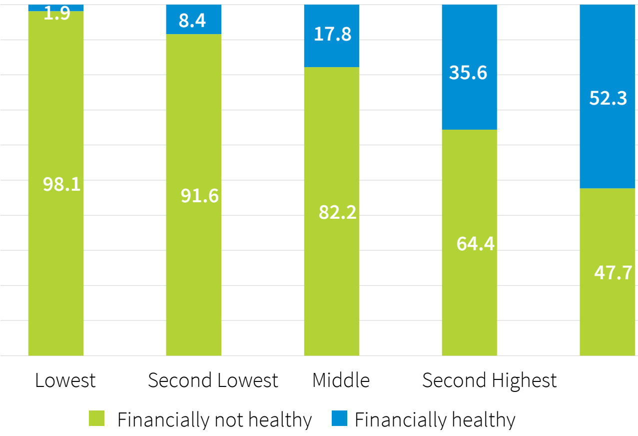
Figure 5.2 Financial health by sex and residence (%)



5.1.2 Financial health by wealth quintiles

More than half of the Kenyan population in the highest wealth quintile were financially healthy. (**Figure 5.3**).

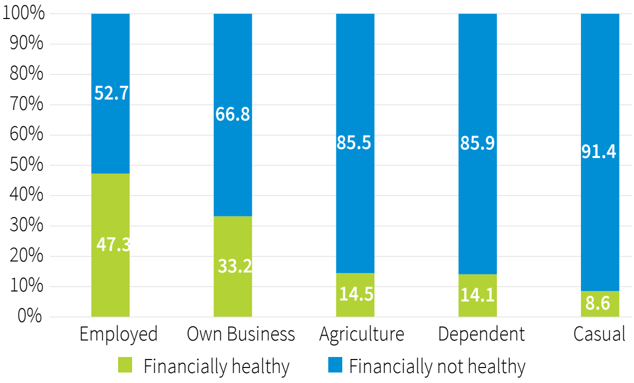
Figure 5.3 Financial health by estimated wealth quintile



.5.1.3 Financial health by livelihood

Adult population with formal employment and or owning a business were more financially healthy compared to the those engaged in other sources of livelihood. (**Figure 5.4**).

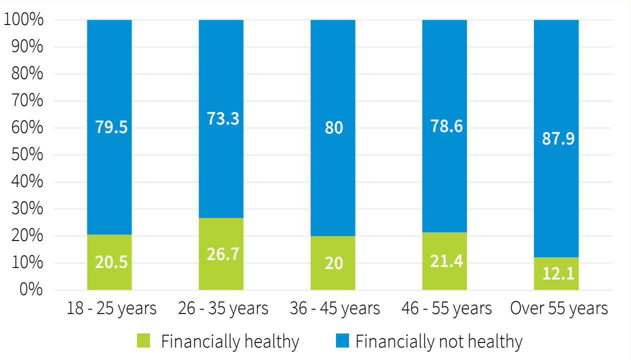
Figure 5.4 Financial health by livelihood in 2019 (%)



5.1.4 Financial health by age

Adult population aged between 26 – 35 years were more financially healthy compared to those over 55 years (**Figure 5.5**).

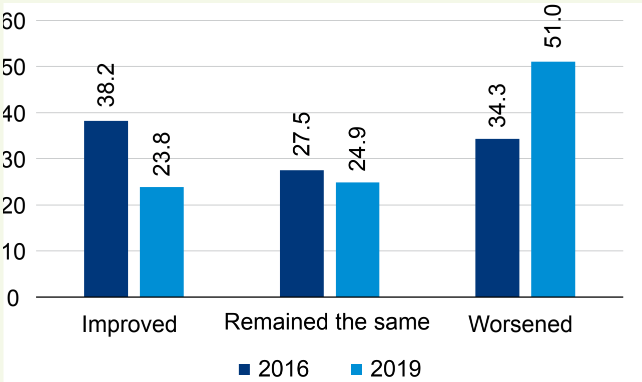
Figure 5.5 Financial health by age (%)



5.2 Financial status perceptions

Overall, the perception of respondents on their financial status worsened in 2019 compared to 2016 (**Figure 5.6**).

