

Value-added Financial Services in Kenya:

M-Shwari

Findings from the Nationally Representative
FII Tracker Survey in Kenya (Wave 1) and a Follow-up
Telephone Survey with M-Shwari Users

Final Report

January 2015

About the Financial Inclusion Insights Program

Putting the User Front and Center

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

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

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

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

This report summarizes key findings and insights from an M-Shwari **Consumer Experience Monitoring** project. A follow-up telephone survey was conducted with 108 adults in Kenya, who reported in the FII Tracker Survey that they “ever used” M-Shwari, a savings account and credit product, and the most commonly used beyond-basic-wallet product on the Kenyan digital financial service (DFS) market.

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

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Our clients include international development agencies and philanthropic foundations, media, government agencies engaged in strategic communications and conflict resolution, and commercial firms.

We help our clients understand and enhance the impact of policy, programs and investment in the 21st century's rapidly evolving economic, social and technological environments.

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Chapter 1: Summary of Findings, Insights and Recommendations

In May 2014, the Bill and Melinda Gates Foundation commissioned InterMedia to conduct a follow-up study with Kenyan adults, who reported in the Financial Inclusion Insights (FII) first annual survey that they used M-Shwari, a savings and credit product. The main goal of the study was to understand the triggers and barriers to uptake and active use of M-Shwari. In particular, the study aimed to explore the gap between awareness and use, as well as the reasons why users do not employ the service more actively and do not utilize all of M-Shwari's available features. By exploring users' most recent experiences with M-Shwari, the study sought to explain some of the immediate issues preventing M-Shwari from scaling up and how those issues might be overcome.

This chapter outlines the main findings that will be discussed in more detail in this report and provides suggestions for expanding the M-Shwari user audience.

Findings and Insights

- M-Shwari, a joint product of Commercial Bank of Africa (CBA) and Safaricom, is by far the best-known, value-added mobile money service (VAS) in Kenya; it is offered to M-PESA users. In the first FII survey in Kenya, 87 percent of mobile money users (66 percent of Kenyan adults) were able to recall M-Shwari spontaneously or when prompted. This number is twice as high as the level of awareness of Lipa na M-PESA, the second most known VAS available to mobile money users.
- Despite high awareness, the uptake of M-Shwari remains limited: In 2013, only 12 percent of mobile money users (10 percent of all adults) said they ever used the product. Once they try it, however, users report a high satisfaction rate with M-Shwari. They use it frequently, rate it as good or very good, and recommend it to others. However based on the awareness-use gap demonstrated by the survey data, there appears to be barriers preventing those who are aware of M-Shwari from trying it.
- Based on their demographics, the bulk of current M-Shwari users are early adopters. The majority are urban, males, those living above the poverty line, and mostly 15 to 34 years old. They are well educated and are likely to report professional or service jobs (a teacher, doctor, salesperson, or policeman). They also have access to financial services -- two-thirds report a bank account other than an M-Shwari/CBA bank account. M-Shwari users are financially comfortable, but relatively young, which means they are also financially adventurous. Essentially, M-Shwari users are in a position to experiment with M-Shwari without the fear of long-term financial consequences.
- M-Shwari users use banks and mobile money services for savings and loan activities at higher rates than average bank and mobile money users do. As a result, they can use their previous experiences conducting savings and loan activities to weigh the advantages and

disadvantages of M-Shwari's savings and loan tools versus other financial instruments in the Kenyan market.

- The key advantage of M-Shwari, according to users: It is “like a bank but better than a bank.” M-Shwari allows users to access a range of banking services anytime and anywhere it is convenient for them. It is as safe as a bank and it allows for the consolidation of several financial activities onto one mobile platform, in particular, saving, borrowing, and conducting money transfers between M-Shwari and M-PESA. Overall, M-Shwari users receive personalized banking services without having to pay the premium banking costs.
- In addition to the above, the positive feedback from M-Shwari users included the following advantages: M-Shwari is a one-stop shop for storing, saving and borrowing money; it enables smooth transfers to/from M-PESA and subsequent withdrawal and deposits from/to M-PESA. M-Shwari is available whenever and wherever you need it -- even those stranded in remote areas in the middle of the night can get access to a loan or their saved funds. Finally, M-Shwari is a safe place to store money as users' saving activities are confidential.
- Despite high user satisfaction, M-Shwari is not the only, or even primary, financial tool for its users. Ten percent of users store half or more of their funds on M-Shwari. Twenty percent say they receive half or more of their borrowed funds from M-Shwari.
- M-Shwari is mainly used to deposit and save money for short-term goals, to provide access to money in emergency situations and to help manage ups and downs in cash flow. In terms of basic cash-flow management, M-Shwari plays a complementary role -- all M-Shwari users rely primarily on at least one other financial institution for cash management.
- There are several factors that can potentially explain the gap between the high regard for the services and limited use. First, some of the users remain unsure about how the credit limit is defined. In particular, they do not know whether the amount deposited and saved on M-Shwari plays a role in the amount they are allowed to borrow. Users say they deposit and store money to increase their loan limits, making deposit activity the key predictor of the intent to borrow. Some noted in the survey they would like to receive more education from the provider on how the product works.
- Another disadvantage noted by M-Shwari users is the combination of a low loan limit and a very short repayment term. This restricts the use of loans through M-Shwari to a few specific cases, including small-scale emergencies. However, users also report delays in receiving loans after they are approved. Such delays have a negative effect on M-Shwari use because the service is perceived as not completely reliable and potentially ineffective even in the context of a small-scale emergency.

- Finally, a few users disliked the connectivity between M-Shwari and M-PESA. They felt signing up for M-Shwari put them in a vulnerable position because (a) they feared they were giving up control over their M-PESA accounts to the provider, and enabling the provider to take money from their M-PESA accounts if they delayed repaying their M-Shwari loans, and (b) they signed up for a service they said makes it easy to over-borrow, potentially leading to financial problems such as being fined or being put on a blacklist by the service provider or banking sector at-large for loan non-payment.
- Overall, however, the majority of users highlighted the advantages of using M-Shwari, while a few had negative experiences, which were reported in the survey as disadvantages of the service. It appears, despite some of the limitations, most users still benefit from M-Shwari in one way or another.

Recommendations

Based on the findings from the Wave 1 FII survey and the follow-up study of M-Shwari users, there are a number of opportunities for improving the M-Shwari user experience and expanding the services to include more Kenyans, in general, and more vulnerable populations, in particular. The most promising opportunities include:

- **User education at sign-up.** Detailed information about the service, especially the method of calculating a loan limit, would help users clearly understand how M-Shwari works, reduce their trial limit and increase confidence in the service. Provider transparency is critical for users to be able to trust the service, and use it more frequently and for a wider range of transactions.
- **Continuous provider communication with existing users.** Enhanced communication and guidance from the provider were among the key suggestions for service improvement among current users. The majority wanted to see M-Shwari staff work with them to guide them through the repayment process. In addition, M-Shwari users would like to get updates on any increases/decreases in their loan limits, and how much money they've earned in interest by keeping money on their M-Shwari accounts. Both pieces of information could be delivered to users on a monthly bases via SMS.
- **Flexible repayment schedule.** The short repayment period is one of the limiting characteristics of M-Shwari. While, currently, users can extend their repayment period by one additional month, they have to pay double in their interest (i.e., 7.5% for the first month and 7.5% for the extra month, totalling 15%). In cases where M-Shwari loans were taken out because of an emergency/financial crisis, repaying quickly while users are still recovering from crises might be a challenge, especially when a borrower has to repay 7.5-15 percent more than they borrowed. A more flexible repayment schedule for the

vulnerable groups (rural residents, females and those below the poverty level) would help convince those groups to start using M-Shwari.

- **Promotional campaigns and offers.** The example of Fanikisha na M-Shwari¹ showed that giving an incentive can go a long way in encouraging the uptake and more active use of M-Shwari. While having large promotional campaigns similar to Fanikisha might be a burden, small incentives also might work well. For example, a small sign-up bonus of 100 KSHS (\$1) in a user's fixed savings account might encourage potential customers to sign up, and could also help demonstrate how users' funds can grow in a short period of time.

¹ <http://www.hapakenya.com/safaricom-launches-fanikisha-na-m-shwari-promotion/>

Chapter 2: Introduction

This chapter provides background information on the M-Shwari service and outlines the follow-up study's objectives and methodology. It also offers a general overview of M-Shwari awareness, use and perception based on the findings from the the Financial Inclusion Insights (FII) Tracker survey of Kenyan adults conducted in September 2013. The goal of this chapter is to provide context for the discussion on the follow-up study findings.

The M-Shwari Service in the Kenyan DFS Market

Background

In the past several years, an increasing number of innovative mobile money services (often referred to as “services beyond basic wallet”) have been brought to market by Safaricom and other providers to meet demand for tools that build on money transfer. M-Shwari, a joint product of Commercial Bank of Africa (CBA) and Safaricom, Kenya’s largest mobile communication and mobile money provider, was launched in November 2012. Subscribers of M-Shwari, referred to by its parent organizations as a “paperless banking account,” sign up for a bank account hosted by CBA but access their account using Safaricom’s mobile money service, M-PESA.² The requirements for signing up for M-Shwari are simple: a person must have a registered Safaricom line, a registered M-PESA account and a form of identification approved by the government’s Know-Your-Customer regulations (e.g., a national ID, a passport or an Alien Registration Card).

The M-Shwari account provides users with access to four banking services: deposits, withdrawals, savings and credit.³ All of the services are conducted via M-PESA accounts. In other words, M-Shwari enables users to move money in and out of their M-PESA account to their M-Shwari savings account, earn interest on their savings, and apply for emergency loans, delivered directly to users’ M-PESA accounts.⁴ There are no ledger fees, no limit on the frequency of withdrawals, no minimum operating balance and no charge on deposits (between M-PESA and M-Shwari accounts).⁵ The interest on savings varies from 2 to 5 percent depending on the saved amount, while all loans have a flat facilitation fee of 7.5 percent of the borrowed amount. The loan limit is calculated based on customers’ M-Shwari savings activity, use of M-PESA, as well as their use of Safaricom’s other services, including voice and data.

