CGAP

BRIEF

The Jipange KuSave Experiment in Kenya

Two trends in financial inclusion that are widely discussed today are the development of savings products designed specifically for poor clients and the ability to deliver financial products over the mobile phone. P9 is a savings product that was developed and tested in Bangladesh to meet poor people's variable savings and credit needs. M-PESA is a mobile payments product that was launched and scaled up in Kenya to enable the mass market to move money more easily. This Brief highlights the experience of Jipange KuSave, the mobile version of P9 designed to work over the M-PESA system.[1]

P9 in Bangladesh

Developed by Stuart Rutherford at *Safe*Save in 2007, P9 is a product that responds to financial constraints faced by many poor people stemming from their lack of liquidity and the inability to save.[2] In this "lend-to-save" model, clients take an interest-free loan, one-third of which is placed in a savings account. The client repays the loan at the pace she chooses, and once she repays the loan in full she becomes eligible for a larger loan under the same conditions. Her savings grows as she takes subsequent loans until eventually her savings balance covers the value of her next loan such that she is technically borrowing from her own savings. P9 offers quick liquidity to help clients deal with everyday money management needs while at the same time providing a savings mechanism. This product is part of the full suite of products and services offered by *Safe*Save to existing clients and can therefore be easily integrated into clients' other accounts once their savings goals are reached.

Clients are encouraged to set a savings target with a penalty levied if money is withdrawn before the target is reached. While there is no interest on the loan, and no interest is paid on savings balances, the client pays a fee to open the account and to receive the disbursed loan. Collectors visit clients daily to collect any repayments clients wish to make. As of February 2012, a rural location where P9 has been piloted had 790 clients, who on average borrowed $300 per year over 4.3 cycles.

M-PESA in Kenya

At the same time that P9 was being rolled out in Bangladesh in 2007, the Kenyan mobile network operator, Safaricom, launched M-PESA, a mobile payments wallet. The rapid growth of M-PESA caught everyone by surprise. In just one year M-PESA had 1 million clients. By early 2012 M-PESA had 15 million registered users, a network of over 35,000 cash-in and cash-out agents, and a transaction volume of US$665 million per month (Mark 2012).

Jipange KuSave

A new company called Mobile Venture Kenya Ltd. (MVK) decided that M-PESA made Kenya an ideal place to test a P9-type product over a mobile channel. As company management saw it, mobile money through M-PESA would improve the P9 model by enabling the movement of small amounts of money instantly at a relatively low cost as well as enabling enhanced customization of product terms and features. In addition, the labor-intensive approach of daily collections used in Bangladesh would be too expensive in places like Kenya, and MVK wanted to test a lower cost technology-enabled approach.

In 2010 Jipange KuSave (JKS), which in Swahili means "to organize oneself to save," was launched with financial support from the Financial Sector Deepening Trust Kenya (FSD Kenya) and CGAP. As in the P9 model, clients received small, interest-free

1 This Brief is largely based on Hughes, Ivatury, Petrides, and Rutherford (2012) and FSD Kenya and CGAP (2012). See also Rutherford (2012) and Ivatury and Hughes (2012).
2 https://sites.google.com/site/trackingp9/home

October 2012

loans, part of which was held back as savings. But under JKS, the disbursed funds were deposited directly into the client's M-PESA mobile wallet. Since repayments were also done via M-PESA, there were no field collectors, which decreased costs but also increased the risk that people might run away with the money from the first loan. Although human contact was minimized, it was not eliminated because initial recruitments and registrations were done in person.

Client Profiles

Based on interviews with a small sample,[3] just over half of JKS clients were urban, with the rest living in rural areas. JKS clients were predominantly banked and financially aware. In fact, JKS clients were nearly four times more likely to be banked than the population as a whole. Eighty-five percent had a savings account at a bank or once had one, 40 percent of which were with Equity Bank. However, this does not necessarily mean that JKS clients were not likely to be poor. In fact, the probability of a JKS client living on less than US$2.50 per day in 2005 purchasing power parity was still significant at 41 percent. Likewise, many JKS clients had bank accounts that they were simply underutilizing from dissatisfaction with the product.

Seven out of 10 clients reported that the most important product feature was that JKS helped them save. Almost everyone mentioned the benefit of keeping their savings secure until they reached their targets, preventing them from spending it early. Clients liked how quickly their JKS loans were disbursed and that they qualified for the next loan as soon as they completed the previous loan cycle. Three out of 10 clients would have liked to have borrowed larger amounts after they reached Ksh 100,000 (US$1,200)—the maximum loan amount set by MVK. MVK became quite good at screening out potential clients who had a higher likelihood to default. For example, a young man with no dependents and no convincing purpose for savings was generally not offered a loan. (See Box 1 for more on a client's experience.)

Box 1. Timothy's Experience with JKS

Timothy manages a firewood selling business in a Nairobi slum. His business is five years old; previously he operated a kiosk in another market for seven years. Saving has proved difficult for Timothy in the past. He tried to save on his M-PESA account but found the money too accessible. When he first heard about JKS from a friend, he was attracted by the availability of loans to help stock his business. When he joined, he set a savings target of Ksh 15,000 (US$180).