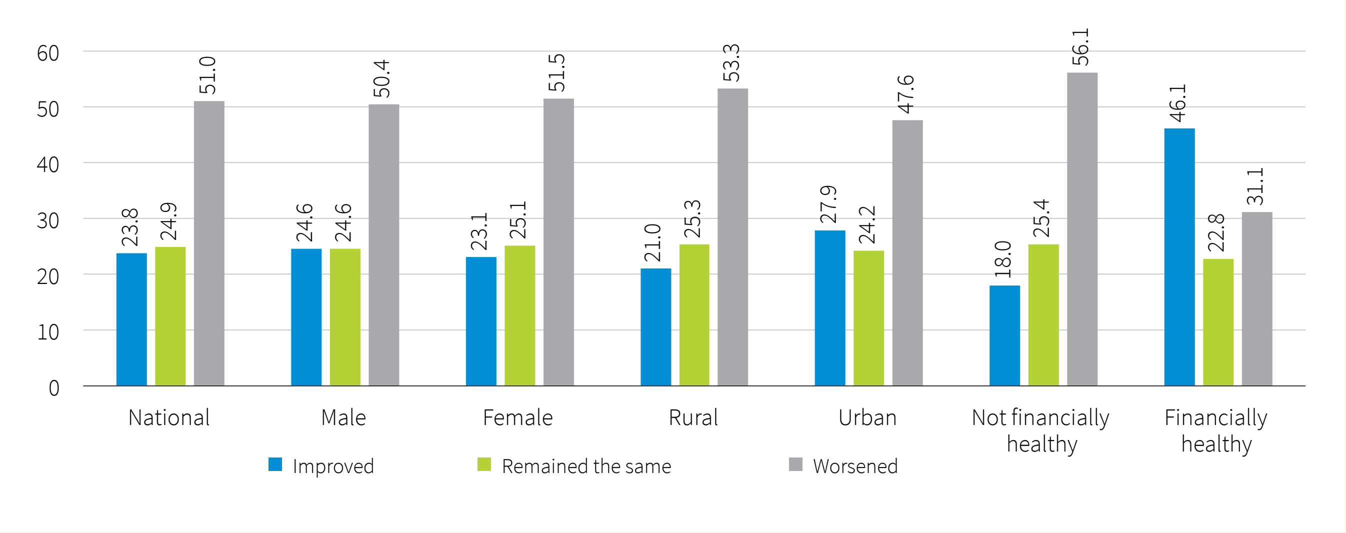
Figure 5.6: Financial status, 2016 and 2019 (%)



5.2.1 Financial status perception by sex and residence

At the National level, 51 percent of the population reported that their financial status worsened in 2019 compared to 23.8 percent who reported improved status (**Figure 5.7**). In terms of financial status by both male and female reported an average of 51 percent worsening status. Rural residents reported 53.3 percent worsening financial status compared to 47.6 percent for urban residents.

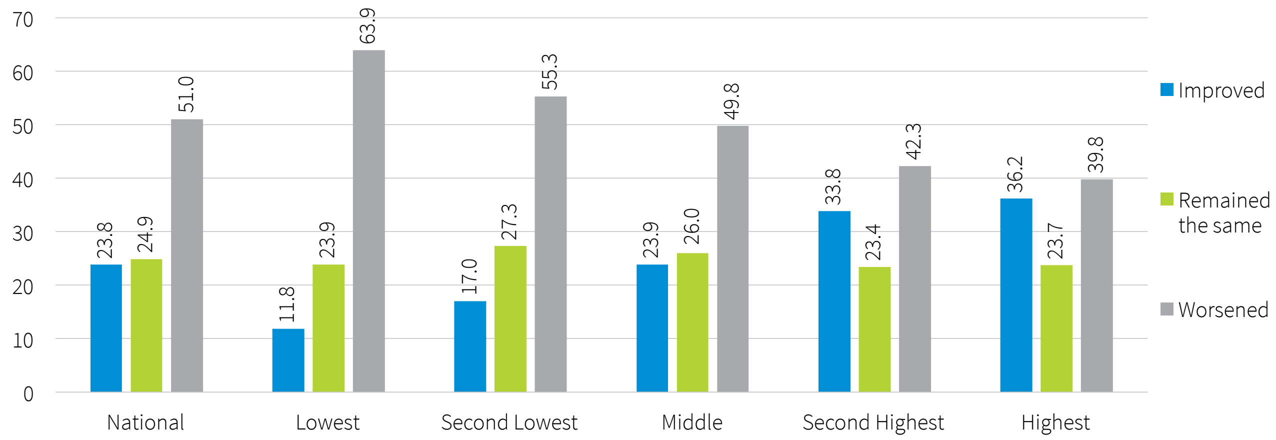
Figure 5.7: Financial status by sex, residence and financial health (%)



5.2.2 Financial Status by wealth quintile

The highest proportion of the population across the wealth quintiles indicated that their financial status had worsened in 2019 (**Figure 5.8**).