M-Shwari has been welcomed by the international development community as a revolutionary product expected to significantly contribute to promotion of financial inclusion mainly because of two particular features: First, M-Shwari enables customers to save as little as 1 KSHS (\$0.01) and still earn about 2% interest on this. Second, it provides users with access to instant

² <http://www.safaricom.co.ke/personal/m-pesa/m-pesa-services-tariffs/m-shwari>

³ http://www.cbagroup.com/ke/m-shwari/Mshwari_Terms_Conditions.pdf

⁴ <http://www.safaricom.co.ke/personal/m-pesa/m-pesa-services-tariffs/m-shwari>

⁵ *ibid.*

emergency microloans so they can prevent, cope with and recover from financial shocks.⁶ The initial response to the product was very positive. In the first 21 days after launching, 645,000 Kenyan adults signed up for the service and total savings reached 150 million KSHS (\$1,640,000).⁷

Financial Inclusion Insights (FII) survey highlights

Just over a year after its launch, the FII Tracker survey showed that M-Shwari was the most commonly used beyond-basic-wallet product on the Kenyan DFS market. However, the uptake among users has slowed down significantly in the past year, although the positive attitudes towards the product have not changed. The findings from the FII Tracker survey revealed the following about M-Shwari awareness, perception and use:

- **M-Shwari is the best known and most widely used beyond-basic-wallet service in Kenya.** Twelve percent of all those who have ever used mobile money report having used M-Shwari compared with less than 5 percent, individually, of all adults who have ever used any other innovative mobile money products (Figure 1).
- **There is a gap between awareness and use of M-Shwari.** Eighty-seven percent of mobile money users⁸ were able to recall M-Shwari spontaneously or when prompted and only 12 percent of the same group said they “ever” used the service. Among the Kenyan adult population, the respective numbers are 66 percent and 10 percent. It appears that there is a barrier(s) preventing those aware of M-Shwari from trying the service.
- **Those who “ever” used M-Shwari⁹ demonstrate a high level of user engagement.** Among those who have ever used M-Shwari, 80 percent used it within the 30 days prior to being interviewed and an additional 13 percent within 90 days prior to being interviewed. The majority of M-Shwari users (84 percent) rate it as “good” or “very good.” Moreover, 93 percent of users say they will continue using M-Shwari in the future and 95 percent would recommend the product to a friend.
- **Uptake and use of M-Shwari might be driven by an interest in loans rather than a desire to save.** According to the survey, more people reported using M-Shwari to “take a loan” (30 percent) than “save money” (14 percent). This trend was particularly apparent among poor M-Shwari users,¹⁰ with twice as many reporting taking out a loan versus saving money (29 percent vs. 15 percent, respectively). Based on a 2013 in-depth-interview study by Microsave, “...the majority [of M-Shwari users] had enrolled to access

⁶ http://www.ifc.org/wps/wcm/connect/91a41e8040475ba0b90dbb82455ae521/Tool+10.3.+Case+Study_M-Shwari.pdf?MOD=AJPERES

⁷ <http://www.cio.co.ke/news/top-stories/21-days-of-m-shwari-645,000-clients,-ksh.-150-million-saved>

⁸ Providers included: Safaricom M-PESA, YU Cash, Airtel Money and Orange Money.

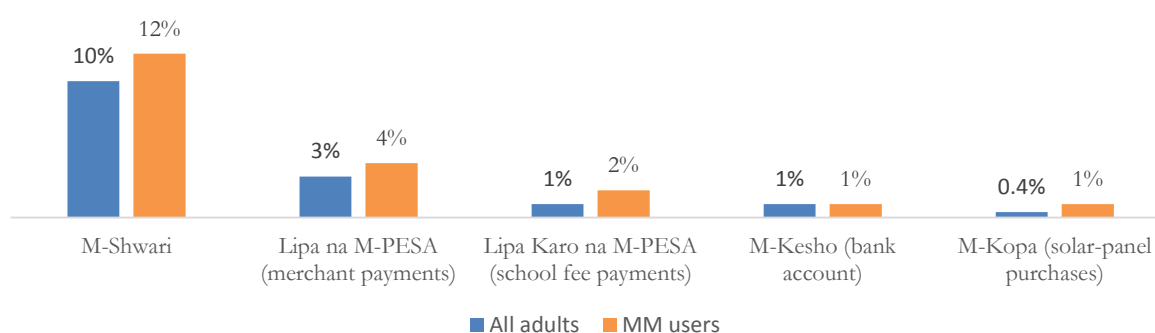
⁹ n=283

¹⁰ Those living below the poverty line, defined in the tracker study as <\$2.50/day.

instant loans, and while the second most common reason for joining was savings-related... the impetus for the savings was gaining access to loans.” The report also goes on to say that “...clients reported testing the system frequently, to figure out how to increase their credit limits. This involved depositing and withdrawing different amounts of money frequently to gauge its effect.”

- Customers might be understanding and using savings differently from the way providers expect them to understand and use the services.** The demand-side findings appear to contradict official supply-side data published by [Safaricom](#), which show that approximately eight times more money has been saved than borrowed by M-Shwari customers since its launch in 2012.¹¹ This disparity raises an important question about how “saving” and “savings” are defined and how customers are actually using their M-Shwari accounts. Safaricom’s definition of “savings” is based on the total sum of money deposited in M-Shwari accounts since its launch in 2012. It does not take into account subsequent withdrawals and does not reflect the current balance. As a [Microsave study](#) states, these figures are “...probably not a good indication of how much the system is being used for savings.”¹² The findings from the tracker study also show that, while just under a third report taking a loan, approximately seven out of 10 M-Shwari users (72 percent) also report using the product to “deposit money,” and almost half (45 percent) report using it to “withdraw money.” When taken together, these findings suggest that the gap between “savings” and “borrowing” may not be as high as initially thought and that M-Shwari savings accounts may have uses other than “saving” in the strictest sense.

Figure 1. Top five value-added offerings: Percentage of Kenyan adults (N=3,000) and mobile money users (n=2,390) who have ever used each



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

¹¹ According to official Safaricom figures, the joint savings and lending product has been used by customers to save KSH 976M and borrow KSH 123M since the launch of M-Shwari.

¹² It is worth noting that, according to Safaricom CEO, Bob Collymore, M-Shwari was always intended to be primarily a savings service. Source: Daily Nation. (Wednesday February 20th, 2013). [Savings Outpace Loans as M-Shwari Deals cross KES 3bn.](#)

Follow-up Study Methodology

Study rationale

The follow-up study sought to gain a better understanding of how and why people use M-Shwari and answer some of the questions raised by the findings from the first annual FII Tracker survey. In particular, the study investigated use by different demographic groups, including by poverty status, urban-rural status and gender. The areas of particular interest included:

- General financial attitudes and behaviors of M-Shwari users
- Awareness and understanding of key aspects of the M-Shwari product
- Patterns of M-Shwari use, particularly in relation to saving and borrowing
- Personal experiences with M-Shwari (positive and negative impact)
- Use of formal and informal financial services to complement and compensate for gaps in M-Shwari use

Sample design

InterMedia selected 200 respondents from the main FII Kenya survey, who reported “ever using” M-Shwari. The individuals provided their phone numbers and agreed to be contacted for follow-up surveys.

All of those respondents were contacted and asked to take part in a 20-30 minute computer-aided telephone interview (CATI); 108 respondents agreed to participate in the follow-up study and completed the interviews. Interviews were conducted in English and Kiswahili.

No minimum quotas were set due to the low expected response rate of 30-40 percent. The final response rate was slightly higher at 54 percent. However, the resulting sample was small (n=108) and the findings were not weighted. Due to the small sample size, the findings were not nationally representative.

The specifics of the study design resulted in limited generalizability of the findings to the overall population of M-Shwari users. Nevertheless, the study provides a unique and useful insight into the profiles and financial lives of M-Shwari users.

Chapter 3: M-Shwari User Profile

This chapter explores the demographic characteristics, occupational profile and financial behaviors of the service users. The findings in this chapter are based on the FII Tracker survey, however, the profiles of M-Shwari follow-up survey participants closely match the user profile described in this chapter.

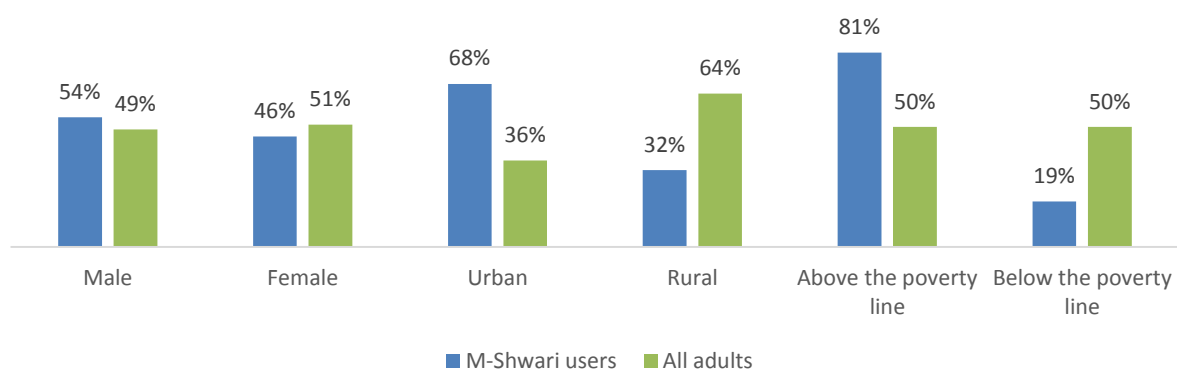
General demographic profile

M-Shwari users are more likely to be found among males, those living above the poverty line and urban residents in the busy commercial centers of Nairobi, Mombasa and Kisumu.

In the first annual FII survey in Kenya, 283 respondents or 10 percent of the adult population indicated they have “ever” used M-Shwari prior to the survey.

The demographic profile of M-Shwari users is similar to the profiles of mobile money users, as well as active mobile money account holders. Compared with the general adult population, the service’s users are more likely to be males, urban dwellers and those living above the poverty line (Figure 2).

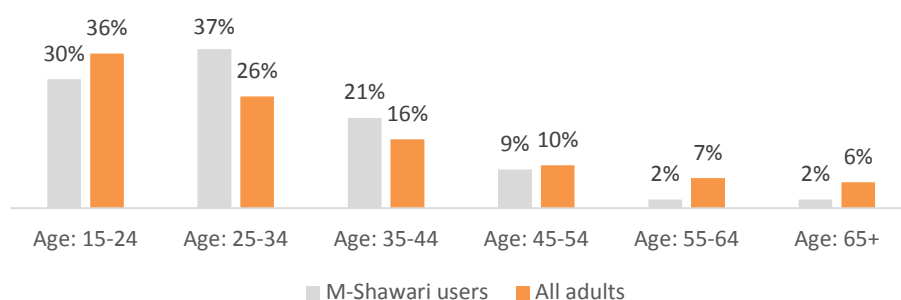
Figure 2. Kenyan adults who use M-Shwari (n=283) and all adults, by demographic characteristics



Source: InterMedia FII Tracker survey in Kenya, Wave 1, September-October 2013, N=3,000.

