Industry Map
Kenya Fintech

AsokoInsight
Africa Corporate Data. African Sources.

Country: **Kenya**	
Sector: **Financial Services**	
Sub-Sector: **Fintech**	
Year: **2018**	

Asoko's Insights

Capping of interest rates creating more space for alternative lenders

The capping of interest rates at 4 percentage points above the policy rate, in compliance with the Banking Act (2016), has increased the flow of customers to fintech lenders. As banks increased their threshold for lending, a significant proportion of individuals and SMEs have been excluded from borrowing as their risk is outpriced. Similarly, with many large banks suspending the issuance of unsecured personal loans, customers have sought out alternative creditors. Other principal drivers are the low barriers to access, convenience and speed of loan dispersal.

Among Kenya's largest fintech lenders are **Tala** (formerly Mkopo Rahisi) and **Branch**, which have dispersed in excess of $244,714,360 and $99,074,640 respectively since incorporating in 2011 and 2015. According to Robert Nyamu, Head of Financial Services at EY Kenya, all leading banks have either moved or are moving towards offering mobile loans such as **KCB**, which launched mobile lending in 2015, and **Barclays**, which launched its Timiza service in March this year. However, this development remains one to watch as the Central Bank of Kenya is currently leading lobbyists for a repeal of the capping law.

SME adoption of commercial fintech solutions is helping drive market growth

An increasing number of SMEs are adopting innovative financial technology solutions in order to to tap into an increasingly mobile-savvy consumer base. Kenya Bureau of Statistics (KBS) data show that in 2016, 40% of all SME owners had commercial applications for their mobile phones, and that while only 29% of SMEs were registered paybill/till users, 49.3% had mobile money and mPOS infrastructure in place.

Nine of the top ten largest fintech firms by client numbers offer either payments or lending services, with at least five offering payments platforms for SMEs. Data from the Kenya Communications Authority (KCA) highlights strong growth in mobile commerce compared to person to person (P2P) payments, with the former recording a 85.5% growth in transactions in 2017, against 8.4% for the latter. The KCA has also indicated, without disclosing exact figures, that a majority of m-commerce transactions are being driven by fast, low-value unsecured loans.

Kenya is the most lucrative market for fintech executives

A study by the Digital Frontiers Institute has ranked Kenya ahead of Nigeria, Tanzania and South Africa as the most lucrative African market for top fintech executives, with monthly salaries ranging from $12,000 to $20,000 at the higher end of the market. More than half of the respondents in the study attributed the high wages to intense competition for talent among fintech companies, suggesting that the relevant talent pool is both limited and attracts a significant premium. Cross-country data for other benefits offered to executives - such as equity/options - is either unreliable or unavailable.

Management of infrastructural and security risks are growing in importance

The robustness of cyber security and operational infrastructure is increasingly in the spotlight for many large companies following a series of system failures in 2017.

CBA's M-Shwari, Kenya's largest mobile banking system by number of accounts, had a system malfunction during the 2017 Christmas break, preventing 17,700 customers from accessing funds and caused delays for 72 hours. Co-operative Bank's mobile banking service, Mco-op Cash, recorded downtime during the same period, affecting 3.21 million mobile banking customers. Similar failures affected 28 million Safaricom service subscribers in April 2017, and 100,000 users of Airtel's M-fanisi earlier this year.

In the absence of a ratified legal framework for data protection, cyber security threats also pose a significant challenge to firms adopting fintech solutions going forward. A 2018 PwC report on Global Economic Crimes found that up to 41% of Kenyan businesses lacked an operational cyber-security programme, presenting opportunities for would-be cyber criminals.

Size and Structure

The table below divides the fintech industry into its largest segments. It is notable that platforms such as Mpesa and Airtel Money straddle multiple functionalities. Some of the organisations listed fall under the umbrella of larger companies that have moved into the fintech space, such as commercial banks (KCB, Equity, and Co-operative Bank) and telecommunications operators (Safaricom and Airtel). Alternative payments and transfers, though synonymous with mobile payments in Kenya, are categorized differently by the Central Bank due to different operational platforms. Other notable segments such as cryptocurrency, insurance and health were omitted given their relatively small weight within the economy.