Figure 5.8: Financial status by wealth quintiles in 2019 (%)



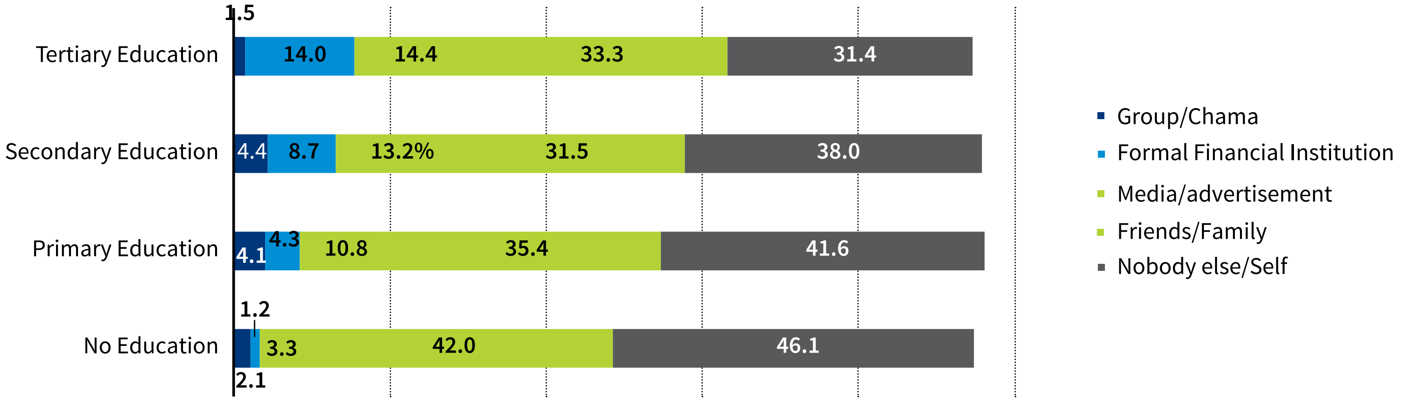
Summary and conclusion

- Overall, majority of Kenyans feels that their financial status has worsened regardless of their sex, residence and marital status.
- The ability of Kenyans to use financial services and products to manage their daily needs, cope with shocks and achieve big goals has declined.

6.1.2 Financial advice by education

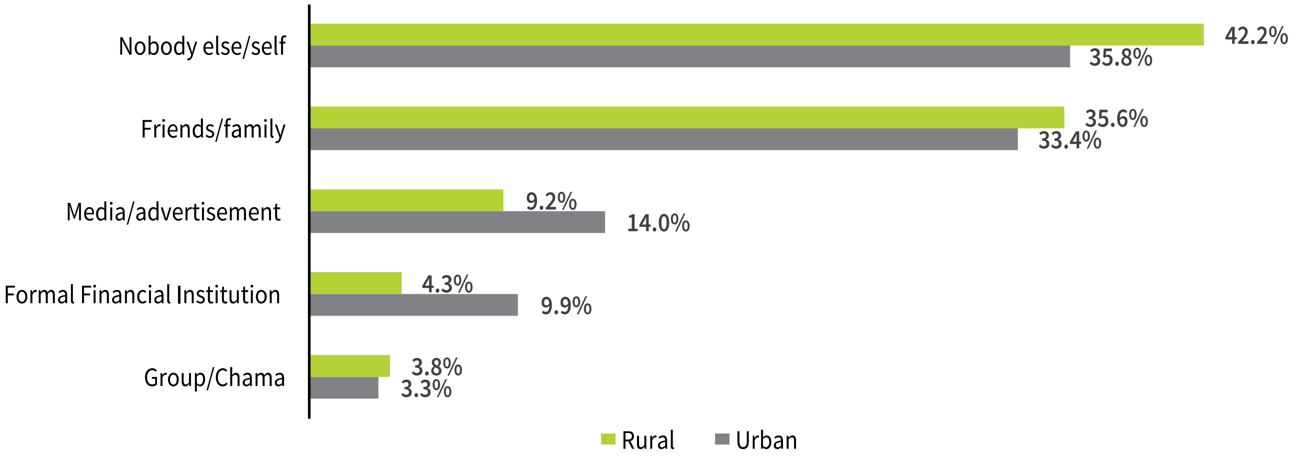
The survey results show that 46.1 percent of the population with no education and 41.6 percent with primary education relied on their own knowledge, in decision making on financial issues (**Figure 6.3**).

Figure 6.3: Sources of financial advice by education (%)



The results also indicate that more residents in rural areas (42.2 %) depend on their own knowledge in decision making on financial matters compared to 35.8 percent in urban areas (**Figure 6.4**).

