Does Transparency Matter?

Assessing the impact of improved disclosure in digital financial services in Kenya

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Findings at a Glance

I.	The State of Pricing Transparency in Kenya
II.	Survey Design and Methodology
III.	Key Findings from Survey
IV.	Policy Implications

I. The state of pricing transparency in Kenya

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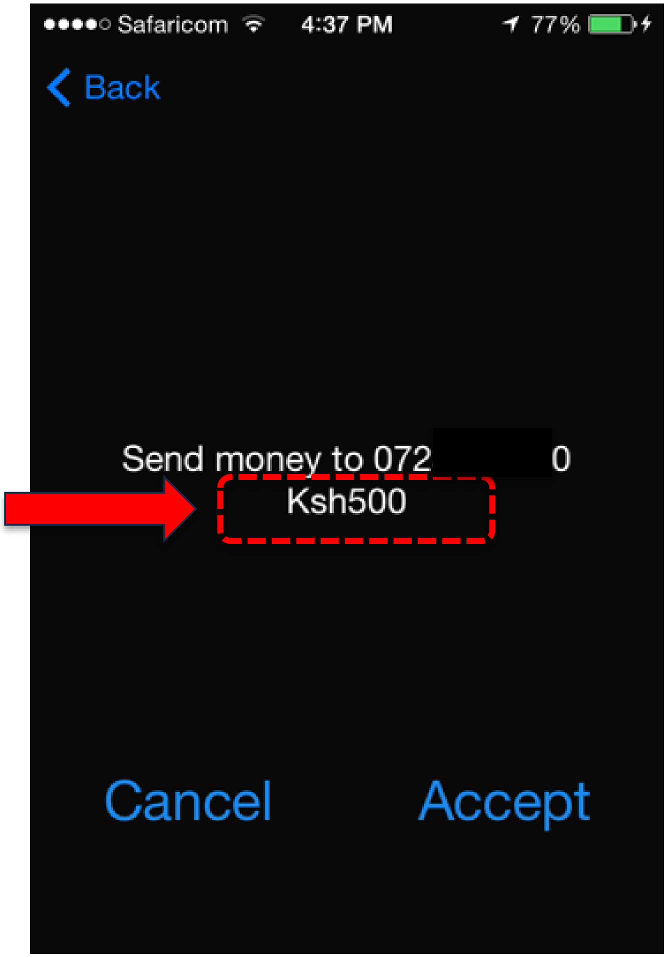
Kenya had a transparency problem in digital financial services

It's not free to send Ksh500 on M-Pesa.

So where is the disclosure of the fee?



Kenya's mobile money revolution had not included key consumer protection rules.

Pricing transparency was missing from the market.

- Market leader M-Pesa did not disclose fees on mobile handset during transactions (see screenshot).
- CGAP survey of Kenyan consumers in 2014 revealed 40% thought mobile money bill payment was free, and were paying $4.30 in hidden fees over 6 month period.

Something needed to be done on this most basic consumer protection principle *in the world's leading mobile money market…*

In 2016, the Competition Authority of Kenya took action to improve transparency

Competition watchdog orders mobile cash firms to reveal fees

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Competition Authority of Kenya director-general Wang'ombe Kariuki. PHOTO/FILE

By MUGAMBI MUTEGI

Posted Saturday, October 29 2016 at 15:46

IN SUMMARY

- Mobile telecoms operators like Safaricom will be required to disclose all transaction charges to customers just before they effect the payment and issue a receipt.
- Commercial banks will also have to highlight just how much they bill for mobile loans, mobile-to-bank transfers, account

Notice issued requiring all mobile financial service providers to disclose fees on mobile channel

- Issued via powers under Competition Act
- Issuance by CAK means notice applies to all firms, not just those regulated by Central Bank of Kenya
    - Important given rapid expanse of unregulated FinTechs in Kenya
    - Principle applies across all product types, not just mobile money

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II. Survey Design and Methodology

But does price transparency matter?