M-Shwari users tend to be very young: 67 percent of users are between 15 and 34 years old (Figure 3). However, this age distribution is somewhat consistent with the age distribution among the Kenyan adult population, as well as that of most East African countries, which tends to be relatively young.

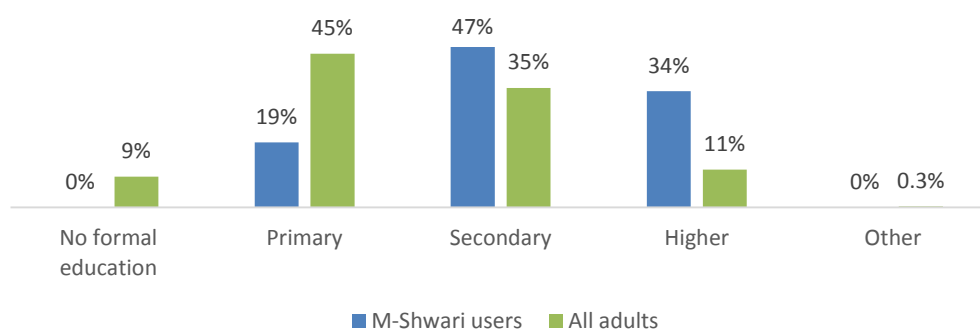
Figure 3. M-Shwari users (n=283) and all adults, by age



Source: InterMedia FII Tracker survey in Kenya, September-October 2013, N=3,000.

M-Shwari users also appear to be well-educated with much higher educational achievements than Kenyan adults overall: 81 percent of the users have at least a secondary education and a third have some college education (Figure 4). The combination of the young age range, good education and urban residences signal that many of the M-Shwari users might be students, recent graduates in their first jobs, or young professionals on their career paths.

Figure 4. Percent of M-Shwari users (n=283) and all adults, by level of education



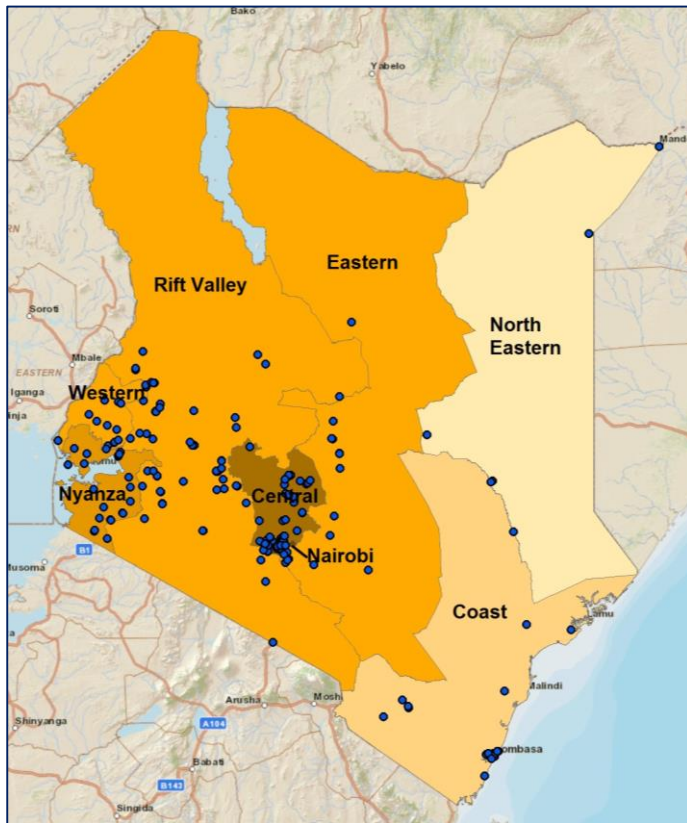
Source: InterMedia FII Tracker survey in Kenya, Wave 1, September-October 2013, N=3,000.

By location, there are three areas with a concentration of M-Shwari users: Nairobi, Mombasa and Nyanza provinces (Figure 5). There are two potential explanations for this geographic distribution. First, these provinces have a higher population density and higher urbanization rate than other provinces in Kenya. The three areas host the top three largest cities in Kenya: Nairobi, Mombasa and Kisumu, respectively.¹³ Second, all three areas are vibrant business centers. As the country’s capital, Nairobi is, not surprisingly, business-oriented, while Mombasa and Kisumu are important East African ports on the Indian Ocean and Lake Victoria,

¹³ https://profiles.uonbi.ac.ke/samowuor/files/2012_amadpoc_workshop.pdf

respectively. Vibrant economic activity attracts higher levels of wealth and educational/intellectual capital compared with other parts of Kenya.

Figure 5. M-Shwari users (n=283), by geographic location



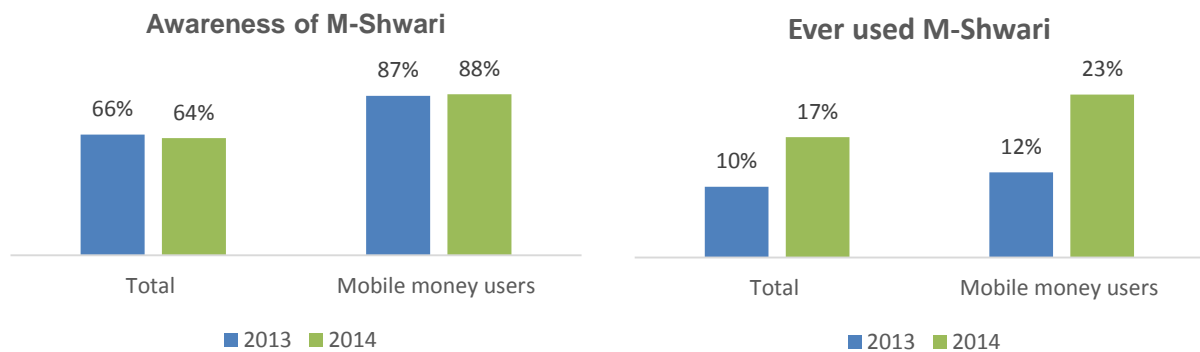
Source: InterMedia FII Survey in Kenya, September-October 2013, N=3,000.

Changes in user profile between 2013 and 2014

In 2014, the proportions of M-Shwari users among the general population and among mobile money users increased. The demographic characteristics of the M-Shwari user group also changed demonstrating higher uptake among rural populations and adults living below the poverty line.

In September-October 2014, InterMedia conducted the second nationally representative survey in Kenya to identify trends in uptake and use of digital financial services in Kenya. Based on the findings of the second survey, there is a significant increase in reported M-Shwari use among the general adult population and mobile money users, although awareness of the product remains unchanged (Figure 6).

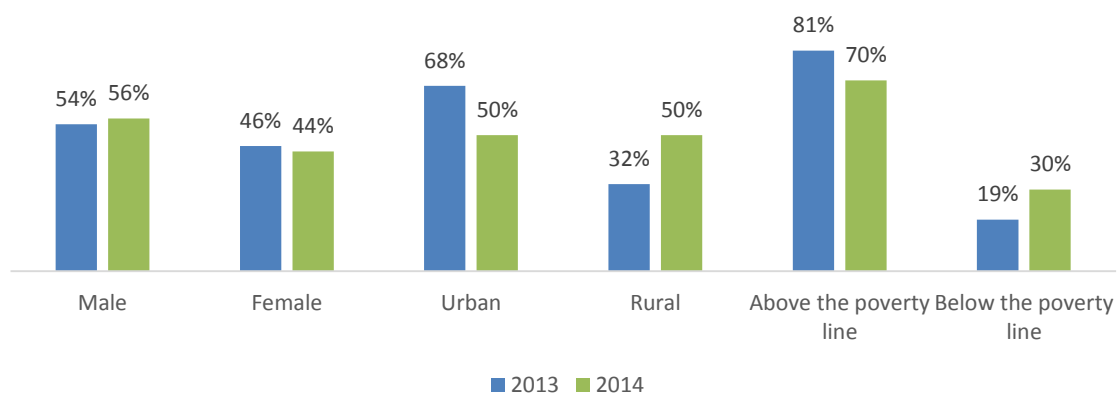
Figure 6. Awareness and use of M-Shwari in 2013 and 2014 among all Kenyan adults and mobile money users



Source: InterMedia Kenya FII Tracker surveys Wave 1 (N=3,000, 15+), September-October, 2013, and Wave 2 (N=2,995, 15+), September 2014.

An overview of the demographic profile of M-Shwari users demonstrates an increase in rural and below-the-poverty-line users in 2014 compared with 2013 (Figure 7). The change in the user profile supports the expectations of the international development community, discussed in Chapter 1 – that is as M-Shwari expanded its market presence it would be positively recognized and taken up by the underserved populations (i.e., females, rural residents and those living below the poverty line).

Figure 7. M-Shwari users in 2013 (n=283) and in 2014 (n=497), by demographic characteristics



Source: InterMedia Kenya FII Tracker surveys Wave 1 (N=3,000, 15+), September-October, 2013, and Wave 2 (N=2,995, 15+), September 2014.

Chapter 4: M-Shwari User and Nonuser Segmentation

The discussion in this chapter focuses on describing M-Shwari user and nonuser segments and their potential financial needs.

M-Shwari user segmentation*

**Some of the analysis in this section is done on a very a small subsample (n<50) and should be treated with caution.*

There are four distinct M-Shwari user segments by gender and urban/rural status. Each segment shares some of the characteristics of the general group of M-Shwari users. In addition, each segment has unique characteristics that have an effect on the use of financial services and financial needs.

While there is an almost equal split of M-Shwari users by gender, there are notable differences between female¹⁴ and male¹⁵ users of the service. Similarly, there are differences between M-Shwari users living in urban¹⁶ vs. rural¹⁷ areas.

Further analysis of M-Shwari user demographics demonstrates there are four distinct segments by gender and urban/rural status. The members of all identified segments are very young and well-educated (Figure 8). They have almost universal ownership of mobile phones (97 percent) and almost all of them have a mobile money account registered in their names (98 percent). However beyond obvious similarities, members of each group have unique occupational profiles, sources of income and financial service needs.