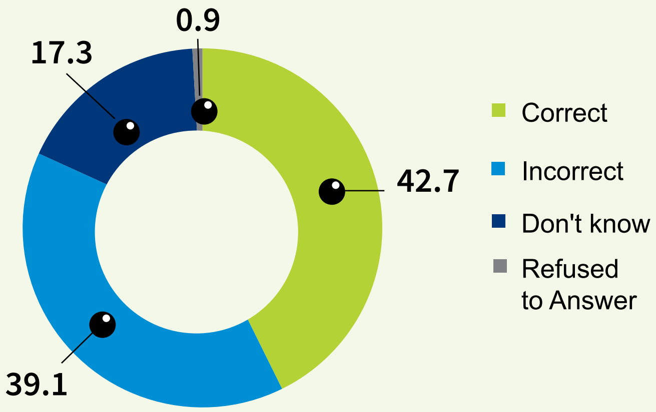
Figure 6.4: Financial advice by residence



6.2 Knowledge on cost of borrowing

Interest rates constitute an important component when determining the cost of borrowing. The survey tested the ability of respondents to accurately compute 10 percent interest on a KSh 10,000 loan. The survey findings indicate that 42.7 percent of the population answered the interest costs correctly, while 39 percent gave a wrong answer (**Figure 6.5**).

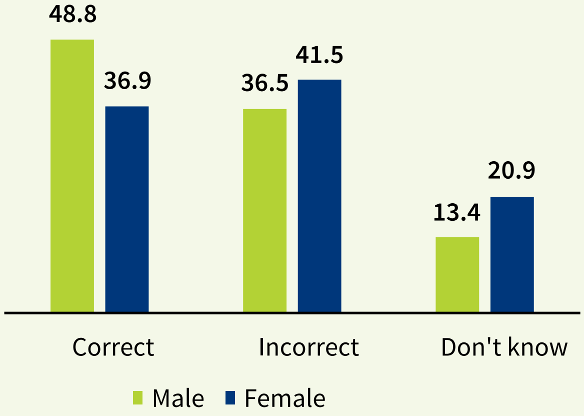
Figure 6.5: Knowledge on cost of borrowing(%)



6.2.1 Cost of borrowing by sex

The survey findings indicate that 48.8 percent of males answered interest costs correctly, compared to 36.9 percent of females (**Figure 6.6**).

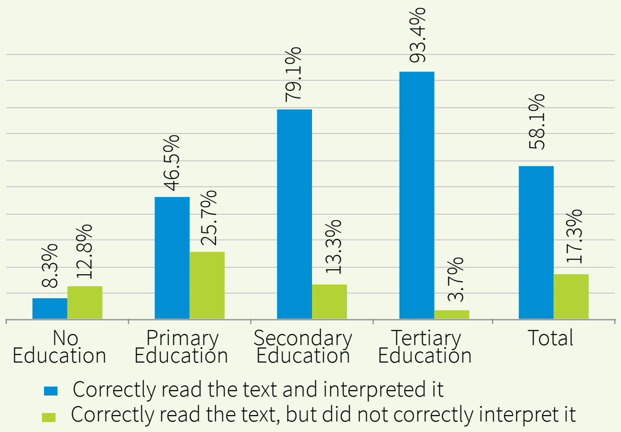
Figure 6.6: Knowledge on cost of borrowing by sex (%)



6.3 Knowledge of transaction costs

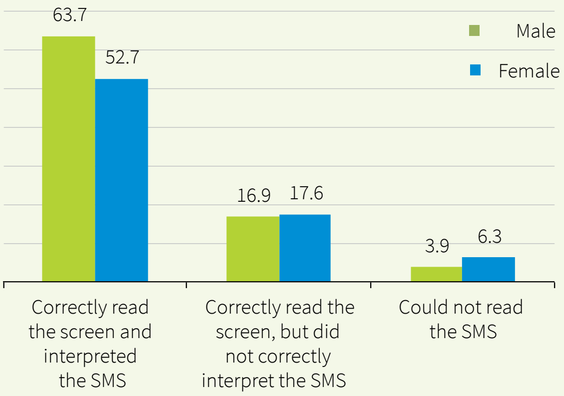
Respondents were shown a typical message showing value of transaction and associated transaction costs as a Short Message Service (SMS)/text. The survey results indicated that 58.1 percent of respondents were able to read correctly a typical message showing transaction costs on a mobile phone (**Figure 6.7**).

Figure 6.7: Knowledge on transaction costs (%)



More males (63.7 %) than females (52.2 %) read and interpreted transaction costs correctly in an SMS (**Figure 6.8**).