- Hard to argue against pricing transparency on principle — a consumer should know what they are agreeing to before they agree to it.
- 2014 CGAP survey after M-Pesa changed person-to-person transfer fees indicated more experienced consumers were more likely to price optimize in lower fee transfer amounts. (See figure.)
- But how might the CAK pricing transparency reforms impact price awareness for previously unaware Kenyans?

Transaction Value	M-Pesa P2P Fee as of August 2014
10-49	1
50-100	3
101-500	11
501-1,000	15
1,001-1,500	25
1,501-2,500	40
2,501-3,500	55
40K-45K	110
45,001-50K	110
50,001-70K	110

Cost to Send Ksh55 + Ksh55 = Ksh6

Cost to Send Ksh110 = Ksh11

It was cheaper to send Ksh55 twice than to send Ksh110 once.

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Price Awareness Survey of Kenyan Digital Financial Service User

- Survey to measure consumers' use of digital financial services and their awareness of costs of these services.
- 825 consumers surveyed in five locations across Kenya:
  - Baseline survey in November, 2016 after CAK Notice issued but before providers had complied with Notice
  - Endline survey in November, 2017 after most providers had complied with Notice — 664 respondents from baseline replied to endline survey.

Survey Site	Baseline	Endline	Attrition Rate
Eldoret	161	141	14%
Kisumu	165	131	21%
Kitale	165	132	21%
Mombasa	164	119	27%
Nairobi	170	141	17%

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III. Key Findings from Survey

Key Finding 1: Network effects remain strong in mobile money

Most respondents still subscribe to multiple phone lines.

Mobile Money Services Registered (endline responses)	**% of respondents**
Safaricom M-Pesa	98.6
Airtel Money	33.0
Telekom (formerly Orange Money)	5.1
Equitel	28.3

Number of Mobile Providers Subscribed To (endline responses)	**% of respondents**
1 provider	30%
2 providers	45%
3 or more providers	25%

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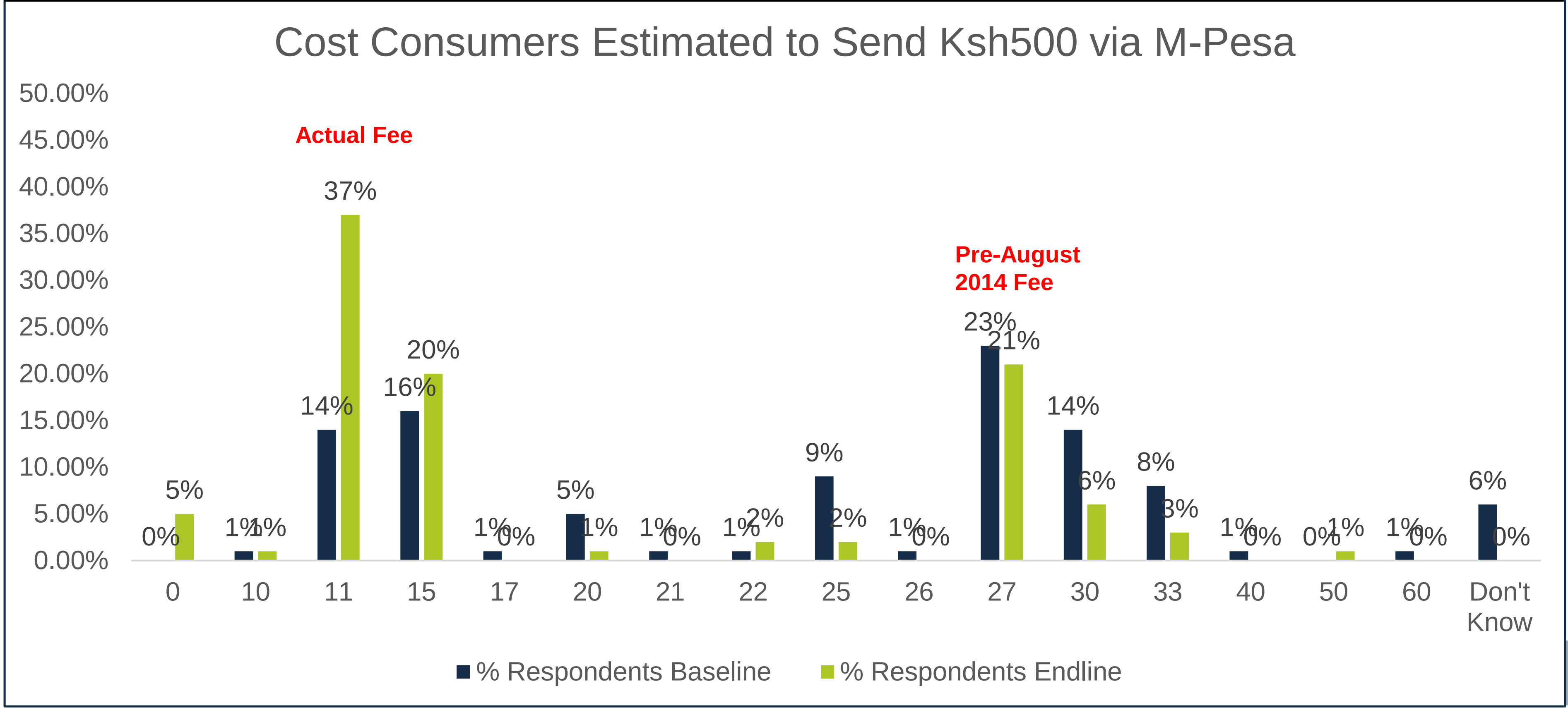
Key Finding 1: Network effects remain strong in mobile money