Figure 8. Characteristics of the four segments of M-Shwari users (n=283)*

**The analysis is done on a very small subsample (n<50) and should be treated with caution.*

Red highlights the lowest percentage among the four segments

Blue highlights the highest rate among the four segments

Segment	Younger than 35	Have a college degree or higher	Live above the poverty line	Have a regular job	Have an MM account	Have a bank account

¹⁴ n=131

¹⁵ n=152

¹⁶ n=193

¹⁷ n=90

Rural females (n=34)*	65%	24%	59%	65%	100%	44%
Urban females (n=97)	76%	37%	90%	60%	96%	49%
Rural males (n=56)	46%	30%	66%	82%	100%	68%
Urban males (n=96)	69%	38%	88%	84%	99%	71%

Source: InterMedia FII Tracker survey in Kenya, Wave 1, September-October 2013, N=3,000.

Rural females (12 percent of M-Shwari users)*

**The analysis is done on a very small subsample (n<50) and should be treated with caution.*

Rural females are the poorest segment of M-Shwari users with two in five members of this group living below the poverty line. They have two key sources of money for daily expenses: agriculture and remittances. Among the four segments, they are the most engaged in agricultural activities: 47 percent report “farmer” as being their regular job, another nine percent grow and occasionally sell produce, as well as poultry or cattle. As to remittances, 15 percent depend on P2P transfers for their daily expenses.

Just under half (44 percent) of rural females are single/not in relationships (including those widowed, divorced or separated), which means in emergency cases they cannot rely on the safety net of immediate family (a husband or a boyfriend, who can provide for them); if they ask for support from other relatives, it might arrive with some delay.

At 44 percent of the group, rural females have the lowest bank account ownership among the four segments; the majority report having a current account.

Urban females (34 percent of M-Shwari users)

Together with urban males, the urban females segment is one of the two wealthiest segments of M-Shwari users. Nine in 10 of these females are living above the poverty line. This is also the group with the highest rate of remittance dependency. One in five members of this group (20 percent) rely on P2P transfers as the source of money for their daily expenses.

While 60 percent of urban females have a regular job, they tend to have high-quality jobs: 14 percent report they own a shop or a business, and 8 percent are professionals, such as doctors, nurses and teachers. Less than one in 10 works in agriculture as full-time (4 percent) or subsistence (4 percent) growers.

Sixty-two percent of urban females are either married or in committed relationships. About half of them have bank accounts in their names -- mostly savings accounts (32 percent of all urban females) or current/checking accounts (18 percent).

Rural males (20 percent of M-Shwari users)

Rural males are the most mature group of M-Shwari users: less than half of them are younger than 35 years old. In terms of wealth, they are right in the middle between rural females and urban dwellers of both genders: 66 percent of the group lives above the poverty line.

Similar to rural females, they are involved in agriculture but not as much as their female counterparts. A third of rural males (34 percent) earn their money from farming, however, unlike females, all of these rural males are engaged in agriculture as their regular job; they do not engage in subsistence farming.

Aside from farming, rural men make their living by engaging in a wide variety of skilled-labor jobs such as electrician, mechanic, driver, or carpenter. Some rural males rely on remittances from other people (11 percent). All of them are younger than 35 years old.

Two-thirds of rural males have a bank account; this is higher than their female counterparts and higher than urban females. Forty-six percent of rural males have savings accounts and almost a third (32 percent) have current accounts.

Urban males (34 percent of M-Shwari users)

Urban males exhibit all of the typical features of the M-Shwari user group. They are mostly young, well-educated and well-off. Almost all of them report a regular job (84 percent); those without a job live on remittances (8 percent).

In terms of occupations, urban men fall into three main job categories: service jobs, such as a driver, watchman, cook or waiter (23 percent of urban men); professionals, such as a doctor, teacher or nurse (15 percent); and shop/business owners (14 percent).

Urban males report the highest rate of bank account ownership among the four groups at 71 percent: 48 percent have a savings account, 33 percent have a current account and 6 percent report a student account.

Similar to rural females, about a half (48 percent) of urban men are single and can rely only on limited family support in case of an emergency. However, they have savings; and a small

proportion is already using the savings to pay for daily expenses while they are not employed (5 percent).

Figure 9. Summary of unique characteristics of the four M-Shwari user segments

<p style="text-align: center;">Rural females</p> <p>This is the most vulnerable segment. Many single, rural females do not have a safety net at home. Their income fluctuates seasonally; depending on weather conditions (farming) or other people (remittances). Rural females rarely own property they can use as collateral for a bank loan; they also are not likely to save much money, which limits the credit they can get through informal savings-borrowing groups.</p>	<p style="text-align: center;">Urban females</p> <p>This is the successful segment. Most of these females are in committed relationships; more than half have a job; a quarter receive remittances. Those employed tend to own a business or have white-collar jobs. They have a relatively good financial safety net at home and modest access to banking services. They also have experience saving with a formal financial institution.</p>
<p style="text-align: center;">Rural males</p> <p>This is the mature segment, and represents those who make their incomes mainly through farming or skilled-labor jobs. While this segment is more stable financially than rural females, rural males experience financial ups and downs. Jobs are subject to seasonal fluctuations, so income fluctuates. Rural males might make enough money to meet daily expenses, but they do not make enough to set aside any substantial amount.</p>	<p style="text-align: center;">Urban males</p> <p>This segment represents young single males in service jobs. This is the most financially prepared segment. These males might not have a reliable financial safety net at home, but they have stable jobs and are able to save a bit. As a result, they have a small financial cushion in case there is an emergency or if they are in between jobs.</p>

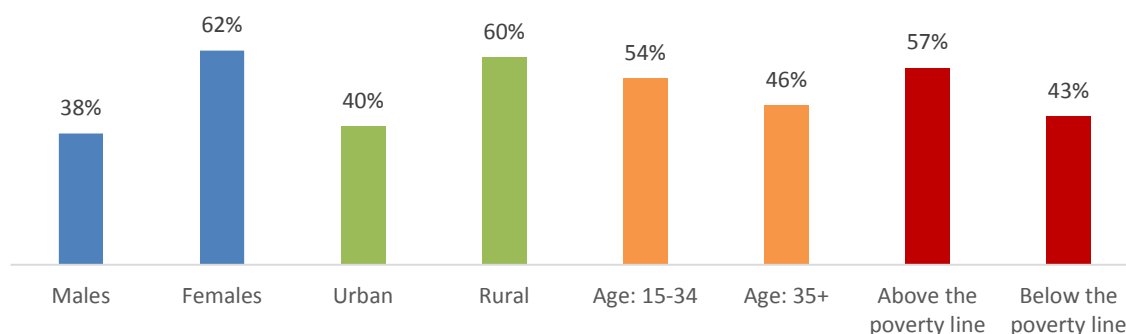
Source: InterMedia FII Tracker survey in Kenya, Wave 1, September-October 2013, N=3,000.

Those who are aware of M-Shwari but do not use the service

There are four distinct M-Shwari nonuser segments by gender and urban/rural status. Each segment has unique characteristics that have an effect on their financial needs and their use of financial services, and also differentiates them from M-Shwari users.

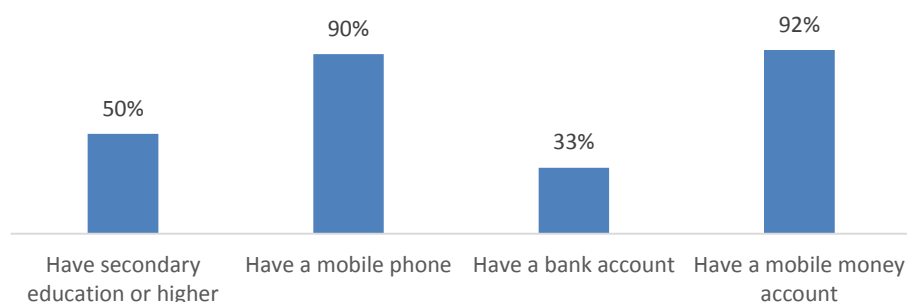
While 66 percent of mobile money users were able to recall M-Shwari spontaneously or when prompted, only 12 percent said they were using the service. The group of adults who are aware of M-Shwari but do not use the service are very different in their characteristics from those who use M-Shwari (Figure 10). The group is somewhat dominated by the traditionally disadvantaged populations: females, those living in rural areas and those below the poverty line. The group is also older than the group of M-Shwari users: 54 percent are younger than 35 years old compared with 67 percent among M-Shwari users. They are not as educated as M-Shwari users, with only half reporting secondary education or above compared with 81 percent for M-Shwari users. Finally, their ownership of mobile equipment and financial services (a bank account or a mobile money account) are lower than those of M-Shwari users.

Figure 10. Kenyan adults who are aware of M-Shwari but do not use the service (n=1,760), by demographic characteristics



Source: InterMedia FII Tracker survey in Kenya, Wave 1, September-October 2013, N=3,000.

Figure 11. Kenyan adults who are aware of M-Shwari but do not use the service (n=1,760), by education and ownership of mobile equipment and financial service accounts



Source: InterMedia FII Tracker survey in Kenya, Wave 1, September-October 2013, N=3,000.

Overall, those who are aware of M-Shwari but choose not to use the service are less well-off and do not have the same experience with/exposure to financial services as M-Shwari users. While individually, these characteristics are not barriers to taking up M-Shwari, in combination, they can make the M-Shwari nonusers less open to new products as they have limited funds and limited knowledge of financial institutions/products. Thus, they might have less trust for M-Shwari as a place to store their funds.

Nevertheless, members of this group have the potential to become M-Shwari users. Most of them already have a mobile money account (92 percent of the group). A few have already tried using mobile money services for savings (8 percent) and loans (1 percent). A promotional campaign offering a small financial incentive for trying the product, with no risk to their own funds, might stimulate trial use of M-Shwari among nonusers.

Chapter 5: M-Shwari Usage

M-Shwari users continue to explore the product's uses. The follow-up survey respondents were equally likely to report that they are using M-Shwari to help them manage short-term ups and downs in cash flow and to save for various goals. Many report depositing money in an effort to “increase their loan limit,” which means they do not have a clear understanding of how the loan limit is calculated. This chapter will look at how M-Shwari is used and why it is used this way. The findings in this chapter are based on the M-Shwari follow-up survey. Due to the small size of the achieved survey sample (n=108), the data do not allow for analysis of activities by user segments.

Deposits and withdrawals

Deposits and withdrawals are the most common reported uses of M-Shwari. Moreover, the majority of participants deposit and withdraw money to/from M-Shwari with identical frequency. However, there are no statistical relationships between deposit/withdrawal activities or between the frequency and amount of deposits and withdrawals.

All follow-up survey respondents report depositing and withdrawing money to/from M-Shwari. The majority of participants deposit and withdraw money at least once a month. The behavior patterns are very similar across respondent subgroups; three in five report the exact same frequency of deposits and withdrawals.