With his savings, Timothy plans to expand his business to also sell wood for furniture as well as pay school fees for his three children. He had once been a member of a savings and credit cooperative (SACCO), and he tried to obtain loans from banks in the past. He prefers JKS to a SACCO because it allows him to save faster and provides him with continual loans as he saves. Getting a loan from a bank can also be difficult and slow, and he says he would be able to get only one loan per year. JKS provides Timothy with small loans throughout the year. He also likes the fact that as soon as he completes one loan cycle, he immediately qualifies for the next. "I hope that with Jipange KuSave I can expand my business and better my life," Timothy said.

Three Testing Phases

Phase 1 was launched in February 2010 with 145 clients in three locations, two urban and one rural, aimed at answering the basic question—will anyone repay? Clients were offered an interest-free loan of Ksh 2,000 (US$20), with one-third of the principal held back as savings. There were three main fees associated with the new loan: a one-time, up-front activation fee of Ksh 150; a loan disbursement fee of 2 percent as a fixed percentage of the total loan principal; and M-PESA transaction fees that were set at zero during the first phase. An initial assessment of this first group of pilot clients showed that they were interested in the product and could understand it in about 15 minutes. The concern that nobody would repay on the first loan proved unfounded. In fact, 10 percent of the client base repaid their first loan within three weeks and had moved on to a second or third loan. Over 77 percent had begun

3 The client profiling and analysis is based on 183 clients signed up for the Phase 3 product as of June 2011.

repaying at least some portion of their initial loan within two months, while the pilots had a range of 8–16 percent in defaults.

Phase 2 was launched in July 2010 with 650 clients in six sites. Variations on the model were introduced in different sites to test their effect on customer experience and usage: the proportion of the loan saved varied between one-third and one-half; the loan disbursement fee varied among 2 percent, 3 percent, and 5 percent; the M-PESA transaction fee varied among Ksh 0, Ksh 10, and Ksh 20; the activation fee, however, stayed constant at Ksh 150. The client account management system was upgraded to allow for real-time tracking of client transactions and an automated system for "next loan" notification. Once the accounting system received notification that a client had made the final payment on her existing loan, the next loan could be disbursed into her M-PESA wallet within an hour. Feedback from clients showed that they valued this quick turnaround and the privacy of receiving loans through their mobile phones, highlighting specific advantages of this technology-enabled P9 product.

Phase 3 was launched in February 2011 to validate final product design and flesh out the business model. The proportion of the loan saved increased to 50 percent, the loan disbursement fee became 5 percent, the M-PESA transaction fee was Ksh 10, and the activation fee was increased to Ksh 450. A savings incentive was offered in the form of a monthly savings bonus to incentivize customers to meet their monthly savings target. Following clear client feedback, the intensity of client interaction was also reduced, with repayment reminder calls reduced by 50 percent, while SMS content was enhanced to improve relevancy and focus on clients' monthly savings targets. MVK attempted to improve the client acquisition operation by introducing a profile of a good JKS client. Phase 2 had shown that clients identified as "planners," those that made a concerted effort to organize their finances, were good at repaying. It also showed that M-PESA agents were not very effective at acquiring or screening clients for JKS. Agents and shopkeepers were too preoccupied with their main business to find the time to explain the product to clients. In response, 200 new clients were acquired for Phase 3 by using a "good JKS client" profile by field officers recruited by MVK, while also leveraging referrals from existing clients and linking with partner organizations to identify suitable clients.

Business Viability

The three phases of the pilot provided important insights into what it would take for JKS to become a viable business. Projections made at the end of Phase 3 showed that a reasonable return on investment would require a client base of 300,000 within three years, with a majority of the clients saving Ksh 15,000–25,000 (US$180–300). MVK learned early on that the regulator would require it to have a banking license to carry out JKS activities, which was not feasible in the Kenyan context for a small start-up. During the pilots, it began discussions with its commercial bank partner about injecting equity into MVK to scale up JKS and make it a viable business. However, competing priorities at the bank meant that JKS did not rise to the top and furthermore, the bank wanted control of the balance sheet without fully leading the business itself. In the end, the bank was slow to make a decision and the negotiations were not successful.

Conclusion

The JKS experiment in Kenya answered many questions about an innovative financial product delivered through a mobile wallet. Its experiences suggest the following:

- Clients are interested in a product that delivers immediate liquidity and a convenient savings feature. Usage levels and average speed of repayment are sufficient to ensure the product's viability.
- Clients are willing to pay the fees included in the product design in exchange for a great customer experience based on speed and convenience.
- Clients' repayment behavior will remain constant even when the intensity of reminders calls is reduced.
- The product can be delivered to mass market low-income clients through a mobile channel (although initial client acquisition requires the direct involvement of agents).

At the same time, some questions remain. For clients, what is the product they can access once they reach their savings goals? Similarly, for the provider, what is the client retention strategy after the client's savings goal is reached? If the client chooses not to start afresh with a new savings goal, it is unclear for both the client and the provider what the next steps would be.

At a strategic level, JKS has provided evidence that there is demand for financial services which are quite different from those currently offered by mainstream providers. Less clear from the JKS pilot is whether a viable standalone business can be created to meet this demand or whether it must inevitably form part of an existing regulated provider. Given that the core of the product involves the mobilization of savings, it is inevitable in most jurisdictions that a licensed deposit-taking institution will be involved. MVK's experience showed that aligning the interests of a small, nimble start-up and an established commercial bank in an effective strategic partnership is difficult to achieve. This suggests that the easier route to market may be the adoption of the product concept by an existing bank or financial institution. Nevertheless, the ideas here challenge some banking orthodoxies. Bringing these ideas into the mainstream will require creating both the space and appetite for innovation.

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