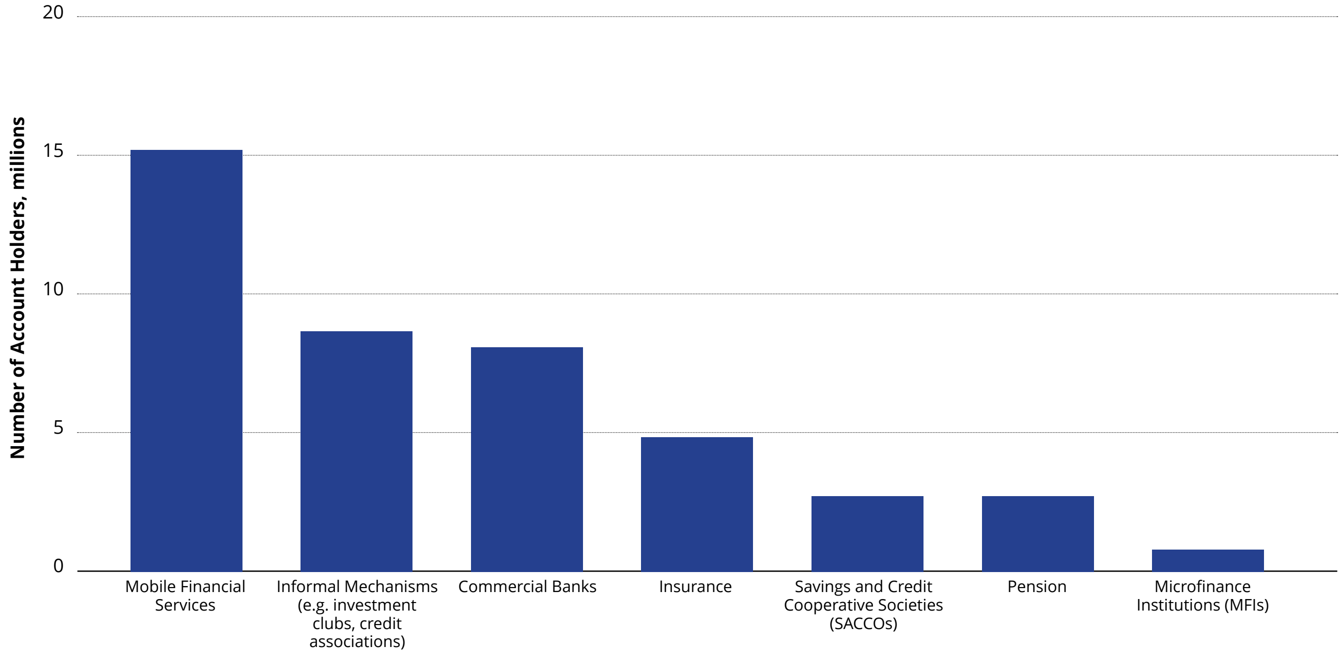
Company/Platform	Payments Services (includes mPOS, POS and remmitances)	Mobile Money Operators	Microfinance Platform	Other Software Applications and Infrastructure Solution Providers
M-pesa	Both B2B and P2P	Both B2B and P2P	Both B2B and P2P	Both B2B and P2P
Direct Pay Online	B2B Primarily			
Cellulant	Both B2B and P2P			Both B2B and P2P
Mode	P2P Primarily		P2P Primarily	
Pesalink	Both B2B and P2P			
Jambo Pay	Both B2B and P2P			
Pesapal	Both B2B and P2P			
CA Payments	B2B Primarily			B2B Primarily
Eastpesa	P2P Primarily			
Mobitill	B2B Primarily			
Kopokopo	Both B2B and P2P		Both B2B and P2P	
Equitel	Both B2B and P2P	Both B2B and P2P	Both B2B and P2P	Both B2B and P2P
Mobicash	Both B2B and P2P	Both B2B and P2P	Both B2B and P2P	
Airtel Money	Both B2B and P2P	Both B2B and P2P	Both B2B and P2P	
Mshwari			P2P Primarily	
KCB Group	Both B2B and P2P		P2P Primarily	
mCo-op Cash	Both B2B and P2P		P2P Primarily	
Tala			P2P Primarily	
Branch			P2P Primarily	
M-kopa			P2P Primarily	
Musoni			P2P Primarily	
Saida			P2P Primarily	
Jumo			Both B2B and P2P	Both B2B and P2P
Tangazoletu	B2B Primarily		B2B Primarily	B2B Primarily
Eclectics International	B2B Primarily			B2B Primarily
Turnkey Africa				B2B Primarily
Fintech Group	B2B Primarily			B2B Primarily
Craft Silicon	B2B Primarily			B2B Primarily
Kocela	B2B Primarily			B2B Primarily