Criteria in selecting line that is not primary line (Endline responses)	**Safaricom N=198**	**Airtel N=482**	**Equitel N=227**
	% of users	% of users	% of users
For financial services	**31.8**	6.0	**61.7**
Used by friends	19.2	9.4	1.3
Used by family	13.6	7.5	.9
For my business/customers	11.6	3.7	11.5
Better service	8.6	11.0	8.3
Size of the Mobile Network	8.6	3.1	1.3
Promotion	3.0	9.3	1.3
Less Expensive	2.5	**46.7**	10.6
Other	1.0	3.3	3.1

- Contrast in most common criteria why consumer has a secondary line for Airtel (cost) versus Safaricom and Equitel (financial services)
- Safaricom still most frequently used mobile network operator for 86% of respondents
- Lack of interoperability of mobile financial services may result in some consumers having to pay more for telecommunications services, or deal with hassle of having multiple lines
- Possible need to address impact network effects and vertical integration of financial and telecommunication services are having on consumer welfare and switching behavior

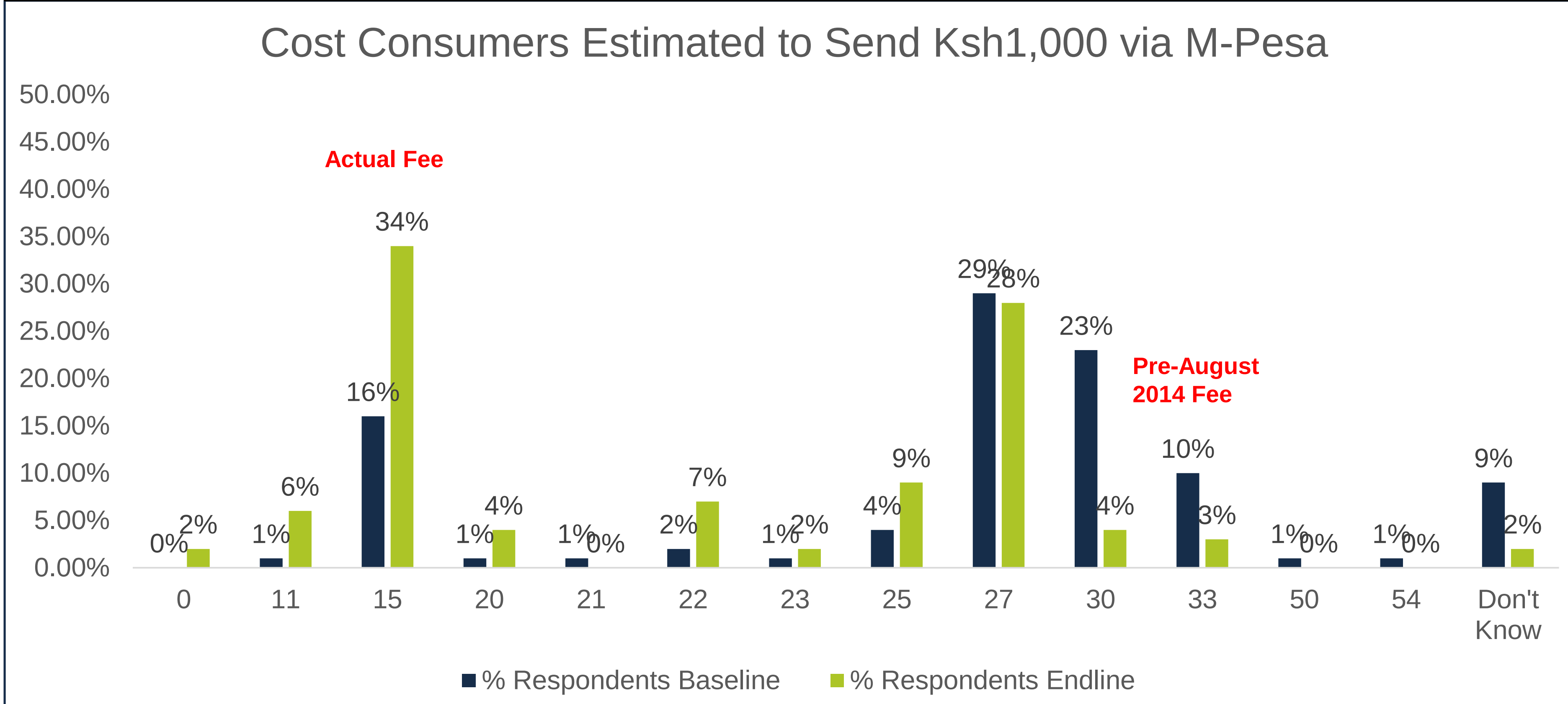
Key Finding 2: Improved fee disclosure increases price awareness in mobile money transfers

Percentage of respondents correctly estimating fee to send Ksh500 increased from 14% to 37% from baseline to endline.
Lack of transparency led consumers to anchor to old, higher fee to send Ksh500, working against provider's interests as well as consumer's.



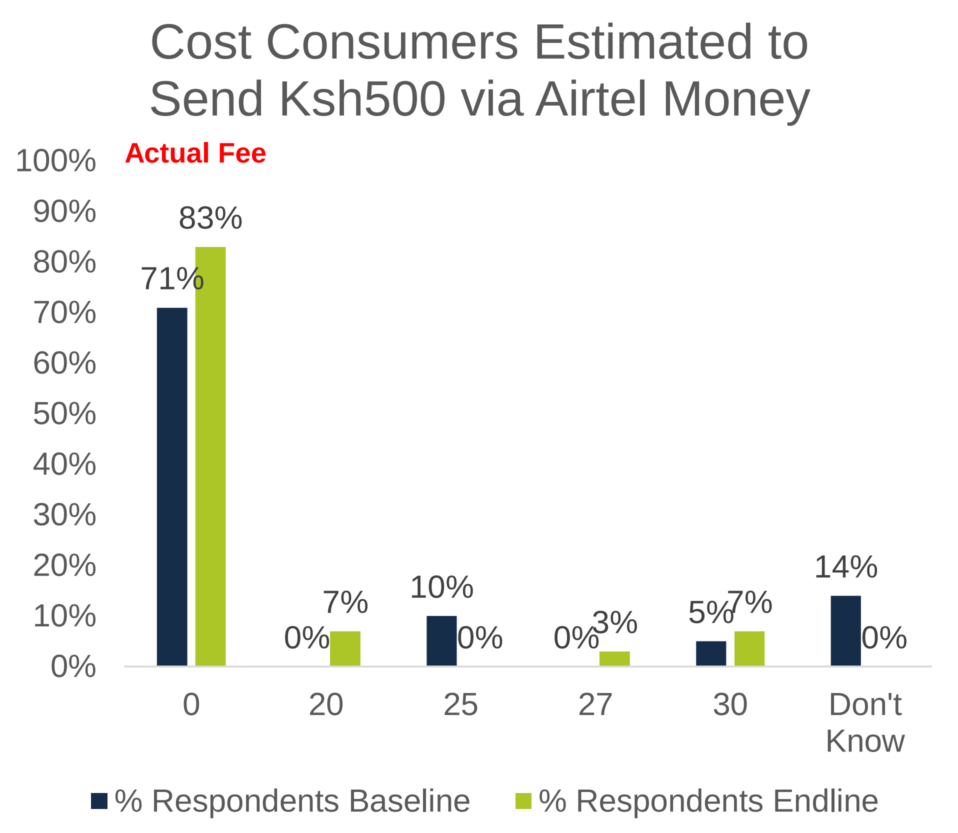
Key Finding 2: Improved fee disclosure increases price awareness in mobile money transfers

