KENYA MARKET ANALYTICS REPORT
EXECUTIVE SUMMARY
Q1 2020

TransUnion

Law Department
TransUnion
2nd Floor, Delta Corner Annex
Ring Road, Westlands.

Contents

Macroeconomic Overview

While projections of Kenya's economic growth remain uncertain, the World Bank puts baseline GDP growth for 2020 at 1.5%. [footnote] Slow economic growth will reduce tax revenue and place strain on essential government services.

A slower economy also means fewer business opportunities and higher unemployment. Default rates and non-performing loan (NPL) rates will therefore increase.

The Kenyan shilling has depreciated by 3.3% against the US dollar and was at 106.2 as at 26 March 2020. The Central Bank of Kenya (CBK) has sufficient reserves to protect the economy from the effects of a weak currency. [1]

Slow activity in real estate projects is reflected in the 79% decline in mortgage accounts opened in Q1 2020, as per bureau data.

The Stanbic Bank Monthly Purchasing Manager's Index (PMI) shows a decline from 49.0 in February 2020 to 37.5 in March, indicating reduced activities and demand in the private sector. [2]

1 Central Bank of Kenya Weekly Bulletin, March 27, 2020

2 Readings above 50.0 signal an improvement in business conditions on the previous month, while readings below 50.0 show a deterioration (Stanbic PMI press release March 2020).

Industry Overview

TABLE 1: Overview of the formal lending market in Kenya, Q1 2020 [3]

	Q4 2019	Q1 2020	% CHANGE, Q ON Q
Total accounts	108.2M	**131.4M**	↑ 21.4%
Total borrowers	20.7M	**21.7M**	↑ 4.8%
Active accounts	17.6M	**23.1M**	↑ 31.3%
Average number of accounts per borrower	5	**6**	↑ 20.0%
Average active accounts per borrower	2	**2**	–
Borrowers with active accounts	7.2M	**10.1M**	↑ 40.3%

Data from Q1 2020 shows no significant drop in the total number of accounts recorded by the bureau. We're likely to see a decline in the Q2 2020 data, reflecting the impact of the COVID-19 pandemic on the credit market from April 2020.

The total number of loan accounts increased by 21% from 108.2 million in Q4 2019 to 131.4 million in Q1 2020. There was still high demand for trade/business, mobile and personal loans, despite banks not having the appetite to lend more money. Approximately 92% of the total accounts opened in Q1 2020 were mobile loans.

Contrary to the expectation the market would advance more loans following the interest cap repeal, our data shows just 27,000 new business loans were opened in Q1 2020, down from 58,000 in Q4 2019. Most banks have been hoarding cash to cover the anticipated effects of the COVID-19 crisis.

Non-performing loan rates have increased, pushing the market to find solutions that price loans according to anticipated risk. Market demand for a risk-based pricing model is high. The current overall market NPL rate is 12.7%. [4]

3 Formal lending is a measure of financial inclusion. Formal financial products and services are defined as those offered by financial service providers that are regulated and supervised by an independent statutory government agency (including the Central Bank of Kenya, Capital Markets Authority of Kenya, Insurance Regulatory Authority, Retirement Benefits Authority and the Sacco Societies Regulatory Authority).