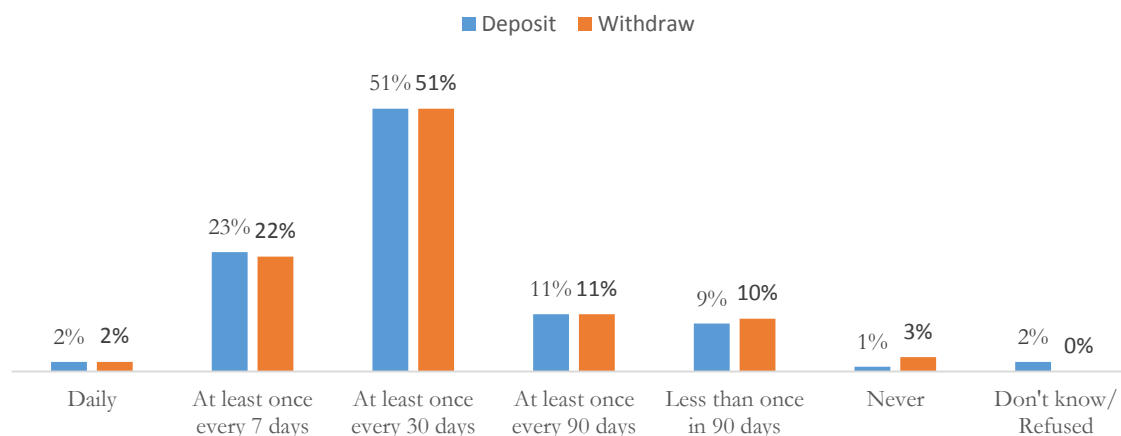
Overall, the respondents deposit and withdraw relatively small amounts: 88 percent of those who deposit¹⁸ and 85 percent of those who withdraw¹⁹ reported amounts less than 2,500 KSHS (\$28). There are no relationships between the amount and the frequency of deposits or the amounts and frequency of withdrawals. The fact that M-Shwari users deposit and withdraw different amounts and the amounts are not correlated with the frequency of deposit/withdrawal activities is consistent with the reported “system testing” users engage in. Users track their activities to see if a specific combination of an amount and frequency of deposit/withdrawal helps increase their loan limits.

¹⁸ n=94

¹⁹ n=93

Figure 12. Percentage of M-Shwari users in the follow-up survey, by frequency of deposits and withdrawals*

**Some analysis is done on a small subsample (n<50) and should be treated with caution.*



Source: InterMedia M-Shwari Survey in Kenya, May 2014, N=108.

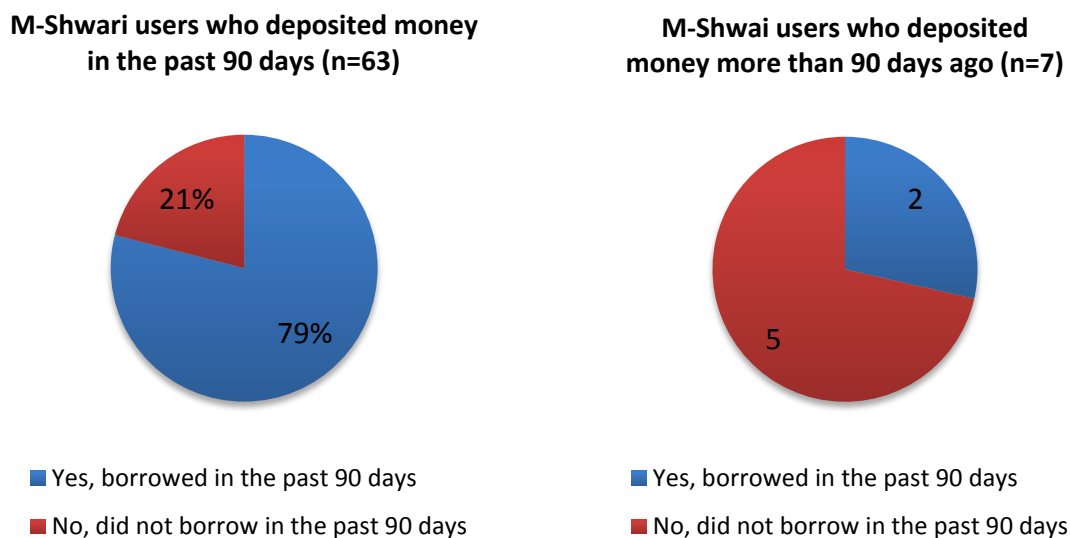
Deposits and borrowing

The data suggest that some respondents deposit money into their M-Shwari accounts to increase their loan limits, in preparation for taking out a loan. In fact, frequent deposits serve as a predictor of upcoming loan applications.

The study demonstrated significant relationships between respondents' depositing and borrowing behaviors. Those who made at least one deposit in the 90 days prior to the survey were more likely to borrow money during the same period than those who made deposits more than 90 days ago (Figure 13). In addition, almost all respondents who deposit money with M-Shwari typically withdraw it within three months and several withdraw within just one week. The consistency of the deposit-withdraw-borrow cycle confirms the earlier assumption that depositing behaviors of M-Shwari users are more likely to be related to borrowing, rather than saving, activities.

Figure 13. Relationships between depositing money and applications for loans among M-Shwari users*

**Some analysis is done on a very small subsample (n<50) and should be treated with caution.*

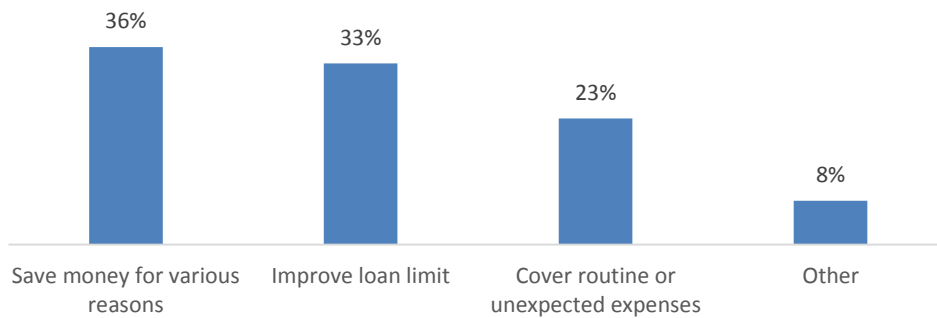


Source: InterMedia M-Shwari Survey in Kenya, May 2014, N=108.

The reasons for depositing money to M-Shwari further underscore the relationship between deposits and borrowing. All the respondents who deposited money were asked why they deposit money to M-Shwari. When looking at the summative overview of the reasons, equal proportions of users said they deposited because they wanted to save money (any reason) and because they wanted to improve their loan limit/prepare for borrowing (Figure 14).

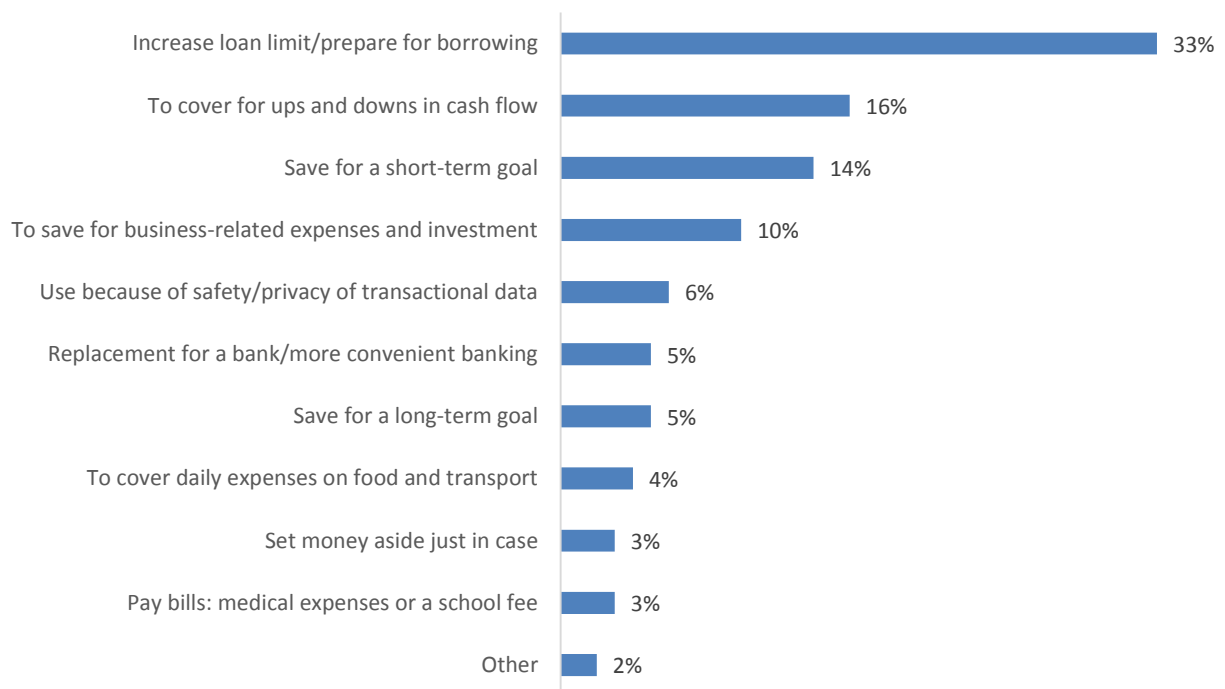
However, a detailed overview of specific reported reasons shows the majority of respondents said they wanted to “improve my loan limit” (Figure 15). Managing short-term ups and downs was the second most common reason followed by “saving for a short-term goal.” Very few said they deposited money to save for long-term goals.

Figure 14. Percentage of M-Shwari users in the follow-up survey who said they deposit money to M-Shwari for a specific reason (n=94), summative overview



Source: InterMedia M-Shwari Survey in Kenya, May 2014, N=108.