Figure 6.8: Knowledge of transaction costs by sex (%)

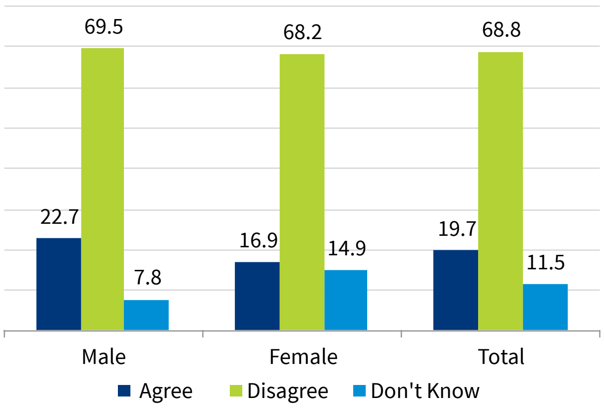


6.4 Perceptions on betting

6.4.1 Perceptions on betting/gambling

Only 20 percent of the adult population considered betting as a good income source. More males at 22.7 percent compared to 16.9 percent of females agreed that betting is a good way to make money. (**Figure 6.9**)

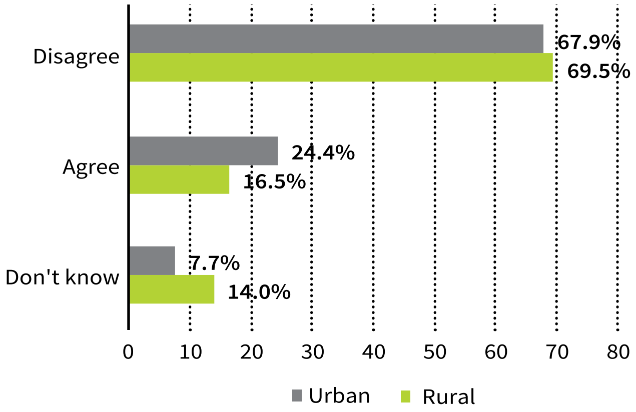
Figure 6.9: Perception of gambling as a good source of income by sex (%)



6.4.2 Perceptions on betting/gambling by residence

More Kenyans in rural areas (69.5%) than 67.9 percent in urban areas do not consider gambling as good way of making money (**Figure 6.10**).

Figure 6.10: Perception of gambling as a good source of income by residence

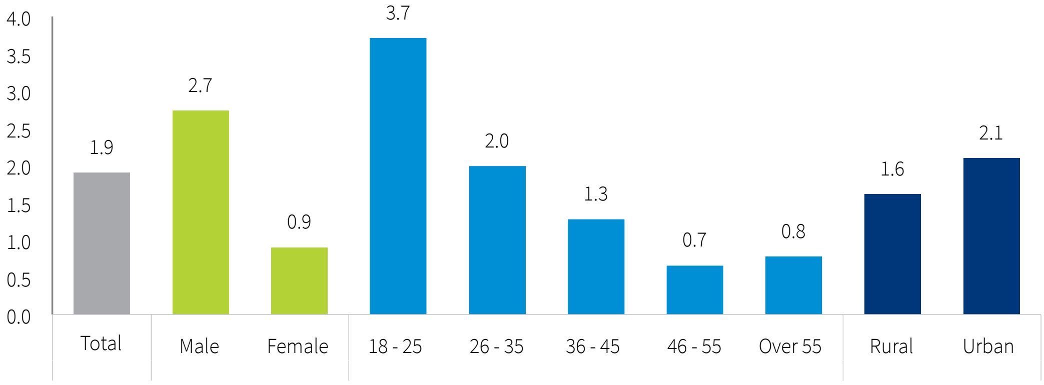


6.4.3 Use of mobile money account for betting

Overall, only 1.9 percent of mobile users indicated having used mobile money for betting (**Figure 6.11**)

The survey incorporated questions on the use of mobile money account by persons engaged in betting. The mobile money account has advantages due to unique characteristics of convenience and ease of use, privacy, and security of funds. Overall, 1.9 percent of mobile money account use it for betting with the proportion higher for males at 2.7 percent and in urban areas at 2.1 percent. The use of mobile money accounts for betting was reported by 3.7 percent of individuals aged 18 to 25 years, with lowest use being persons aged 46 to 55 years.

Figure 6.11: Users of mobile money account for betting



6.4.4 Frequency of betting

Of the 1.9 percent who responded that they used mobile money for betting, majority bet weekly (**Table 6.1**).

