33. Reflecting on Fair, Inclusive and Value Adding Financial Services[1]

David Cracknell

Kenya, and other African countries have had remarkable success in promoting financial inclusion especially through financial service innovation and technology[2]. As of 2021 the FinAccess Survey found that 83.7% of adult Kenyans had access to formal and semi formally provided financial services. With this progress, questions around financial inclusion have evolved.

Today's questions are less around simple access to an account and more about the quality, nature and fit of financial services; for example, how much is the microfinance sector, and the financial sector more generally delivering fair, inclusive and value adding financial services? Who and how are people excluded? How do people manage risk? How should we define fair, inclusive and value adding financial services? What level of financial education do people have? How are products communicated? What should the financial sector look like? What impact do we want it to have? Once our vision is defined how are we going to realise this, institutionally and as a sector?

Dimensions of financial inclusion

To deliver fair, inclusive and value adding services, first we must understand what financial inclusion is. The traditional view when few people had the benefit of financial services, revolved around accessibility – we

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[1] This blog was written to inform a keynote address on fair, inclusive and value-added financial services for the Financial Inclusion Conference and Investor Expo 2024, on 25th of September 2024 in Nairobi, Kenya.

[2] See Cracknell, David (2020), "Kenya's Remarkable Financial Inclusion Journey"

simply measured the number of account holders in formal institutions. Regulators added new institutional types such as microfinance banks. Today, with high accessibility achieved we must consider wider criteria.

Useability: We must ask, why are the services provided preferred or not being used? For example, why are traditional insurance services used by so few people? Is microinsurance the solution, or do we need to focus on the underlying issue of providing financial services, including affordable savings services, aimed at risk management for everyone[3]. So, we must focus on designing, testing and evaluating appropriate product and delivery channels.

Dimensions of financial services: Once access has been provided, are products affordable, in terms of repayment amounts and instalments, in terms of total costs? Is there transparency on costs? Are products differentiated and tailored for purpose? Are existing and potential clients aware of all products and services? Are we providing the financial education required to change behaviours.

Behind the numbers: To understand fairness, inclusion and value, we must ask, who are we including, who is excluded, and what dimensions of exclusion are important, is it geographic, gender, literacy, numeracy, poverty, disability? Dimensions of exclusion should factor into the design of products and channels. These dimensions are graphically explored in the FinAccess data portal[4].

Financial health in 2024

The extent to which financial services in Kenya are fair, inclusive and value adding must be judged against the question "Why given that access to services has rapidly increased, has financial health been decreasing since 2016?"[5] Clearly the Covid pandemic, drought, pestilence have all had an impact, but beyond that, the question I have is "what role has the digital credit explosion played in deteriorating financial health? Has a rapid easing of access to credit been an underlying cause of deteriorating financial health noting that nano credit is provided at much higher interest rates than traditional loans.

At the same time, financial services must help everyone deal with economic and political uncertainty, so a greater focus on risk management, through financial services, becomes even more important. To accomplish this, the role and impact of financial education to complement delivery of financial services must be understood specifically providing training on budgeting and savings and financial services. Much has been learned by Equity Group Foundation in the delivery of their Financial Education Programme[6].

Client Protection Principles

If we are concerned about our client's financial health our behaviour as institutions matters. The Client Protection Principles conceived by Accion and the Smart Campaign and now promoted by Cerise[7] are of fundamental importance in delivering fair, inclusive and value-added financial services they are as follows:

1. Appropriate product design and delivery
2. Prevention of over-indebtedness
3. Transparency
4. Responsible pricing
5. Fair and respectful treatment of clients

[3] See: Cracknell, David (2020), "Seven Principles for Reimagining Financial Services"
[4] See: FinAccess Financial Inclusion Survey 2021 – Data Portal
[5] See: https://www.fsdkenya.org/financial-health/financial-health/ for further discussion.
[6] See: Equity Group Foundation: Financial Literacy for further information.
[7] See: https://cerise-sptf.org/about-client-protection/ for further discussion.

6. Privacy of client data
7. Mechanisms for complaint resolution
8. Governance and HR

So, we should be measuring how much are we committed to these principles, how do they shape our behaviour, how have we evaluated our performance against these principles. It isn't enough to state a commitment to the client protection principles unless this commitment is influencing institutional behaviour.

Similarly, we can have mechanisms for complaint resolution, but if we are to improve, we must be correct systemic failures rather than simply respond to instances of service failure. If we operate digital channels, our call centre services must be available 24-7 and fully resourced. Customer service and customer relationship management must be seen is a discipline and vocation[8].

Digitisation in Kenyan financial services

Fair, inclusive and value-added financial services have been fundamentally influenced, both positively and sometimes negatively by digitisation in financial services. Digitisation of the front and back office have reduced the time taken for decisions and loan processing. Digitisation of channels has enabled customers to access services over their phones. Digital ecosystems have enabled fintech based solutions offering daily repayments for solar systems or asset purchases such as motorcycles. Platforms have been developed which can assist farmers to access a wide range of services across agricultural value chains, such as that by Apollo[9]. Advances in artificial intelligence and machine learning, can be used in reducing lending risk. Business intelligence systems can facilitate improved reporting and strategic management.

However, for all the advantages of digitisation, there are costs too. Many of those who are disadvantaged cannot easily access traditional digital finance services, because of issues of identity, literacy, numeracy, access to technology, the need for and the costs of data, phones and electricity to charge them. These issues must be addressed through modifications in products, and specifically in product delivery.

Experience from successful digital agricultural finance suggests that when dealing with rural communities, digitally assisted financial services, where people are involved in lead identification, sales and technical support are much more successful.