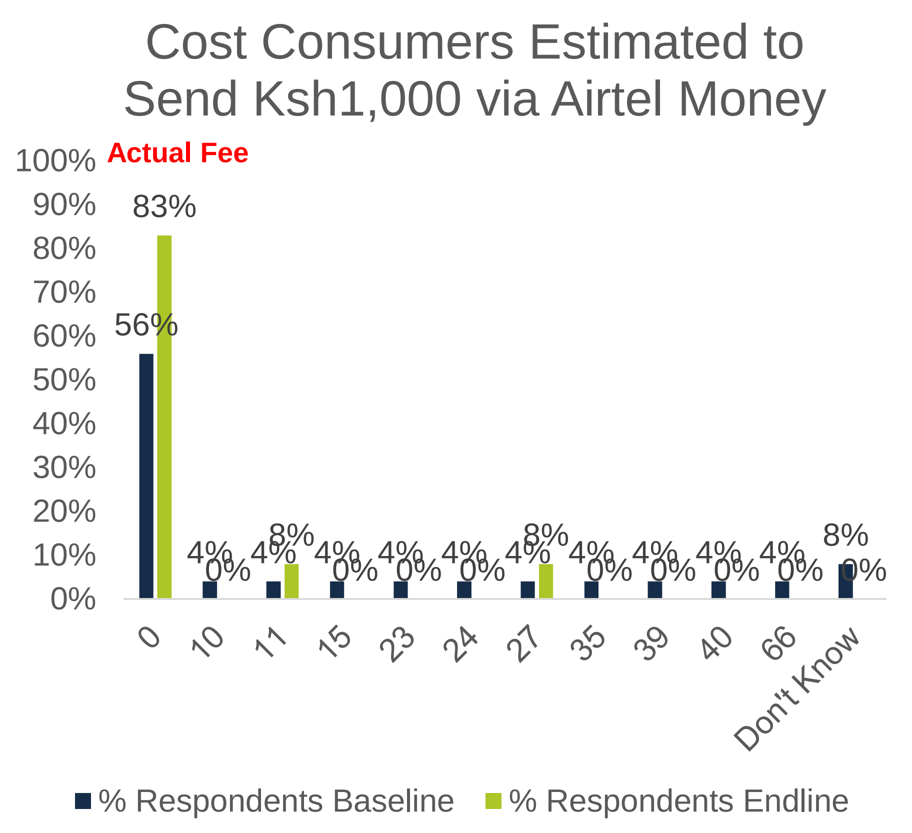
Percentage of respondents correctly estimating fee to send Ksh1,000 increased from 16% to 34% from baseline to endline.
Lack of transparency led consumers to anchor to several fees that were approximately double cost of real fee, working against provider's interests as well as consumer's.