B2B Primarily P2P Primarily Both B2B and P2P

Source: Central Bank of Kenya, Communications Authority of Kenya, Asoko Corporate Database

The number of individual Kenyans using some sort of mobile financial account exceeded that of every other account type in 2016, with 15.1 million active users. Note that the below figures eliminate double-counting arising from, for example, someone using two mobile money platforms (as is common practice) - this person will count as only one unit in the data.

Number of Individual Account Holders by Financial Service Provider Type, millions (2016)

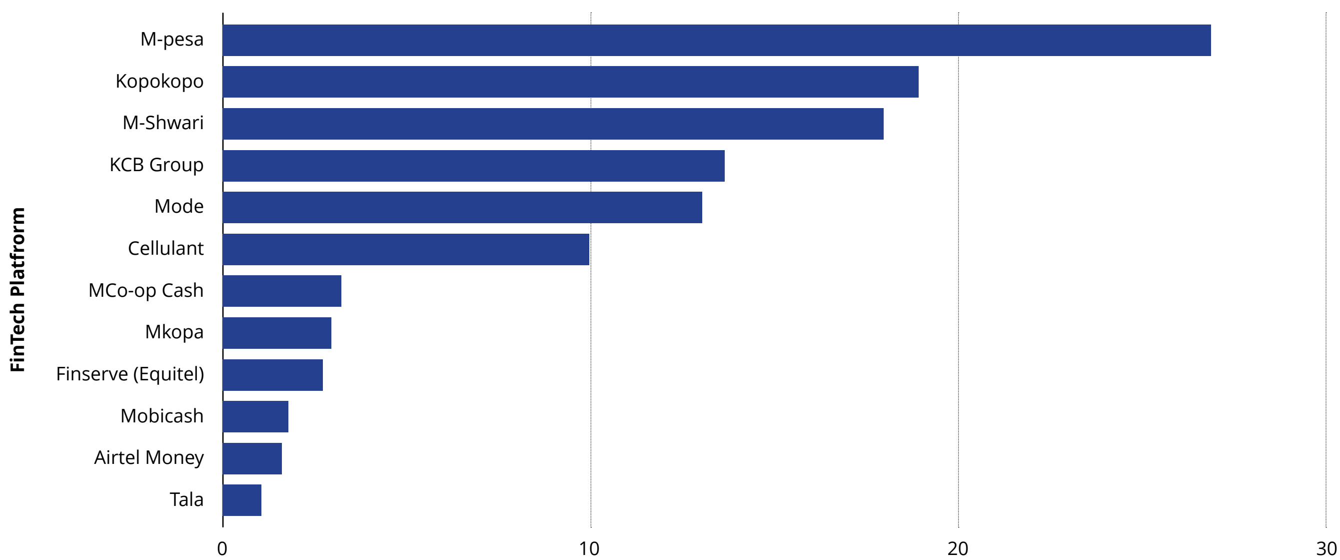


Mobile money and lending platforms dominate Kenya's fintech industry both in terms of subscription numbers and financial performance. The ubiquitous **Mpesa** unsurprisingly comes out on top on both counts: its revenue is around 60-times larger than that of **M-Shwari** (its nearest competitor in revenue terms), and 40% more subscriptions than its mobile money payments partner, **Kopokopo**. **M-Shwari** is, however, the largest mobile lender by both revenue and subscriptions - far ahead of competitors **KCB Group** and **Equitel**, and **Mobile Decisioning Holdings (Mode)**.