4 Central Bank of Kenya

Sector, Product and Account Status Overview

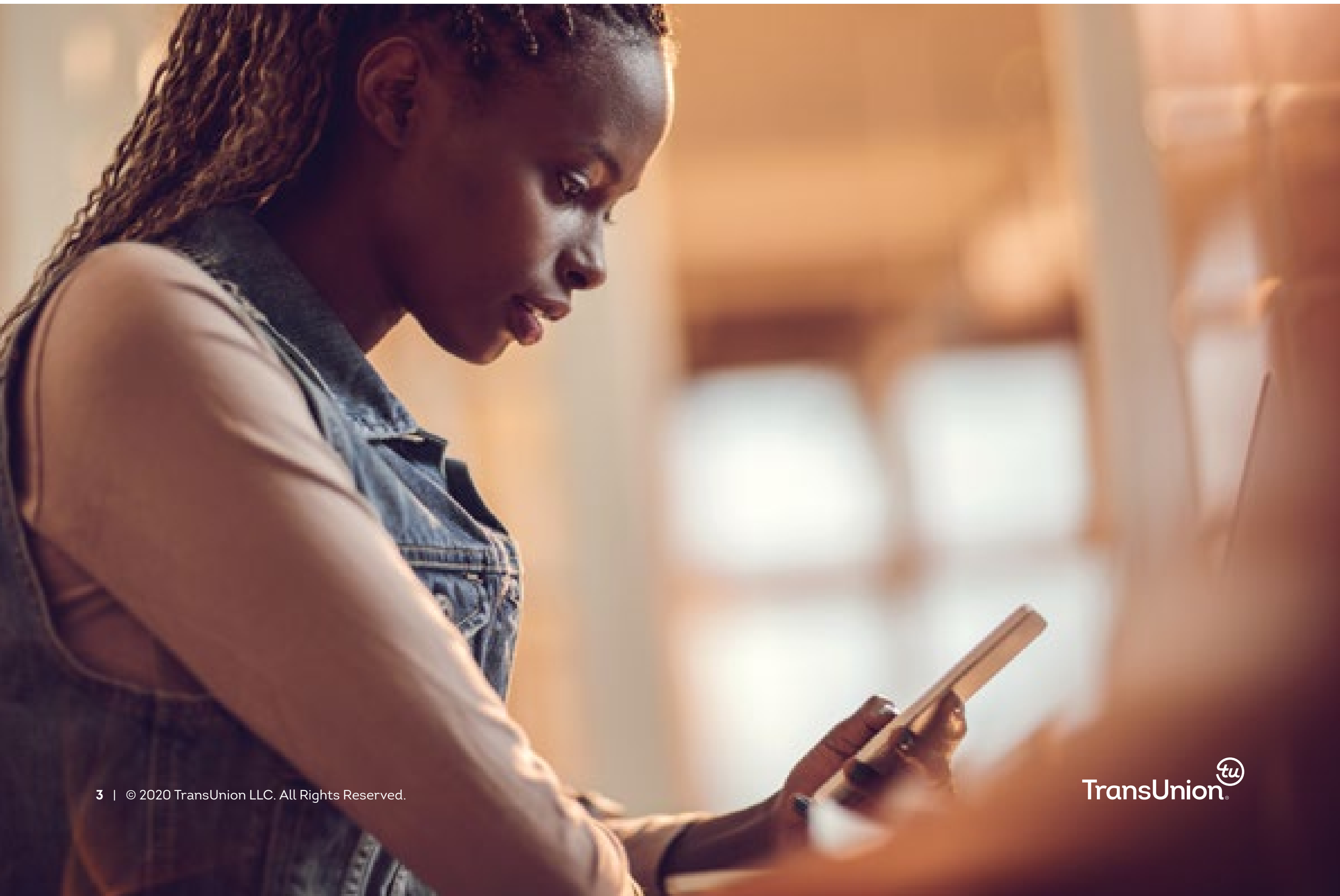
TABLE 2: Account distribution per sector, Q1 2020

SECTOR	Q4 2019	Q1 2020	COMMENTS
Banking	90.3%	**90.5%**	75% of bank accounts are mobile
FinTech	5.8%	**6.1%**	8% of FinTech accounts are asset finance
Microfinance	2.8%	**2.6%**	
Sacco	1.0%	**0.4%**	
Other*	0.1%	**0.4%**	67% of 'other' accounts are student loans

*Other includes financial, education, media, Development Fund, communications, advertising, hire purchase, vehicle, real estate, travel, agriculture and utilities