Key Finding 2: Improved fee disclosure increases price awareness in mobile money transfers

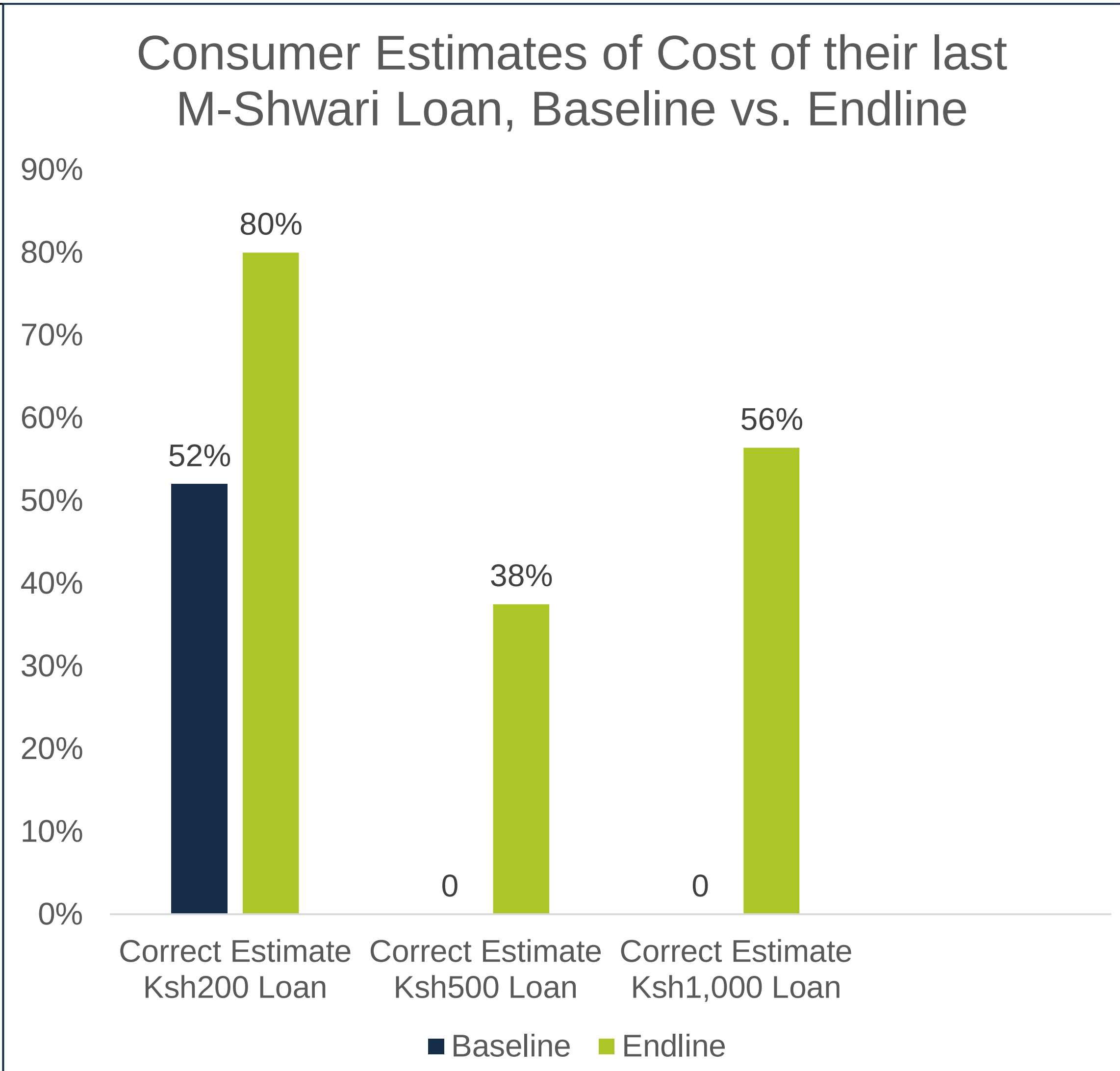
Percentage of respondents correctly estimating fee to send Ksh500 increased from 71% to 83% from baseline to endline.*
Percentage of respondents correctly estimating fee to send Ksh1,000 increased from 56% to 83% from baseline.*
**Number of consumers who had sent Ksh500 or Ksh1000 via Airtel Money significantly lower than for M-Pesa*