Figure 15. Percentage of M-Shwari users in the follow-up survey who said they deposit money to M-Shwari for a specific reason (n=94), detailed overview



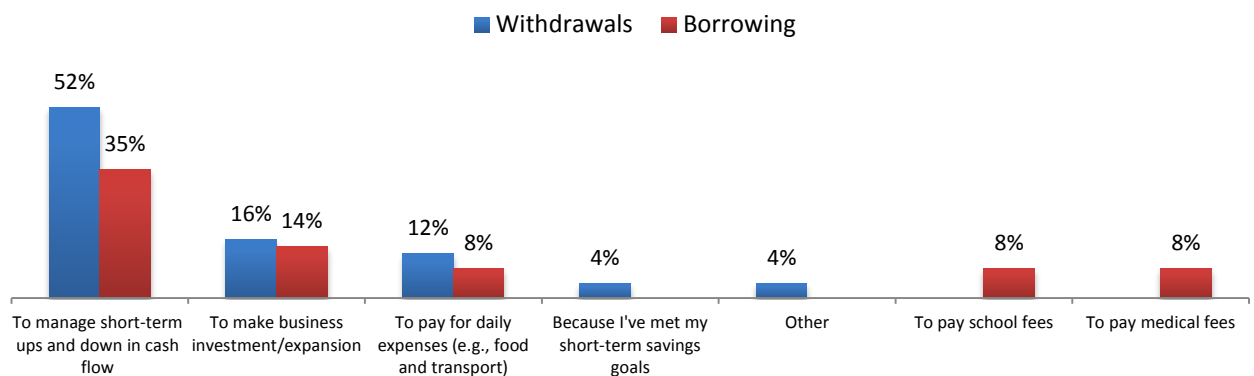
Source: InterMedia M-Shwari Survey in Kenya, May 2014, N=108.

Withdrawals and Borrowing

Unlike with deposits and borrowing, withdrawing and borrowing activities of M-Shwari users are not correlated. However, the main reasons for withdrawing money are the same as for borrowing money.

The majority of those who withdraw and/or borrow money from M-Shwari said they had to manage short-term ups and downs in cash flow, followed by the need to make business-related investments (Figure 16). The third most common reason for withdrawing and borrowing money from M-Shwari was the need to cover daily expenses, including food and transportation.

Figure 16. Percentage of M-Shwari users in the follow-up survey who said they withdraw (n=93) and borrow (n=52) money from M-Shwari for a specific reason



Source: InterMedia M-Shwari Survey in Kenya, May 2014, N=108.

The second and third common reasons for withdrawing and depositing money are worth noting further. First, based on the main FII survey in Kenya, 15 percent of M-Shwari users own a business or a shop. While the combined proportion of those with a business/shop among M-Shwari users is small, the fact that M-Shwari already enables some business-related activities (including getting loans to invest in business) might provide an opportunity to expand the use of the service to other business owners.

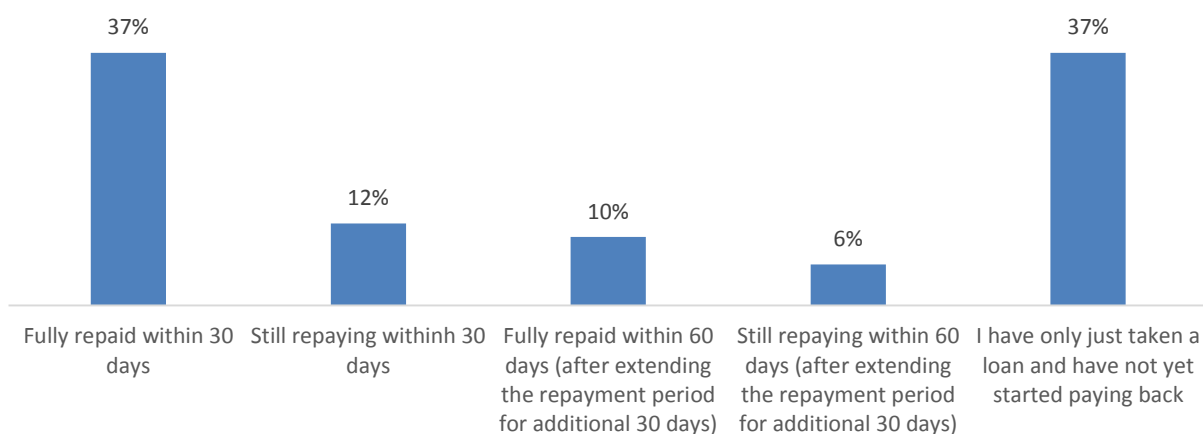
Second, there is also an emerging use case among those below the poverty line to borrow from M-Shwari to cover routine daily expenses (e.g., food and transportation). While it is important those below the poverty line have access to credit, insufficient knowledge of how credit works -- how loans and interest rates on loans are calculated -- might cause those below the poverty line to get deeper into debt and further into poverty.

Borrowing and repayment

It appears that at least a quarter of M-Shwari users are not able to repay their loans within the 30-day repayment period. This means that two in five of those who borrow from M-Shwari either pay a double (two months) interest payment of 15 percent, or default and drastically reduce their chances of getting a loan in the future.

Excluding those who have not yet started repaying their loans, three quarters of those who borrowed from M-Shwari were able to repay or were still repaying (at the time of the survey) their loan in the first 30 days. Twenty percent were able to repay or were still repaying within a 60-day period, which means they paid double interest on their loan (i.e., 7.5 percent interest rate each month). Only a few were completely unable to repay their loan after 60 days (the final deadline for repayment) and none of them reported any knowledge of being added to any permanent blacklist by M-Shwari, which does not mean they were not blacklisted (M-Shwari does have a blacklist and so does CBA).

Figure 17. Percentage of M-Shwari users in the follow-up survey who borrowed money from M-Shwari (n=52), by their repayment status



Source: InterMedia M-Shwari Survey in Kenya, May 2014, N=108.

Chapter 6: Borrowing from M-Shwari vs. Borrowing from Other Financial Services

This chapter further explores the borrowing behavior of M-Shwari users and compared their use of M-Shwari to the use of other formal and informal financial institutions and methods, such as banks, SACCOs, informal savings groups, and family and friends. The discussion looks at how much borrowing and savings is done via M-Shwari versus other institutions and why. The findings in this chapter are based on the M-Shwari follow-up survey (n=108).

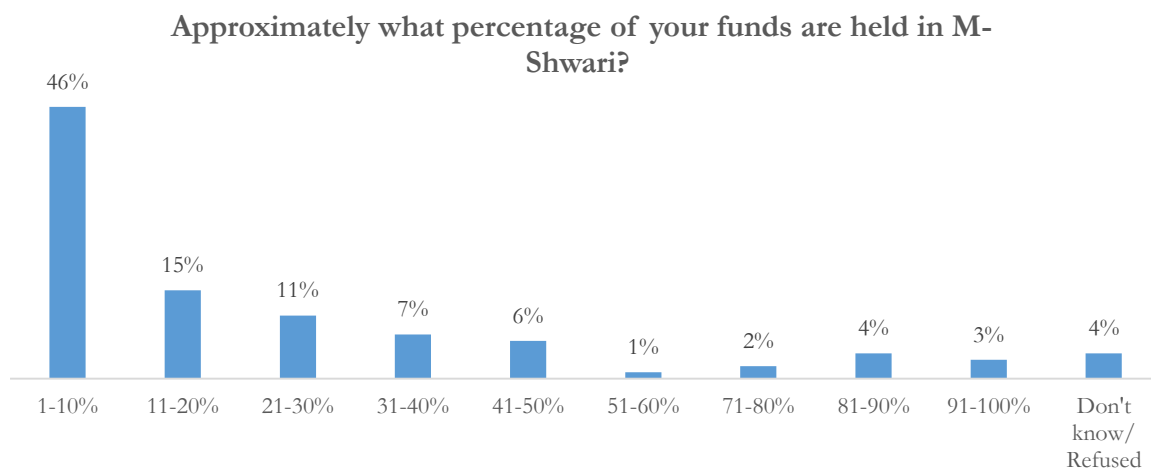
The role of M-Shwari in users' financial activities

For most respondents, M-Shwari is a financial resource responsible for only a small portion of the money its users borrow and save. This might partially be explained by the combination of M-Shwari's low credit limits and short repayment period. This leads to the use of M-Shwari as mostly a money management tool for short-term ups and downs in cash flows. Further, limited understanding of how users' savings are related to the loan limit prevents users from keeping money on M-Shwari instead of continuously depositing and withdrawing funds.

The follow-up survey data suggest that M-Shwari is a complementary product to augment other formal or informal financial products and services that current M-Shwari users employ to deposit/store or borrow money. M-Shwari is not yet perceived as a viable replacement for any of those products or services. As a result, M-Shwari accounts for a small percentage of respondents' overall deposits/savings and loans, with the bulk of users reporting they use at least one more financial institution for these two activities.

When asked about their deposited/stored money, about a half of the respondents (46 percent) said they had 10 percent or less of their cumulative funds stored in M-Shwari. Only one in 10 reported using this service to store more than 50 percent of their funds. .

Figure 18. Percentage of M-Shwari users in the follow-up survey, by proportion of funds they store in M-Shwari (n=94).



Source: InterMedia M-Shwari Survey in Kenya, May 2014, N=108.

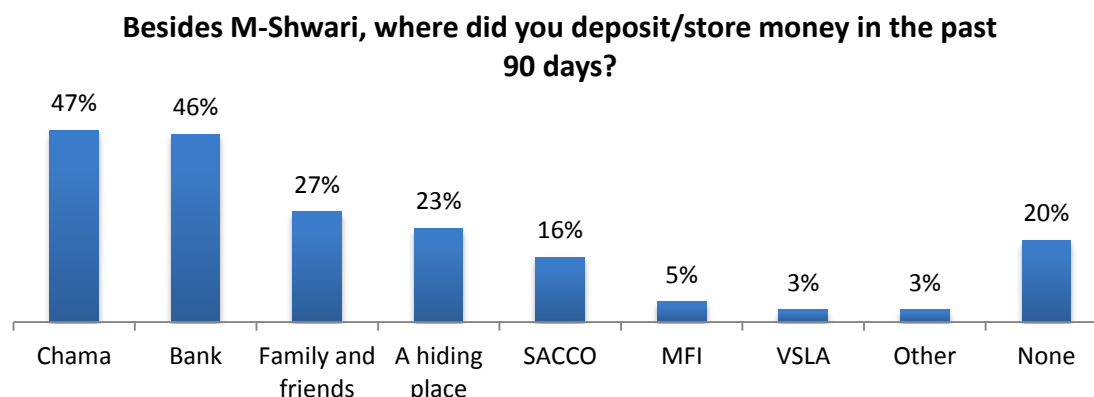
The main competition to M-Shwari as a place to deposit and store money comes from chamas (informal savings-lending groups) and banks (Figure 19). The preference for chamas might be driven by the fact that saving and borrowing activities are not interconnected. In addition, chamas' lending environments are very favorable, especially for those below the poverty line, with flexible loan repayment conditions and interest rates calculated on the decreasing balances not the original loan amount. However, to be able to borrow money with a chama, the individual has to deposit money to/store money in the common “money pot.”²⁰

The high use of banks to deposit and store funds might be due to high exposure to banks (more than half of M-Shwari users have a bank account), and the perceived benefits of a bank as a traditional formal financial institution. Some of those perceptions were discussed in Chapter 4, with several respondents saying they began using M-Shwari because it was “like a bank,” but a traditional bank was not accessible to them. While M-Shwari is, in fact, a bank account accessible through a mobile phone interface, users are clearly not fully aware of this and perceive M-Shwari as an extension of the M-PESA mobile money service.