Table 6.1: Frequency of betting by sex, age and residence (%)

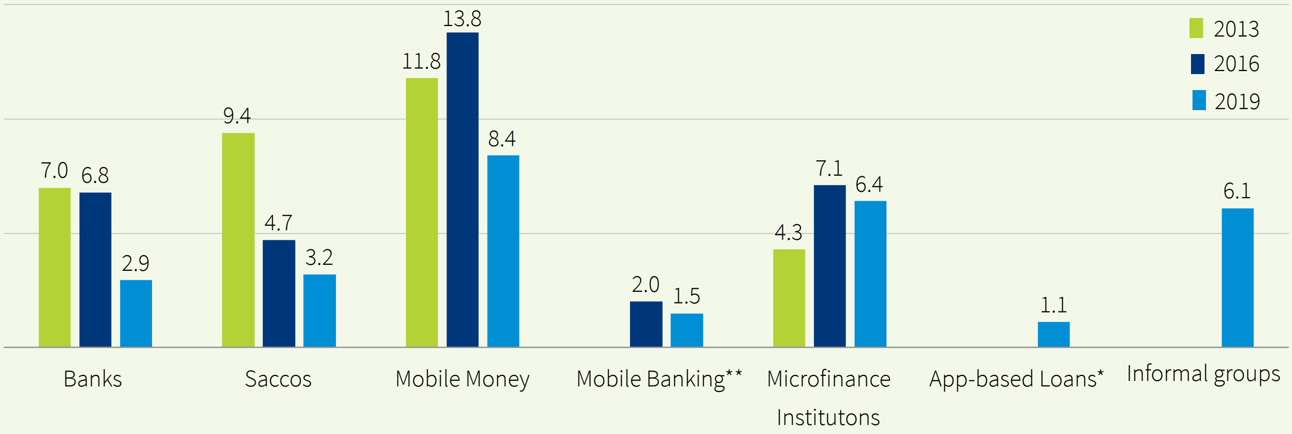
Frequency		Sex		Age					Residence	
	Total	Male	Female	18 - 25	26 - 35	36 - 45	46 - 55	Over 55	Rural	Urban
Daily	22.6	24.7	14.6	20.6	25.8	15.6	23.2	33.2	27.3	19.5
Weekly	51.7	53.0	46.7	48.7	55.3	53.6	57.0	31.1	38.6	60.2
Monthly	6.9	4.2	17.3	7.0	3.9	7.5	6.3	30.4	7.3	6.7
Intermittently (big prizes to win)	17.1	16.9	18.0	21.9	12.6	23.3	13.5	2.6	25.2	11.8

6.5 Consumer protection

Consumer protection practices entail maintaining financial system integrity and safeguarding consumers against malpractices such as fraud, unfair pricing and lack of complaint resolution.

The survey results indicate a downward trend in the instances of lost money by type of institution or device. Mobile money reported the highest incidence of money lost over all the three surveys. (**Figure 6.12**)

Figure 6.12: Lost money by different institutions 2016 and 2019 (%)