Reliable annual revenue figures for **Tala** (incorporated in 2011) and **Branch** (incorporated in 2015) are not available, however gross revenues for the firms since incorporation stand at $246,028,178 and $99,606,550 respectively. The figures below for other firms are for the 2017-18 financial year.

Note that in many cases individuals subscribe to multiple platforms; the figures therefore do not reflect unique users.

Number of Subscriptions by FinTech Platform, millions (2018)



Source: Communications Authority of Kenya, Asoko Executive Interviews, Central Bank of Kenya

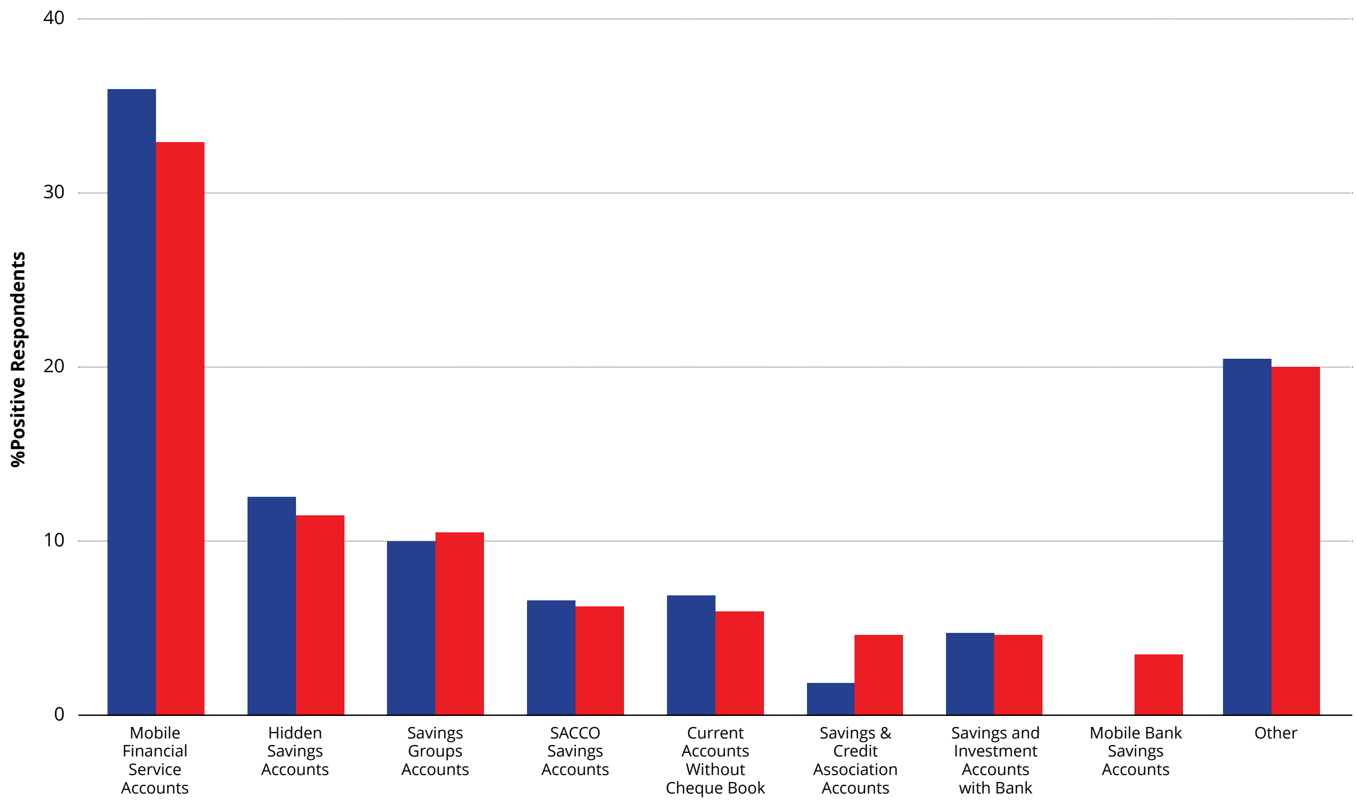
Platform	Estimated Revenue
M-pesa	$600 - 630 million
Mkopa Solar	$50 - 75 million
Mode	$30 - 60 million
Equitel	$20 - 25 million
KCB M-benki	$10 - 25 million
Tala	$5 - 10 million
Mshwari	$5 - 10 million
Mco-op Cash	$5 - 10 million
JamboPay	$1 - 5 million
Branch	$1 - 5 million