In addition to chamas and banks, friends and family, as well as hiding places, remain common avenues for money storage, especially for temporary storage. These two resources for money storage share two characteristics. They are well-known and trusted and there are no fees associated with depositing/storing money. While M-Shwari has been in the market for more than two years, it is still a new product for many and most of the financial activities available with M-Shwari have a cost or fee attached to them.

²⁰ <http://blog.myc4.com/2012/08/06/the-chama-way/>

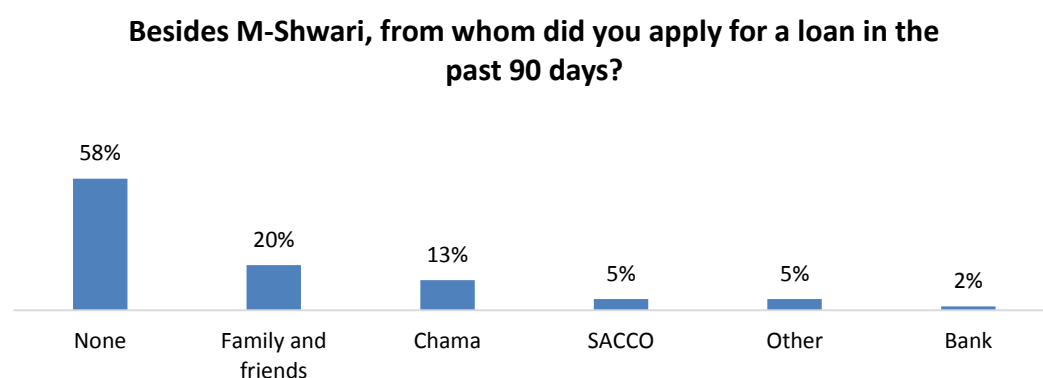
Figure 19. Percentage of M-Shwari users in the follow-up survey who deposited money /stored money in various formal and informal financial institutions (n=94)



Source: InterMedia M-Shwari Survey in Kenya, May 2014, N=108.

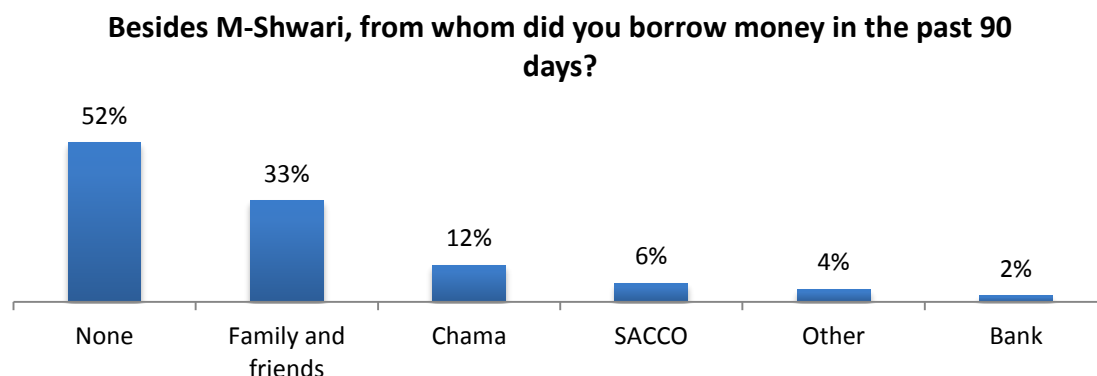
The role of M-Shwari as a source of loans is more prominent than its role as a source for depositing/storing money. Fifty-seven percent of M-Shwari users attempted to borrow from M-Shwari at least once in the 90 days prior to the survey. The application rates with other financial institutions/groups were much lower during the same period (Figure 20 and Figure 21). For example, only 33 percent of the respondents, who borrowed from M-Shwari, asked for a loan from family and friends, and only 12 percent attempted to borrow from a chama.

Figure 20. Percentage of M-Shwari users in the follow-up survey *who applied for a loan* (but not necessarily got or taken out a loan) with various formal and informal financial institutions (n=60)



Source: InterMedia M-Shwari Survey in Kenya, May 2014, N=108.

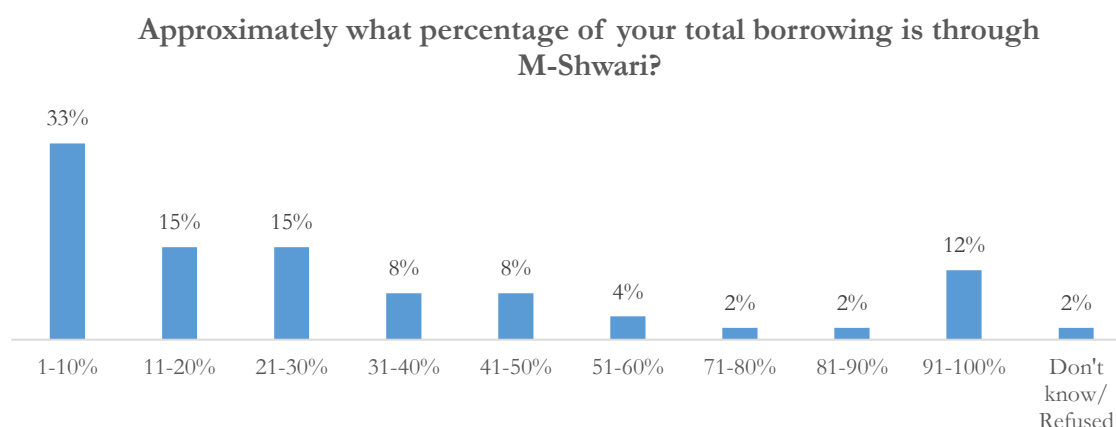
Figure 21. Percentage of M-Shwari users in the follow-up survey *who took out a loan* with various formal and informal financial institutions (n=52)



Source: InterMedia M-Shwari Survey in Kenya, May 2014, N=108.

However, when respondents were asked what portion of their loans came from M-Shwari, it did not appear that M-Shwari was an important source of borrowed money. Just about one in five M-Shwari borrowers said more than 50 percent of their loans come through M-Shwari (Figure 22). For comparison, a third of M-Shwari borrowers said less than 10 percent of their borrowed funds are through M-Shwari.

Figure 22. Percentage of M-Shwari users in the follow-up survey, by proportion of funds they borrow from M-Shwari (n=52).



Source: InterMedia M-Shwari Survey in Kenya, May 2014, N=108.

Overall, most respondents appear very active in their use of M-Shwari (i.e., most deposited, withdrew and borrowed money at least once “in the past 90 days”). However, almost all of them

use M-Shwari to deposit, withdraw, store and borrow small amounts of money compared with other formal and semi-formal financial institutions. The respondents also perceive M-Shwari as a secondary/supporting resource, as opposed to other institutions and groups that are used as primary destinations for financial activities, especially savings and credit. It is possible the low credit limit combined with a short repayment period limits the use of M-Shwari to helping users “manage short-term ups and down in cash flow.” These two characteristics of M-Shwari – small loans and a short repayment period – may make banks, chamas or SACCOs, which offer larger amounts with more flexible repayment periods, more attractive. This also applies to borrowing from family and friends. The traditions of the Kenyan borrowing culture are such that the repayment of loans to the members of one’s social circle (i.e., family members, friends, neighbors or other acquaintances) might take several years and repayment might be done in-kind, if at all.²¹

²¹ Susan Johnson, University of Bath, UK and Froukje Krijtenburg, Department of Social and Cultural Anthropology, VU University Amsterdam (2014), What do low-income people know about money? Indigenous financial concepts and practices and their implications for financial inclusion. FSD Insights, Issue 7, April 2014.

Chapter 7: Benefits and Challenges When Borrowing from M-Shwari

The majority of respondents agreed that the perceived “low cost of loans” is the main benefit of M-Shwari as a lender. Since most respondents have had an experience borrowing from other institutions, the “low costs” of M-Shwari might be a summative characteristic referring also to the easy loan application process compared with loan processes at other formal and informal institutions. The users also named a number of challenges that make borrowing from M-Shwari problematic, including insufficient clarity on how the product works and related technical issues, high loan-rejection rates, low loan limit and delays in posting money once a loan is approved. While M-Shwari is a well-liked product, the disadvantages cited by users may be negatively affecting users’ borrowing activities.

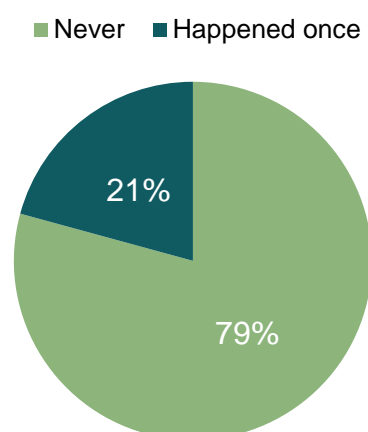
While figures suggest that many respondents found M-Shwari an attractive lending product, they also indicated a collection of barriers that prevents them from reliably borrowing as much as they need, without having to borrow from additional sources.

Among all respondents (N=108), 24 M-Shwari users (22 percent) answered the following question: “How did the cost of your last M-Shwari loan (i.e., the 7.5 percent loan facilitation fee or interest rate) compare with the cost of other loans you have taken out in the last 90 days?” Only one person felt M-Shwari was much more expensive and two thought it was about the same. Twenty-one users said the cost of their last M-Shwari loan was cheaper or much cheaper compared with the cost of loans from other formal and informal institutions.

Despite the “low cost of loans” benefit, users reported the following barriers to using M-Shwari as a loan vehicle:

- **Low level of understanding of the product:** Many respondents did not know how to check their loan limit prior to submitting an application (23 users out of the 40 who applied for and were approved for a loan).
- **Technical issues when accessing the M-Shwari account:** A small number of M-Shwari users reported experiencing problems accessing their M-Shwari accounts (Figure 23). While the percentage of those with this problem is low, when the inability to access an account is coupled with insufficient understanding of how M-Shwari works, it creates overall frustration with the service.