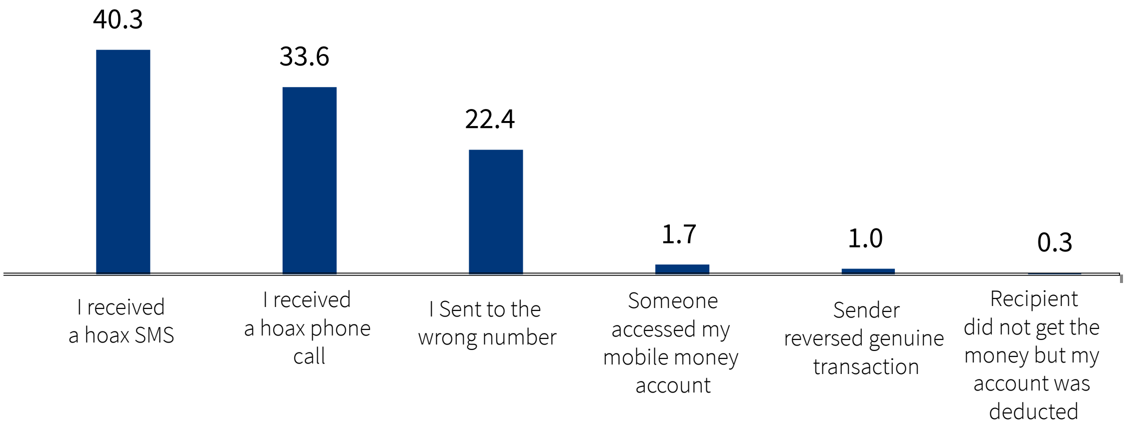


*Data for app-based loans was not collected in 2016 and

** data for mobile banking was not available in 2013

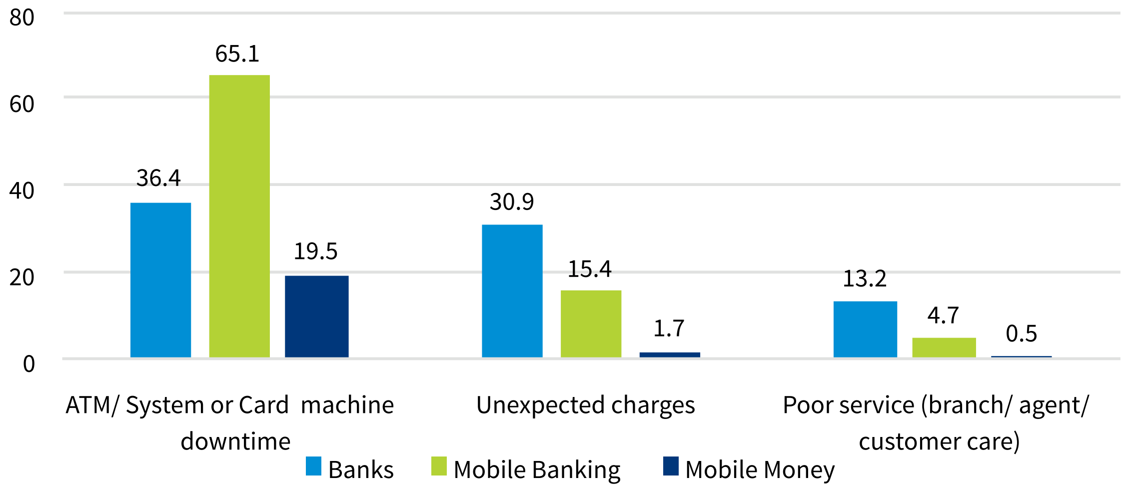
The main reason for loss of money through mobile money is attributed to fraudulent activities and sending money to the wrong mobile phone number (**Figure 6.13**).

Figure 6.13: Loss of money via mobile money, 2019 (%)



In terms of experiences with financial services used, system downtime posed the greatest challenge and inconvenience (**Figure 6.14**)

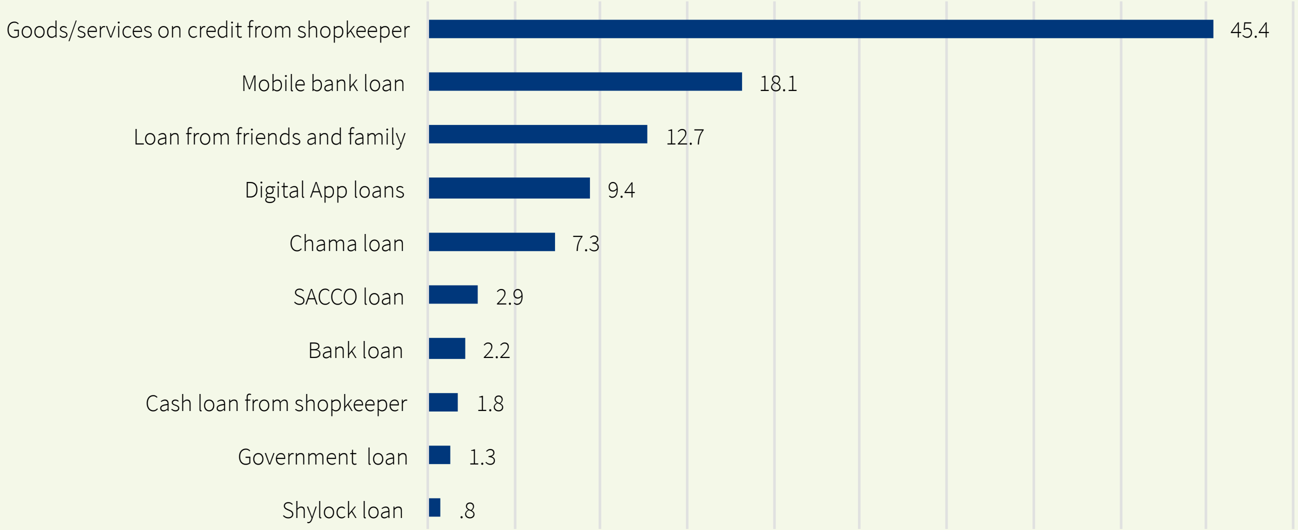
Figure 6.14: Challenges experienced on financial services used (%)



Loan defaults

The highest default rate was reported for shop keeper credit followed by mobile banking and friend/family loans (**Figure 6.15**).

Figure 6.15: Proportion of defaulters by loan type, 2019 (%)



Reasons for loan default vary by providers as indicated in **Table 6.2**.