Source: Asoko Executive Interviews, Communications Authority Kenya, Central Bank of Kenya

Aside from offering services directly to retail (individual) consumers, a large number of fintech companies in Kenya have built business-to-business (B2B) models and are partnering with traditional financial institutions to bring more services to market. Examples include **Connect Africa Payments**, **Fintech Group**, **Eclectics International**, and **Turnkey Africa Solutions**, **Mode** and **Jumo International**.

A 2016 household survey conducted by FSD Kenya - a promotion agency for financial inclusion set up by the UK's Department for International Development - sheds more light on the importance of mobile money and lending platforms. Mobile Financial Service Accounts (MFSAs), for example, were classified as the most important fintech instrument by 36% and 32.8% of respondents in 2013 and 2016 respectively. The drop in numbers for MFSAs can be attributed to gains already made with respect to financial inclusion in Kenya, with the conventional financial service providers expanding service offerings to typically excluded consumer classes.

Most Important FinTech Instrument by Type, % Respondents (2016)

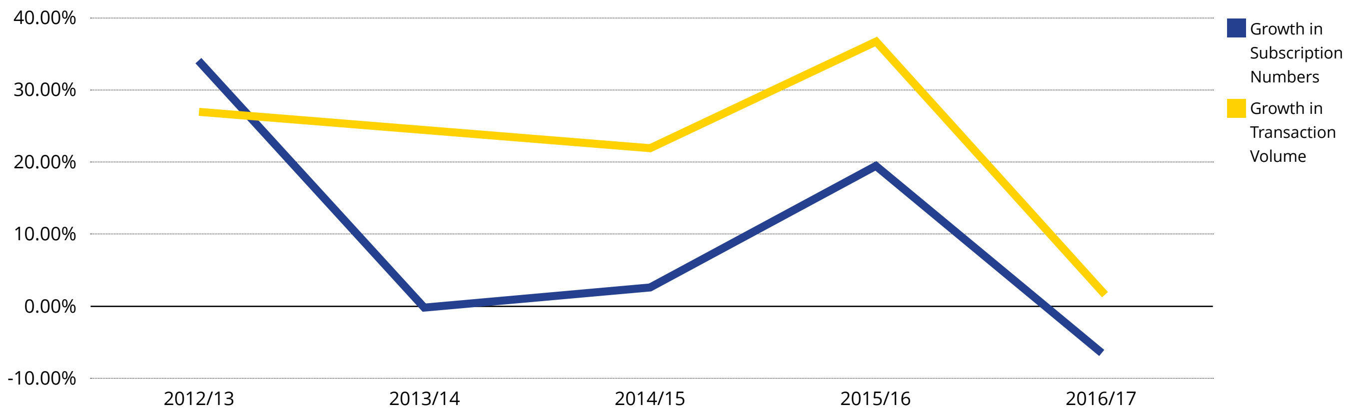


Source: FinAccess Household Survey 2016

Fintech Performance Metrics

2017 Central Bank of Kenya data and financial statements for Kenya's largest commercial banks show that transactions through traditional banking channels such as branches and ATMs declined over the year. In the year under review, transactions at branches declined by 12%, while ATM transactions declined by 17%. On the other hand, the number of mobile money subscribers increased by 9.74% and the total number of mobile transactions grew by 1.1% (having risen 37% the year prior). The dramatic slowdowns in growth are largely attributable to a tense electioneering periods building up to the 2013 and 2017 general elections.