Key Finding 3: Improved fee disclosure increases price awareness in digital credit

- High usage of digital credit in sample: 72% of baseline respondents, 79% of endline respondents.
- M-Shwari was the most recent digital credit loan taken by 64% of respondents in both baseline and endline.
- Dramatic increase in borrowers correctly remembering cost of loan from baseline to endline for Ksh200, Ksh500 and Ksh1000. (See table.)
- Given the high cost of digital credit in Kenya, this finding has significant implications for responsible borrowing and supporting price competition.



Key Finding 4: Improved fee disclosure increases price awareness on other payment services

1. Paybill

- 80% of consumers surveyed at endline who used bill payment via mobile money were aware that bill payment via mobile money may carry a fee.

- Contrasts with 60% of consumers during 2014 CGAP price sensitivity survey.

  NOTE: Question on paybill fee was not asked during baseline of 2016/2017 survey, so only endline data is available for those consumers

- Primary uses for last bill payment transaction at endline were Kenya Power and Light Company (32%), Betting (21%), Decoder Subscriptions (11%) and Merchants (11%).

2. Bank to Mobile Money Transfer

Consumers reporting they were charged a fee to transfer money from their bank account to M-Pesa increased from 71% to 81%.

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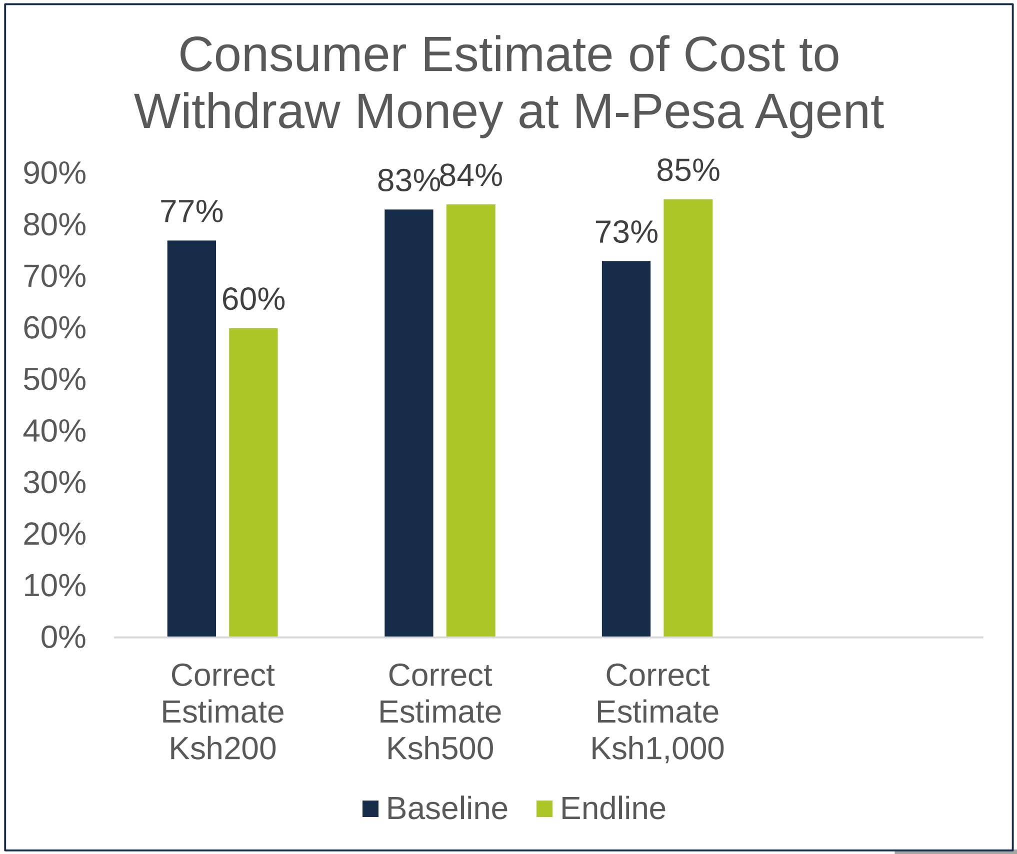
How can we be so sure? Some notes on methodology and findings