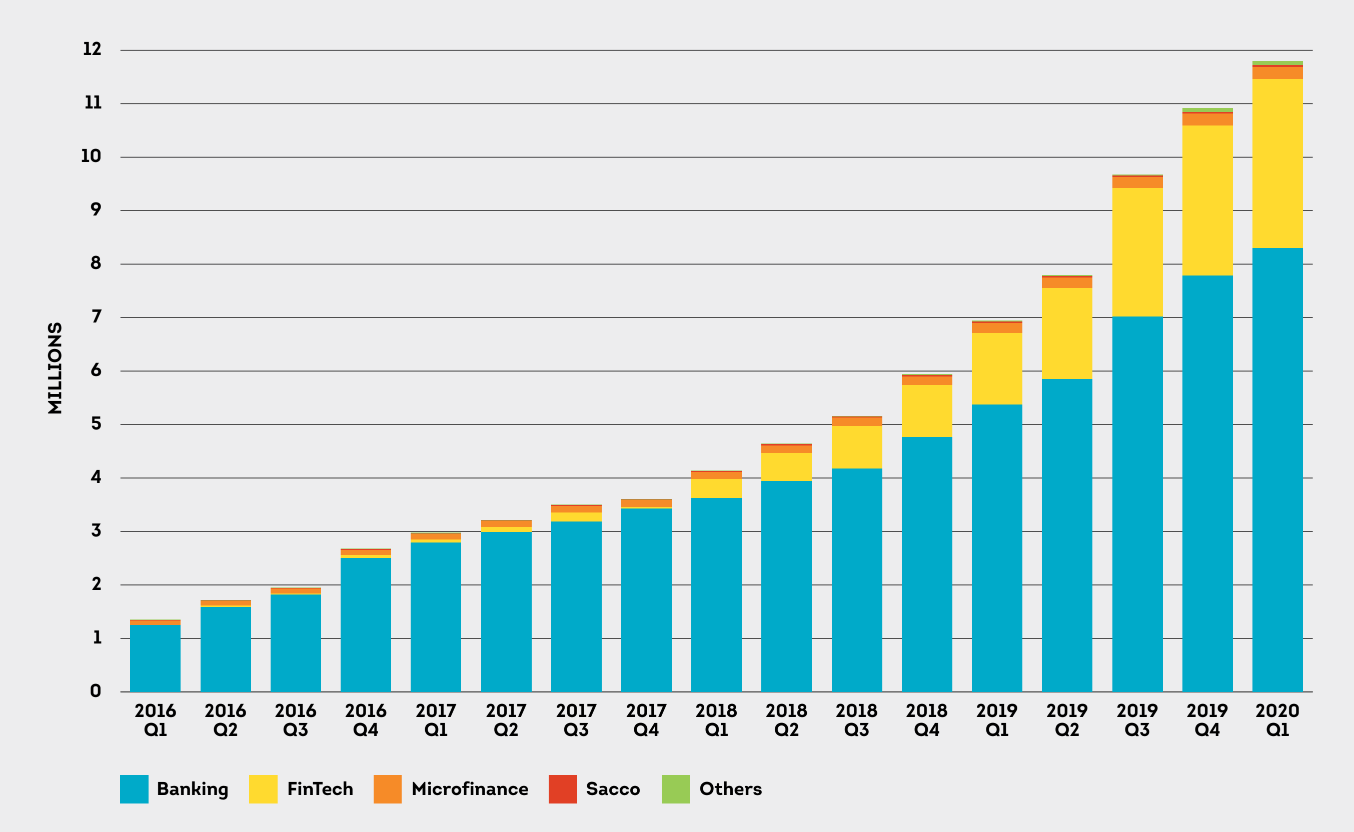
Most bank customers are satisfied with the quality of services offered by the banking industry, according to this year's edition of the Kenya Bankers Association (KBA) Customer Service Satisfaction Survey.

There are around 10.2 million mobile loan borrowers (up from 6 million in Q4 2019), with an average of 9 mobile loans each (11 in Q4 2019). Mobile loans make up 75% of loan accounts offered by the banking sector. Saccos lag in mobile lending but account for a significant portion of total savings.



Account Performance Overview

FIGURE 1: General growth in non-performing loans, Q1 2016 to Q1 2020



The banking sector has the highest rate (93%) of performing accounts. The sector with the lowest default rate (6.7% of accounts and 17.9% of value) is the Sacco sector.

Banks hold 70.4% of non-performing loans, down from 92.7% in Q1 2016. FinTechs account for 26.7% of total non-performing loans, up from an average of just 1.1% in Q1 2016.

The average number of non-performing accounts in the microfinance sector is 10.2%, followed by the Sacco sector at 6.7%.

Market Trends

Personal loans

The number of new personal loans opened dropped from around 195,000 in Q4 2019 to 104,000 this quarter. In the banking sector, new accounts opened decreased from approximately 157,000 to 95,000.

Government measures to cushion the economy against the aftermath of COVID-19 will unlock disposable income and ease indebtedness, creating opportunities for loan top-ups, upselling and the acquisition of new credit facilities.

Lenders will need to identify opportunities within their portfolios, automate underwriting processes to meet demand, and take proactive steps to manage default rates.

Asset finance loans

The asset finance space in Kenya is well established and continues to grow in terms of number of loan originations and principal value disbursed.

Major banks focusing on asset financing hold between 15% and 30% of their total loan portfolio in these products. The number of new asset finance (households and devices) accounts opened by FinTechs has dropped by 93%.

To attract and retain customers, lenders have to innovate constantly and reduce the turnaround time for approving finance.

Mobile loans

With mobile loan interest rates ranging from 4.8% to 7.5%, the banking sector leads the market in terms of the number of accounts listed.

The annual value of new business for mobile loans is now above KES 100 billion. Lenders need to embrace strategies to increase mobile loan limits to serve microbusiness customers who are struggling with cash flow.

Mortgages

There's a great deal of potential in the Kenyan mortgage market. Active accounts are up 25% from 42,000 in Q4 2018 to 56,000 this quarter. The Kenyan government is determined to prioritise housing as part of its "Big Four" agenda.

Despite its potential, the mortgage market is experiencing certain setbacks, largely due to the high cost of housing and mortgage loans.

Lenders need to assess the ability of borrowers to repay mortgages based on the level and sustainability of their income and the validity of collateral offered.