Annual Growth in Mobile Money Subscriptions and Transaction Volume (2012-2017)

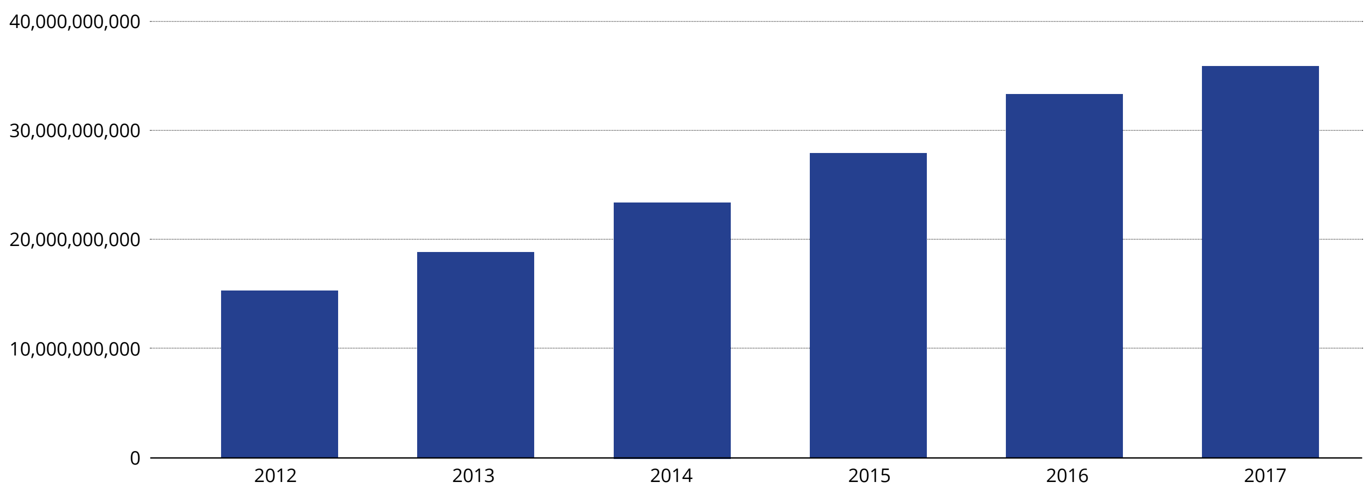


Source: Communications Authority of Kenya, Central Bank of Kenya, Asoko Estimates

Looking at total mobile money transfers, there was an increase of 8.4% and 19.2% between 2016/17 and 2015/17 respectively, with P2P transfers growing in value by 21% and 35.8% over the same periods. Additional strong growth is visible in mobile deposits through agents, which increased by 42.8% in the 2016/17 period alone.

Total transfers in the chart below does not include mobile commerce transactions, but is limited to P2P transfers, as well as person to bank or any other mobile financial service, other than for commercial transactions.

