

MicroSave Briefing Note #139

M-Shwari: Market Reactions and Potential Improvements

Mike McCaffrey, Olivia Obiero, George Mugweru

With Contributions from Olga Morawczynski

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Introduction

While Kenya remains the bastion of innovation for financial services offered over mobile phones, the evolution from popular transfer systems like [M-PESA](#) to a widely used mobile banking system still remains elusive. The innovation table is littered with cutting edge products, launched with much excitement, yet met with more tepid market receptions. The latest contender to join [IkoPesa](#), [M-Kesho](#) and [Kopaa Chapa](#) is a joint venture from [Safaricom](#) and [Commercial Bank of Africa \(CBA\)](#) called [M-Shwari](#). Launched in November 2012, it is already receiving much attention for its mobile phone based credit scoring system, and robust growth rate.

The product is notable for the partnership model driving it. On the one hand it is a perfect match, as CBA gains low-cost access to a new mass retail customer base beyond its traditional corporate target market. Further, Safaricom can now offer more value to its customers, effectively branding banking services and competing directly with retail banks. However, this also means that CBA has little interest in serving these customers itself, as evidenced by point 3.6 in the [Terms & Conditions](#), and also the fact that it has an [out of date set of Terms & Conditions](#) on its website, noting different interest rates among other things. This leaves Safaricom to champion the sales and service of banking products, which customers are reporting is not yet adequate.

Two and a half months after launch, Safaricom reported M-Shwari having [1.6 million customers](#) (it took M-PESA eight months to break the million mark), and other providers around the region are already envisioning strategic responses. [MicroSave](#), with the support of the [GrameenAppLab](#), decided to gather perceptions from the market to gauge how warm the initial reception to this partnership and product has been, with the goal of providing general guidance on the successful development of mobile banking services.

Description of M-Shwari

M-PESA subscribers (now over 15 million) just need to update their menus, and then they can enrol instantly through the dropdown menu on the phone. Transfers can be made seamlessly from M-PESA to M-Shwari, earning an interest rate of 2-5% per annum and funds can be withdrawn through M-PESA's network of agents.

However, the feature that has most people buzzing is the ability to immediately apply for an emergency loan. There are no fees and no paperwork, clients simply dial *234*6#, and receive a message advising them of their credit limit (maximum possible loan value).

To qualify for an M-Shwari loan, you must be an M-PESA subscriber for at least six months, and then an algorithm based on previous behaviour is used to determine the eligible amount, reportedly including:

- Usage of Safaricom services (M-PESA, Bonga Points, voice and data)
- Levels of "regular savings" with M-Shwari
- Repayment history of M-Shwari loans

A SMS with the resulting figure is then returned to the inquiring customer, and if accepted, the loan is then issued through M-PESA. Loan repayments are also made through M-PESA.

Loans can be taken for between KES 100 (US\$ 1.15) and KES 20,000 (US\$ 229.88),¹ have a term of 30 days, carry an interest rate of 7.5%, and failure to pay triggers the loan to roll-over, meaning if a customer pays the loan early or late, the effective rate is much higher.

Further, while a customer has a loan outstanding, any deposits in their M-Shwari account (however interestingly not in their M-PESA account) are frozen up to the value outstanding. This creates a scenario where savers then actually borrow some of their own money, and then cannot use it to pay back the loan they borrowed from themselves. Therefore, in many cases customers are unable to use M-Shwari as both a loan facility and a demand deposit account in concert.

Target Markets & Actual Usage

Safaricom's branding and marketing strategies have been replicated globally, and recognized as a lynchpin for M-PESA's success. It has marketed M-Shwari heavily through mass media, effectively building awareness. However, most respondents interviewed by *MicroSave* only had a surface-level understanding of the service, perceiving it to be designed for low income clients, based on the ability to make small deposits and the low loan ceiling. M-Shwari's nebulous tagline "*Lanisha Maisha*" or "Making Life Easier" makes its intended market unclear.