Why didn't you use an RCT? It is not politically feasible to issue a notice for compliance on transparency and then exclude some consumers from these benefits, so randomizing at provider or consumer level was not an option.

How can we control for learning effects? The short answer, we can't. It is possible that some of the improvement in price awareness was a result of consumers paying more attention to price in digital financial services after their baseline survey.

However, the survey also asked consumers the cost of transactions not affected by the disclosure notice, such as withdrawing money at a mobile money or banking agent. When we look at that data, we see consumers' price awareness did not shift as it did for person-to-person transfers or digital credit. (See graph.)



IV. Policy Implications

Pricing transparency is perhaps the most basic principle of financial consumer protection. This and other research shows it is a low-cost policy action that can have positive impacts on consumer welfare.

While pricing transparency is not sufficient alone to encourage responsible market conduct and competition, in markets with weak consumer protection in digital financial services, taking action on pricing transparency can set an important tone for improved supervision and consumer protection more broadly.

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Five Policy Implications from the Kenyan Experience

1. Issuing a rule is straightforward, but getting the details right matters.

Existing transparency clauses in some e-money regulations lack clarity and specificity. Requirements should be at a minimum:

- ✓ On same digital channel consumer is transacting;
- ✓ Prior to executing transaction or product enrollment;
- ✓ Single summary of total costs in monetary value;
- ✓ Articulation of any penalty or variable fees
- ✓ Where possible, mandating a specific format for disclosure for all channels (e.g. SMS standard text, app-based Key Facts Statement formats)

Regulators will also need develop tools to monitor and enforce compliance. Fortunately this may be easier to do in a digital environment than during in-person sales, where consistent application of disclosure requirements rely in part upon the behavior of human sales intermediaries.

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Five Policy Implications from the Kenyan Experience

2. Pricing transparency has both a consumer protection and competition dynamic.

The Notice in Kenya was issued by the Competition Authority of Kenya, not a financial sector regulator.

Pricing transparency can in fact complement competition goals. For example, in order for consumers to exert pricing pressure on the market via switching behavior, they must at first know and easily compare prices to determine the best value amongst similar products and services.

Five Policy Implications from the Kenyan Experience

3. Market coverage matters.

In Kenya the rule applied equally to unregulated digital financial service providers.

In jurisdictions where a market-wide authority cannot intervene, financial sector regulators could consider enforcing rules indirectly via regulated e-money and other payments channel providers unregulated actors such as digital lenders rely upon for loan disbursement and collection. Similarly, actions should be coordinated across banking, insurance, securities and other financial sector regulators.

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Five Policy Implications from the Kenyan Experience

4. Industry can support implementation, but not set the rules.

Past private sector-led pricing transparency efforts in microfinance have had limited effect across all actors in a market, making reliance on industry codes of conduct problematic for pricing transparency.

However, providers can offer inputs into the format of Key Facts Statements and presentation of costs and key terms to ensure consumer understanding and technical feasibility across different digital channels and devices.

Five Policy Implications from the Kenyan Experience

5. There are several broader competition issues in digital finance.

These include interoperability, discriminatory pricing of channel access by MNOs for digital financial service providers, and bundling of telecommunications and financial services that may restrict ease of switching and increase use of inferior or more expensive services.

These issues cannot be addressed by transparency rules alone, but could hinder the end impact of transparency on consumer welfare where they hinder choice and switching. As such transparency rules should be considered as part of a broader package of consumer protection and competition reforms to support choice, innovation and consumer welfare in digital financial services.

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