Knowledge of our customers

For all the value of digitisation, are we moving forward with our customers in sight? This means being able to answer questions like: What financial services do our clients need? How do they need it? What is missing in existing provision? How do we ensure that those who need the service can obtain it? When there is a problem, how is it communicated, and resolved effectively and in a timely manner. In addition, we must recognise the importance of including last mile solutions, such as savings groups and community banking that can provide services to rural and remote populations.

To move forward with knowledge, we must invest as institutions in our capacity for market research, product development and pilot testing. Whilst this is expensive, its an important investment in differentiating services and approaches and being able to provide fair, inclusive and value adding financial services.

Role of social investors in fair, inclusive and value-added financial services

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[8] See: Cracknell, David, "Getting Real About Customer Service"
[9] See: https://www.apolloagriculture.com/ for more details.

Social investors, development partners, and development finance institutions can play a pivotal role in encouraging fair, inclusive and value-added financial services. This can be through multiple mechanisms:

- Investors set standards for access to their support. Development finance institutions have been instrumental in promoting the application of ESG standards for example. Standards can also be set for fair, inclusive and value-added financial services, or on the quality of delivery of services.
- Investors may underwrite the costs of product development and scaling or can provide guarantee mechanisms to reduce lending risks.
- Innovative investment approaches such as blended finance can be used to share risks.
- Technical assistance can be provided to develop core capacities in client institutions.

Digital with a conscience

Today after fifteen years of digital finance, we understand more about the challenges of digital finance, in how it facilitates delivery of transactional based services, but it emphasizes cost reduction and efficiency over flexibility and a personal touch. We must leverage digital finance with a conscience.

The Bank of Ghana has taken a financial conduct approach to digital finance in providing guidelines and standards that it expects the financial sector to apply in the delivery of digital financial services[10]. Provisions cover delivery of information, fairness and transparency, digital advertising, contractual disclosures, communication, and data protection.

In Kenya, Safaricom has been instrumental in building a digital ecosystem around M-Pesa whereby it provides not only interoperability, but it has built in safeguards to reduce transaction-based errors, frauds, and an extensive call centre to resolve any issues arising. Investment in service recovery in digital financial services is a key component of providing fair, inclusive and value-added financial services.

There are also interfaces which can be used to help people who are innumerate being developed by Brett Mathews of MyOralVillage[11]; and SMS based training which can be integrated into the delivery of digital financial services.

Institutions in crisis

The microfinance bank model is in currently challenged by high delivery costs, compliance costs, legacy infrastructure, and high defaults. This suggests that the microfinance bank model itself must evolve, and in that evolution place at its centre, the provision of fair, inclusive and value-added financial services. This evolution is likely to imply:

- Re-regulation: Examining ways to reduce compliance costs
- Channel and product delivery optimisation
- Product development
- Shared services to reduce delivery costs.
- A greater focus on rural and excluded communities with assistance from social investors.
- Digitally assisted product delivery, including 'the man in the middle' where necessary.
- Use of Business Intelligence Systems (BIS) to identify and manage risks and manage performance.

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[10] See: Bank of Ghana (2022) Disclosure and Transparency Guidelines for Digital Financial Services

[11] See: My Oral Village website for more details https://myoralvillage.org/

The Role of Regulators and Policy Makers

Kenya's regulators have played a significant role in promoting mobile money, agent banking and digital financial services. The CBK promoted the Banking Code of Conduct[12], in association with the Kenya Bankers' Association, it produced guidelines on Climate Risk Management. It has been actively evolving the payments ecosystem, through its National Payments Vision and Strategy. So, we have regulators that are willing to facilitate change. However, how can policy makers and regulators facilitate the changes we seek to promote fair, inclusive and value-added financial services.

- Keep providing and promoting research, not only the FinAccess Survey, which reflect on fair, inclusive and value-added financial services. These studies can inform financial institutions and policy makers.
- Reflect on the best way to provide or to promote appropriate subsidies for qualifying financial services.
- Invest in shared services, policy and platforms which can reduce the cost of financial service provision.
- Study and influence financial conduct in lending and digital finance service delivery.
- Practicing proportional regulation which can facilitate new models such as Community Banking.
- Making sandboxes work, but around fairness, inclusiveness and value addition.

To what extent has Kenya's financial inclusion journey been fair, inclusive and value adding?

Kenya has made remarkable progress on headline numbers of access measured by the number of accounts in financial institutions and mobile money providers. However, in my view, there has been insufficient focus on:

- Digital facilitation of financial services with effective human intermediation, which can be particularly important for rural, agricultural and/or excluded populations.
- Assessing financial exclusion, fairness, the value to clients of services we are providing, to ensure focus is maintained.
- Promoting service recovery practices which focus on identifying and resolving underlying causes of customer issues, rather than celebrating our customer service.
- Increasing focus on how we as institutions behave towards our customers, applying the client protection principles.
- Comprehensively reimagining rural financial services, so that sustainable rural financial ecosystems can be developed.
- Refocusing on asset building and bundling risk management services into products, as well as providing `transactional services.
- Building capacity in client responsive product research, design, development and testing.
- Promoting innovation around shared services to improve quality and decrease costs.
- Promoting research into excluded populations alongside action learning projects with the potential for expansion.
- Innovating around microfinance models and fintech partnerships.
- Encouraging a policy and regulatory environment which focuses increasingly on financial conduct, proportional regulation and sandboxes around fairness, inclusiveness and value addition.

[12] See: Kenya Bankers' Association (2013): "A Consumer Guide to Banking in Kenya"

This blog is one of a series of blogs, should you wish to sign up to receive additional blogs, please write to David Cracknell at david@firstprinciples.consulting David Cracknell is the Director of First Principles Consulting Limited, based in Nairobi, Kenya. He advises financial institutions, governments, policy makers and donors on financial services, including digital finance, policy and regulation, and inclusive finance.

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