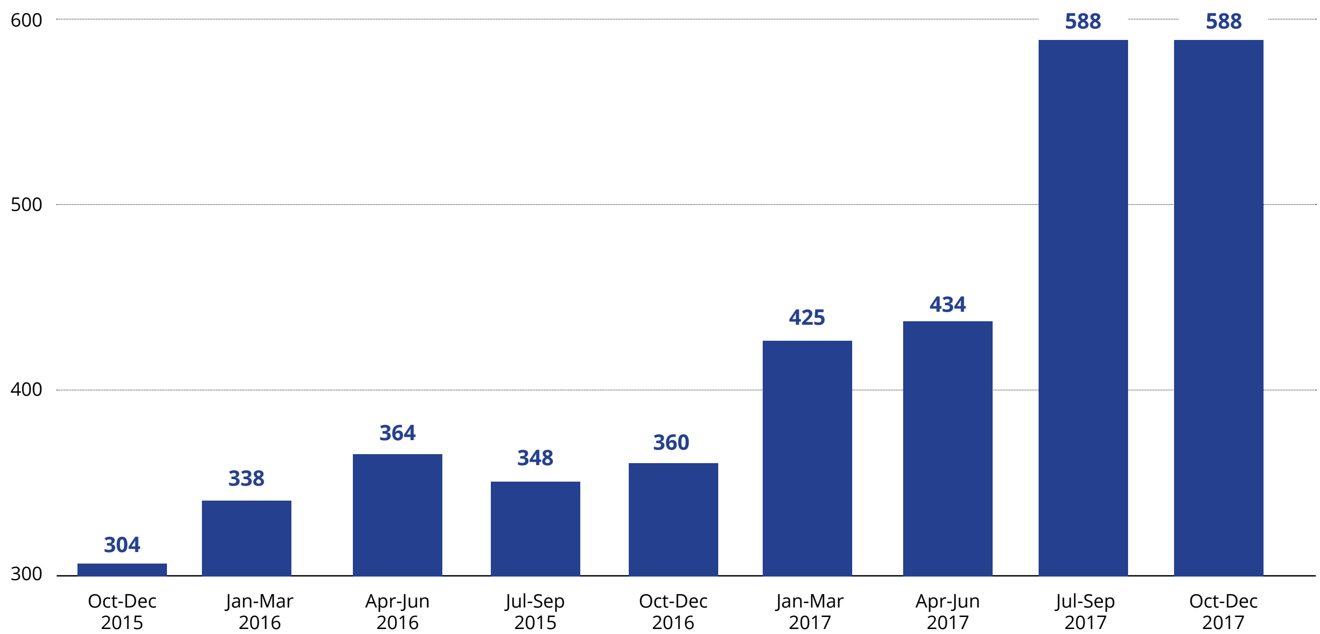
Total Value of Mobile Money Transfers Over Time, $ (2012-17)



Source: Communications Authority of Kenya, Central Bank of Kenya, Asoko Estimates

Conversely, the average transaction value increased by 93% between October 2015 and December 2017. This is attributable to a reduction in mobile money charges during the period, which has allowed lower income customers to access and use mobile money and other fintech services more frequently. In 2017 the average transaction value rose, in part due to the tense electioneering period in the country, with users transacting larger amounts of money in precautionary measures.

Average Transaction Value per Quarter, $ (2015-17)



Source: Communications Authority of Kenya, Central Bank of Kenya, Asoko Estimates

Key Developments

Draft Bill on Financial Regulation

Kenya's Finance Ministry in May 2018 published a finance bill that targets the regulation of digital lenders. Geoffrey Mwau, Director-General of Budget, Fiscal and Economic Affairs at the Treasury noted that the proposed law aims to tame predatory digital lenders currently servicing the market. If passed, the bill will establish a Financial Markets Conduct Authority that will, among other mandates, oversee digital lenders and possibly cap their interest rates.

Integration of fintech infrastructure with social media platforms

Fintech companies such as **Branch** and **Tala** are leveraging social media data to draw insights on customer credit ratings. **Safaricom** is also in the process of rolling out an **Mpesa**-linked social media platform, Bonga, which is currently in a pilot phase. Through the Bonga platform, **Mpesa** users would be able to message each other in three ways - person to person (P2P), person to business, and in fundraising through social groups. The product will have end to end encryption and is set to be launched in late 2018.

Mobile money interoperability is becoming a reality

As of April 2018, mobile money users in Kenya can send or receive money across different mobile networks, with **Safaricom** and **Airtel** leading the efforts. **Telkom Kenya**, which recently launched its own mobile money platform, is also in the process of coordinating interoperability with other operators. The move puts Kenya in league with regional neighbour, Tanzania, which introduced interoperability in 2014.

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Should your company be covered in this map? Please contact **levi.obingo@asokoinsight.com**