The product itself seems to offer partial benefits to different market segments, while not offering a complete solution to any specific demographic. The

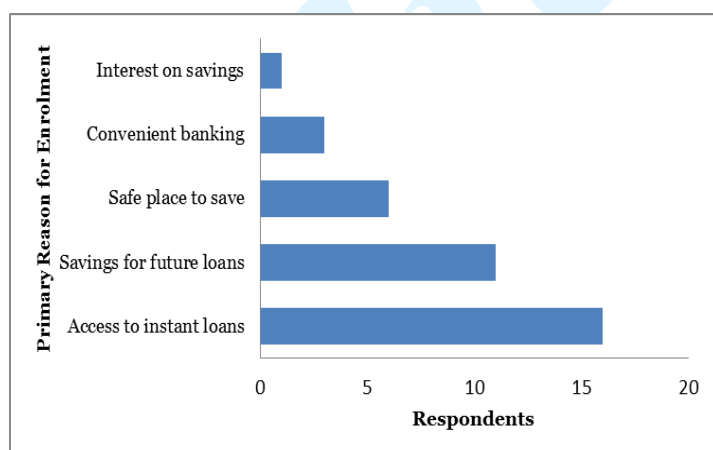
¹ An exchange rate of US \$1:87 Kenyan Shillings provided in the CBK website on February 20th 2013 is used for this paper.

deposit feature appeals to business people who can now circumvent the e-float limits of the M-PESA KES 100,000 (US\$ 1,149), and are also able to accumulate enough funds to make the deposit rates meaningful. While these features do not benefit to the low-income market, the loan facility does; but conversely is too small to create interest among entrepreneurs.

The [Infographic](#) released at the end of 2012,² notes that 75% of subscribers are between 18 and 35 years of age, indicating the early adopters seem to be the younger generation. Safaricom CEO, Bob Collymore, has indicated that this was always intended to be primarily a savings service,³ noting that around KES 2.8 billion (US\$ 32.2 million) had been deposited by February 7th 2013; compared to only KES 378 million (US\$ 4.3 million) in loans given out since inception.

However, the deposits figure does not indicate the amount currently held in accounts, because it also includes money deposited and subsequently withdrawn. Therefore it is probably not a good indication of how much the system is being used for savings. Interviews with clients further revealed that the majority had enrolled to access instant loans, and while the second most common reason for joining was savings related the impetus for the savings was gaining access to loans (see graph below).

Further, 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. This suggests that many observers may be overestimating the use of the M-Shwari deposit services.



Low Understanding of Loans

The published figures also seem to underestimate the demand for credit. Of all the clients interviewed, only one had been approved for a loan larger than KES 2,500 (US\$ 28.74), while all wanted larger amounts, and Safaricom reports the average loan size at around

KES 1,000 (US\$ 11.49). Clients expressed confusion around specific issues with this lending system.

- Clients intuitively think that depositing more money into M-Shwari or taking a small loan and paying it back will increase their credit limit, but when many did so, their credit limits did not increase, and some were even denied further loans.
- Clients try to repay loans through M-Shwari only to get the funds frozen in the system, and then have to scramble to find other funds for repayment.
- Low-income clients specifically perceive the interest rate as lower than market rates because it is quoted on a monthly basis. This seems a kin to microfinance organisations quoting flat rates to decrease the perceived cost of the loan.

Customer Feedback for Future Innovation

The growth rates in customer acquisition clearly show that M-Shwari has potential, and client feedback focuses on the following benefits:

- Access to instant credit
- Convenience (no bank queues or paperwork)
- Ability to saving very small amounts
- Privacy offered for borrowing “A person does not announce their personal problems to other people.”

However, customers also had a lot of valuable feedback for what more they would like to see improved, specifically:

- More transparent credit appraisal and approval process. Real time feedback via SMS would be helpful here.
- Larger loan sizes and longer terms for micro entrepreneurs as the current amounts are “peanuts”.
- Fixed term savings. People want to accumulate value, but are finding it too easy to withdraw their money, thwarting their own plans.
- An end to freezing deposits in M-Shwari when there is a loan outstanding.
- Easy access to an informed customer service.

Conclusion

M-Shwari’s enrolment and transaction rates have caught the industry’s attention and we will no doubt see copycat products on the market soon. However, it is still very unclear what the future holds, especially once the initial hype around it dies down. For now it seems the savings feature is used by a more upmarket demographic, while the small loan facility is accessed by lower income customers. This makes sense, especially since the system is designed so that customers’ savings are frozen if they borrow; and thus they are (in part at least) borrowing their own savings.

² [Safaricom Website](#). Accessed Feb, 20th 2013.

³ Daily Nation. (Wednesday February 20th, 2013). [Savings Outpace Loans as M-Shwari Deals cross KES 3bn](#).