Figure 23. M-Shwari users who reported problems accessing their accounts (n=106)



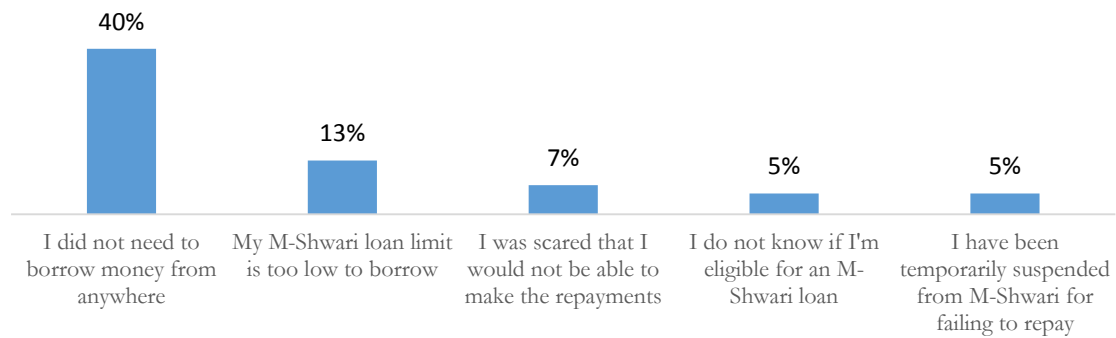
Source: InterMedia M-Shwari Survey in Kenya, May 2014, N=108.

- **Loan approval rate is perceived as low:** Out of 60 respondents who ever applied for a loan with M-Shwari, 20 people (33 percent) said their loan requests were turned down at least once. Among those, five users did not know why their applications were rejected; five users said they were turned down because they were still repaying previous loans; and two people indicated they applied for a loan larger than their approved limit.
- **Delays in receiving a loan:** A small number also reported delays in receiving an M-Shwari loan at least once within the 90 days prior to the survey.
- **Loan limit is perceived as insufficient/low:** Of those who had successfully borrowed money with M-Shwari (n=52), approximately a third were unable to borrow as much as they needed, leading some to report they were either “unsatisfied” or “very unsatisfied” with the overall amount they were able to borrow.

The last category – low loan limit – is not only a trigger for borrowing from additional sources, it also leads some respondents to postpone their loan applications with M-Shwari while they work on increasing their limits. This also means the funds they need are significantly delayed and may not be as useful in helping them cope with financial emergencies or, in some cases, may contribute to a new adverse event (e.g., losing a job if money isn’t borrowed quickly enough to pay for transportation to get to the workplace).

Based on the responses of those who had not applied for an M-Shwari loan in the 90 days before the survey (n=45), 40 percent did not apply for a loan because they did not need money during that period. However, 13 percent of users said they checked what size of loan they can apply for using an M-Shwari loan-calculator tool and realized that the loan limit at that time was too low; hence, they decided to wait for their limits to increase and apply later (Figure 24).

Figure 24. The top five reasons for not applying for an M-Shwari loan in the past 90 days (n=45)



Source: InterMedia M-Shwari Survey in Kenya, May 2014, N=108.

Chapter 8: Overall Experiences with M-Shwari

This chapter expands on the discussion started in Chapter 6 and looks at the advantages and disadvantage of M-Shwari as an overall financial service, not just as a savings and credit instrument. The advantages and disadvantages listed by the participants are placed into distinct themes to provide a big picture of M-Shwari users' expectations of s and experiences with the service. The findings in this chapter are based on the M-Shwari follow-up survey (n=108).

Main advantages of M-Shwari

The key appeal of M-Shwari is that it allows users to be in charge of their financial activities, which means they can transact when and where it is convenient for them, and they can access funds to offset an emergency when they need to. M-Shwari offers what is perceived as “personalized” banking services without charging extra for the convenience.

As a financial product, M-Shwari is highly appreciated by users. When asked about the advantages of M-Shwari, almost every respondent in the follow-up study was able to name at least one positive product feature. Most of the advantages of M-Shwari mentioned by the users can be summarized under the umbrella of M-Shwari is “just like a bank, but is better than a bank.”

The following three key features allow M-Shwari to provide its customers with a “banking experience” that is perceived superior to that of a traditional bank:

- **M-Shwari is a one-stop shop for several financial activities.** M-Shwari allows its users to consolidate their activities by providing savings and borrowing tools. Interactions/transactions between M-Shwari and M-PESA are mostly smooth, which means M-Shwari customers benefit from an extended range of financial services that can be conducted by seamlessly shuffling money between the two products.
- **M-Shwari is available whenever and wherever you need it; this is especially important in emergency cases -- even those stranded in remote areas in the middle of the night can get access to a loan or their saved funds.** Users do not need to go to a bank branch, wait until the bank opens and stand in a queue to be served.
- **M-Shwari is a safe place to store money; saving activity is confidential.** Several respondents mentioned that the security of their funds is the most important feature of M-Shwari. Neither outsiders nor family members or friends can find out whether and how much a user saves with M-Shwari, even if they gain access to the user's mobile phone.

One respondent mentioned that M-Shwari allows users to reduce social tension. Prior to using M-Shwari, the respondent had to ask friends and relatives for money when facing an emergency, and that in some cases posed a strain on the relationships for a variety of reasons. Now, the user can borrow from M-Shwari and keep all financial activities away from any social ties.

Several respondents mentioned that an M-Shwari loan was “cheaper” than a loan from a bank. However, the respondents were not in agreement on M-Shwari interest rates because a number of respondents thought an M-Shwari loan was in fact more expensive to take out than loans from other sources.

Main disadvantages of M-Shwari

Overall, there was very limited negative feedback about M-Shwari. The key disadvantages of the product had to do with the small loan amount and delays in loan delivery, which limits M-Shwari’s ability to provide help in case of an emergency.

There were fewer users who reported any negative features of M-Shwari compared with the number of users who had something positive to say about M-Shwari’s features. The majority agreed that the product served their needs and did not require any improvement. Users who thought there was still room for improvement mainly complained about one of the following:

- **Connectivity between M-Shwari and M-PESA.** Some users felt that by signing up for M-Shwari they put themselves in a very vulnerable position. They feared, even though wrongfully, they were giving up control over their M-PESA accounts to the provider and enabling the provider to take money from their M-PESA accounts if they delay repaying their M-Shwari loans.
- **Users often experience delays in receiving M-Shwari loans.** While a one- to two-day delay between the time a loan is approved and the loan is released may not seem critical to the provider, for users who need money to prevent or address a crisis, this kind of delay means M-Shwari loses its relevance as a source for emergency support.
- **Low loan limits and short repayment periods limit M-Shwari’s range of uses.** Quite a few users said that M-Shwari loans are too small for almost any application except for small emergencies or temporary problems with cash flow. While small loans are more manageable given the short repayment time, they do not accommodate long-term projects.
- **M-Shwari loans are easy to apply for and to receive; however, there is a temptation to borrow more/more frequently** than is needed and to spend money on unnecessary goods or services. A few respondents mentioned that borrowing from M-Shwari is so easy that there is no barrier to prevent them from over-borrowing.

A closer look at what some users listed as disadvantages are also listed as advantages by other users, in particular, the easy access to loans and the seamless link between M-Shwari and M-PESA.

These inconsistencies in what defines an advantage or a disadvantage among the users is likely due to the difference in the use of/exposure to different features of M-Shwari, different exposure to formal financial institutions, as well as the differences in user characteristics, as discussed in previous chapters.

Suggestions for improving the M-Shwari user experience

Among the respondents who had some suggestions for improving M-Shwari, the majority wanted closer relations with the provider. They asked for more education about the product and guidance in repaying their loans on time.

Very few respondents had suggestions for improving their experiences with M-Shwari beyond addressing existing disadvantages. However, among those who did provide suggestions for improving the user experience, at least half were expecting more comprehensive and more frequent engagement between users and the M-Shwari provider.

In particular, users suggested the provider organize more promotional campaigns to explain how M-Shwari works. They also wanted to see an active customer service effort to work with borrowers to help them develop a repayment plan and to initiate reminder calls about repayment deadlines.

Another group of M-Shwari users recommended the service separate itself from M-PESA to ensure better security of the money deposited by users. In particular, they wanted to have separate PIN codes for M-Shwari and M-PESA, and also be able to deposit money directly to M-Shwari, without having to transfer funds from M-PESA. However, none of these respondents said they want to lose the convenience of transferring money between the two services. In other words, they would like to be able to access M-Shwari directly without having to go through M-PESA, *in addition* to being able to access M-Shwari through M-PESA.

Chapter 9: Conclusions

M-Shwari is the best known value-added digital financial service in the Kenyan market. It is also a well-liked product, with nine in 10 users saying they will continue using it and will recommend it to other people. Despite high awareness and high user engagement, M-Shwari has been experiencing a low conversion rate with about one in six of those aware of M-Shwari actually using the service.

In addition to the awareness-use gap, during its first year in the market, M-Shwari mostly attracted adults who are better-off, younger and more urban than the general adult population. In 2014, the user profile showed higher uptake among those rural and those living below the poverty line; however, M-Shwari still has some work to do to include financially underserved users, especially Kenyans living in extreme poverty.

M-Shwari users also have better exposure to formal financial institutions, including borrowing money from and saving money with banks, other than CBA. The M-Shwari user group includes only a small number of adults who have limited access to formal financial services and to formal and informal credit; most of these individuals are rural females and rural males.

M-Shwari users do not have a clear understanding of the M-Shwari savings offer and mostly turn to the service for easy/fast and relatively cheap loans. Even in the case of loans, few have a clear understanding of how the loan limit is calculated and end up “testing the system” before they actually start borrowing and/or saving money.

Finally, the combination of small loan amounts and a short repayment period limits the use cases for M-Shwari, even as a source for emergency loans. The bulk of current users say they use M-Shwari to help them manage short-term ups and down in cash flow as well as to save for short-term goals. M-Shwari is a complementary product to other formal and informal financial institutions that are used, and is responsible for a relatively modest portion of users’ borrowing and savings activities.

Overall, from the makeup of the users and the pattern of product use, M-Shwari is just moving up from the user trial stage. While M-Shwari is well liked by the users, they still are not completely clear about all of the features and rules about use (e.g., loan limits, repayment periods). Comprehensive educational efforts combined with a promotional campaign to encourage those aware of M-Shwari to try it can help resolve confusion about its services and use, and encourage both users and potential users (those aware but not currently using M-Shwari) to further explore this service.