Table 6.2: Reasons for loan default across selected providers, 2019 (%)

	Did not plan well enough	Interest/ repayment rates went up	Did not understand the terms	Poor business performance	All of my money went to basic needs such as food or utility bills	Had to pay off other loans	Partner/someone else in household lost job/source of income	Payment was more than I expected	Unexpected emergency expenditure	Forgot to re-pay on time
Bank loan	2.2	2.1	0.0	0.0	7.1	0.6	6.2	4.1	0.0	0.0
Mobile phone banking loan	18.1	28.0	26.0	32.9	20.6	7.5	8.6	28.8	4.4	0.0
Digital app loans	9.4	12.2	7.3	19.8	4.8	6.6	21.6	8.3	0.0	50.0
Goods/services on credit from shopkeeper	45.4	34.4	0.0	15.1	37.6	63.0	23.3	26.0	95.6	41.6
Loan from friends and family	12.7	17.2	0.0	0.0	13.9	9.9	27.8	11.5	0.0	8.4
Chama loan	7.3	4.8	7.5	32.2	10.2	10.3	2.8	6.5	0.0	0.0

Summary and conclusion

- Overall, Kenyans seek advice from friends and family on financial matters.
- Promotion of financial literacy is important in addressing consumer protection concerns.
- Fraud accounted for the highest incidences of loss of money on mobile money platforms.
- Mobile phone banking and digital apps have introduced new emerging risks.

07

SUMMARY AND CONCLUSIONS

The 2019 FinAccess Household Survey report presents results of data collected during October - December 2018 covering 11,000 households across the country. The survey targeted individuals aged 16 years and above, from scientifically selected households, designed to provide significant estimates at the national and regional level and by residence (rural and urban areas).

The household sample selection was drawn from the fifth National Sample Survey and Evaluation Programme (NASSEP V) household sampling frame. The survey dataset is robust and provide insightful findings to policy makers, regulators, private sector actors, development partners, researchers and academician.

The 2019 survey focussed more on the *usage*, *quality* and *impact/welfare* dimensions of measuring financial inclusion. In addition, the questionnaire incorporated a needs-based framework to the measure the relevance of financial services and products; financial health and livelihoods modules; and consumer protection and financial literacy. Furthermore, the survey also included independent modules on business and agricultural finance to help unravel usage of financial products and services within these livelihoods. This was in recognition of the fact that mere access to financial inclusion is not a sufficient requirement for usefulness of financial sector to households in meeting their needs and goals. This is an important step in the development of an all-inclusive financial ecosystem for Kenyans.

The survey findings show that Kenya has made significant milestones in expanding the access to financial services and products to 82.9 percent in 2019 from 26.7 percent and 75.3 percent in 2006 and 2016 respectively. Several factors contribute to this impressive outcome – rapid uptake of mobile money, adoption of transformative financial technologies and innovations, and government initiatives and policies.

We celebrate this achievement of increased access to formal financial inclusion, but we need to address the 11.0 percent of adult population still excluded and the persistent financial inclusion gaps among several demographics - age and education levels, gender, income and livelihoods, rural-urban divide, and wealth quintiles. Other areas we need to address include the 30.1 percent of the adult population relying on informal financial services and products, in particular, 'Secret Hiding Place', credit in form of cash and goods from a shopkeeper, and groups aka *Chamas*.

The survey findings also highlight consumer protection and financial education issues affecting Kenyans. These include: – high cost of accessing and maintaining a financial product or service, unexpected charges, loss of money through fraud, lack of transparency in pricing of financial services and products, and unreliable market infrastructure systems downtime for ATMs, Point of Sale (POS) devices and Mobile money and electronic funds transfer systems. The survey further points out emerging areas that require attention and deep dive studies such as rapid uptake of unregulated digital apps loans, persistence reliance on informal groups for financial services, and low financial health. These deep dive studies are required to unravel unanswered questions by identifying the missing link between rapid growth in financial inclusion and financial health of Kenyans, with only a fifth of the adult population being measured as financially healthy; and the declining role of MFIs, Insurance and Pension.

The surveys' datasets should encourage further research to better understand the underlying dynamics and drivers in order to provide possible solutions and policies to emerging challenges. The datasets released by KNBS with links provided in CBK and FSD Kenya websites should enable researchers and academicians, among other stakeholders, to undertake further analysis and research. KNBS has also established an interactive visualized web portal to enable users interact with the datasets in different formats.

finaccess

BANKI KUU YA KENYA

comms@centralbank.go.ke • researchstat@centralbank.go.ke
www.centralbank.go.ke
Haile Selassie Avenue
P.O. Box 60000 - 00200, Nairobi Kenya
Tel/fax: +254 (20) 2860000

KNBS
KENYA NATIONAL
BUREAU OF STATISTICS

directorgeneral@knbs.or.ke • www.knbs.or.ke
Herufi House • Lt Tumbo Lane
P.O. Box 30266 - 00100, GPO NAIROBI.
Tel: +254 (701) 244533, (735) 004401

fsd Kenya

info@fsdkenya.org • www.fsdkenya.org
3rd floor, 9 Riverside • Riverside Drive
PO Box 11353 - 00100 Nairobi, Kenya
Tel: +254 (20) 513 7300