Overdrafts

In the last year alone, overdraft accounts grew by 62%, although the average principal amount dropped by 20%.

The banking and microfinance sectors dominate this market. While most accounts are opened in banks, microfinance institutions offer higher average principal amounts per individual. However, limits dropped considerably in the last two quarters of 2019.

Trade finance loans

Trade finance solutions have become an area of focus for most banks in Kenya.

The banking sector holds approximately 96% of all trade finance accounts and has the highest average principal amount for these loans. The outstanding balance for trade finance facilities rose from around KES 261 billion in Q4 2019 to KES 280.2 billion in Q1 2020.

Dynamic customer needs, a changing business environment and competition are compelling banks and microfinance institutions to become more innovative. There's a growing focus on reducing turnaround times and using blockchain technology to reduce paper-based letters of credit and the threat of fraud.

Credit cards

Recent market shifts present several opportunities for lenders to grow their credit card portfolios.

Most outlets have embraced the use of "plastic money", and lenders have run campaigns to shift consumers away from using hard currency. Cash payments are being discouraged and online shopping is on the increase.

Lenders should focus on building their portfolios with consumers who have a substantial repayment capacity, moving to lower-income groups over time.

Looking Ahead

Digital is the new normal

The COVID-19 pandemic has created a world where digital is the new normal. Most lending institutions will have to redefine or create products that can be accessed digitally. Data-driven lending and decision-making will be essential to this process.

Government relief measures present opportunities to support customers

The Kenyan government has taken several measures to cushion the economy against the aftermath of COVID-19. These measures present an opportunity for lenders to support customers through the crisis, improve customer retention and offer some protection against an expected increase in loan defaults.

Regulatory changes to processing of bureau data

In response to financial challenges caused by the COVID-19 crisis, the Central Bank of Kenya has issued certain moratoriums to credit reference bureaus. TransUnion has responded by restricting or removing certain data sources from its validation processes.

Fraud mitigation an increasing concern

Fraud is an ongoing and increasing concern. Annual losses from identity theft and loan stacking amount to approximately KES 13.3 billion. Lenders will need sophisticated solutions for identity verification and fraud prevention.

TransUnion

Solutions for Lenders

In this new credit landscape, risk-based pricing will become an industry standard. Lenders will require deep insight into their customer base and general market trends to develop and implement appropriate pricing strategies across products and consumer segments. Identity verification, fraud prevention and collections solutions will assist in managing risk and optimising growth throughout the portfolio.

TransUnion Africa is a leading global information and insights company with a strong presence in eight countries in Africa. Our broad portfolio includes products that address fraud, identity and risk management, automated decisioning and marketing.

Our solutions include:

ACCOUNT AND PORTFOLIO MANAGEMENT

Increase profits and reduce risk with deep insight into your existing customers' financial behaviour. We provide market insights into share of wallet and consumer trends.

ANALYTICS AND CONSULTING SERVICES

Differentiate your business with TransUnion's analytical, modelling and consulting capabilities.

COLLECTIONS AND RECOVERY MANAGEMENT

Increase contact rates, prioritise collection prospects, reduce costs and increase recoveries. Our solutions enable you to mmonitor your loan portfolios and trigger alerts on pre-delinquency behaviour so you can respond quickly and effectively. We can also assist in collections prioritisation, helping you achieve better outcomes using the resources you have.

CREDIT AND RISK REPORTING

Use enriched data and advanced algorithms to better manage risk and increase profitability. Our risk-based pricing solutions assist lenders in appropriately pricing all types of loans for their level of risk.

CUSTOMER ACQUISITION

Make smarter decisions, convert more customers and grow your revenue. Our scorecards can assist with effective decisioning at the customer acquisition and underwriting stage.

CUSTOMER ENGAGEMENT

Effectively target and connect with the right customers to make the most of your marketing budget. We can help you enhance your marketing efforts (upsell, cross-sell and new business) by providing enriched data.

FRAUD AND VERIFICATION

Benefit from an improved customer experience that verifies consumer identities and helps businesses mitigate risk. TransUnion's IDVision® with iovation® is a holistic fraud solution that allows businesses and consumers to transact safely and seamlessly in a digital world. The unique features of this solution allow you to establish consumer identity, authenticate customers and prevent fraud.

Kenya Market Analytics Report Executive Summary
Q1 2020

Contact us for more information on how TransUnion can assist your business in navigating a changing credit landscape.

2nd Floor Delta Annex
Ring road, Westlands, Nairobi, Kenya
P O Box 46406 -00100, Nairobi, Kenya

Tel: +254 20 760 3700 / 701 / 705 / 752
Fax: +254 20 375 1344
Email: info@transunion.com

For instant credit status information, SMS your name to 21272
www.transunionafrica.com/kenya

TransUnion