THE PRICE OF BEING BANKED

A STUDY ON TRANSPARENCY AND COST OF LEADING BANKING SERVICES SOLD IN KENYA

AUGUST 2017

FSD Kenya
Financial Sector Deepening

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FSD Kenya
Financial Sector Deepening

The Kenya Financial Sector Deepening (FSD) programme was established in early 2005 to support the development of financial markets in Kenya as a means to stimulate wealth creation and reduce poverty. Working in partnership with the financial services industry, the programme's goal is to expand access to financial services among lower income households and smaller enterprises. It operates as an independent trust under the supervision of professional trustees, KPMG Kenya, with policy guidance from a Programme Investment Committee (PIC). Current funders include the UK's Department for International Development (DFID), the Swedish International Development Agency (SIDA) and the Bill and Melinda Gates Foundation.

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Abbreviations

CBK	Central Bank of Kenya
CAK	Competition Authority of Kenya
Co-op	Co-operative Bank of Kenya
CBA	Commercial Bank of Africa
DTB	Diamond Trust Bank
EFT	Electronic funds transfer
FSD	Financial Sector Deepening Kenya
KSh	Kenya Shillings
KBA	Kenya Banker's Association
KCB	Kenya Commercial Bank
NBK	National Bank of Kenya
OTC	Over-the-counter
RTGS	Real time gross settlement
SCB	Standard Chartered Bank

EXECUTIVE SUMMARY

FSD Kenya's two-year study on the affordability of financial services and transparency of bank pricing had three questions:

1. How much does it cost to run a bank account in Kenya?
2. How difficult is it to compare costs between banks?
3. What can be done to improve both cost and comparison?

To answer these questions, researchers posing as bank customers conducted two rounds of mystery shopping surveys in 2015 and 2016. They measured the cost of basic transactions (opening, running and closing bank accounts) and how easy it was to compare costs across banks.

The most striking finding was how difficult it is to compare costs between banks. This can be attributed to three reasons:

1. There was a great deal of confusion over the actual cost of different banking products and services. Bank staff tend to know the cost of routine transactions such as withdrawal fees but not for others such as bank-to-mobile transfers, salary-processing fees and intra-bank versus inter-bank transfers, etc. This information is surprisingly difficult to get.

2. In most instances, this obscurity did not seem intentional. To the contrary, it seemed to stem from a lack of standardised tariff information and how this should be organised and presented.

3. Bank staff are also incentivised to sell particular products regardless of customer needs, in some cases even recommending more expensive or inappropriate accounts that were being pushed by marketing campaigns.

The study also found that the costs of financial services are extremely diverse, depending on the bank and the type of accounts chosen.

1. The funds required to open a bank account varied from KSh 155 to KSh 5,660 (averaging KSh 1,322), mostly because of some bank's minimum opening balance requirements.

2. The annual cost for running a bank account (including withdrawals, money transfers and account maintenance fees) is extremely diverse running from KSh 3,629 to KSh 13,460 annually.

3. Closing a bank account ranges from KSh 495 to KSh 1,815, averaging KSh 1,002.

This study was conducted with 11 banks and 22 accounts hence it cannot be generalised to the entire banking sector. The box on the next page details the methodological approach, issues and limitations.

[1] While the minimum opening balance is not technically a cost, we included it as it as it adds up to the amount of money required at hand to open an account.

METHODOLOGICAL APPROACH AND LIMITATIONS

This report shows detailed information on the costs for 22 bank accounts offered by 11 banks and is, therefore, is not representative of the entire market. The goal is not to advise customers on which accounts to choose, it is to shed light on pricing transparency and help track affordability in the future. The study's context is detailed below:

- ***The last round of the survey was conducted between November and December 2016.*** Banks' pricing might have changed fees since then.
- ***The study focuses on the 11 largest banks measured by the number of deposit accounts.*** This is not exhaustive but representative of the market as it accounts for over 95% of the total deposit accounts in the market. In future, we plan to include all banks but the first round was kept small to test methodology and refine approach.
- ***The study selected two bank accounts in each of the 11 banks.*** The accounts were chosen not because they are the cheapest or most common, but because they were the most recommended by bank staff during the mystery shopping process. Mystery shoppers visited several branches for each bank and introduced themselves consistently as either micro-entrepreneurs running an informal car wash (with a monthly turnover of KSh 30,000) or as formal employees in a local business (monthly salary of KSh 30,000). More details on the methodology and selected bank accounts are provided in chapter 2.2.
- ***Different banks target different customer segments,*** and not all banks focus on the lower income customers the researchers portrayed.
- ***This study does not focus on the quality of customer service,*** the length of queues at the counters or the geographical distribution of branches across Kenya.
- ***Mystery shoppers collected data as if they were typical bank customers,*** asking for information from bank staff and using brochures and other promotional material. They then cross-checked the information with the bank's tariff guides and websites. The team spent almost two months collecting and refining the data, much more than a bank customer would ideally do. If the study reports erroneous findings, it is partly because it is difficult getting information from banks.
- ***Some banks provide promotional offers for wealthy and/or active bank users*** such as waiving monthly ledger fees for account balances above a certain threshold. In most cases, we did not include these incentives in our calculations.

CHAPTER 1

INTRODUCTION

Kenya has experienced tremendous improvements in access to financial services over the last few years. However, little is known about the trends in affordability of financial services, especially for low-income earners. Policy interventions to address the cost of financial services have mostly focused on the lending side, with widespread acknowledgement that the level of interest rates in Kenya is high. The recent launch of a "cost of credit calculator" by the Kenya Bankers' Association (KBA) represents a very important step to increase transparency in bank lending. The deposit side, however, has received little attention, with data on the comparable cost of opening and operating a bank account remaining unavailable. Bank account usage is still low and evidence suggests that informal instruments are still widely used to manage savings and day-to-day financial needs. Part of the reason has been attributed to cost of formal services. All too often, bank accounts are used for a single specific function such as receiving a payment. In 2016, only 6.1% of Kenyans cited banks as their most important financial instrument for everyday use, down from 7% in 2013.

This report outlines the findings from a two-year study by FSD Kenya to understand the costs for banking services in Kenya. Two rounds of mystery shopping surveys were completed in October and November of 2015 and 2016 to build a database and measure the costs for basic bundles of transactions such as opening, running and closing bank accounts. While conducting the study, however, it became clear that bank pricing data is difficult to obtain and that market information is still opaque. Although banks are required by the Central Bank of Kenya (CBK) to publish "tariff guides" with all their fees and charges, we found that many were either outdated, incomplete or lacking account-specific information. There are, however, exemplary banks with up-to-date and accessible tariff guides.

To collect data, researchers visited multiple bank branches posing as customers, as well as customer service call-lines and web searches to triangulate data. Still, some data was difficult to obtain and validate, even from different branches of the same bank. This report relied on the same data sources available to bank customers. Given this, most of the errors or imprecisions in the calculated costs reflect the incompleteness of information that customers face in their interaction with banks.

This report has three objectives:

1. To assess price transparency - how easy it is for a bank customer to obtain information on bank fees, charges, and available products? Initially, the study's focus was on cost rather than transparency but along the way it became apparent how difficult it was to obtain information on cost.

2. To develop affordability indicators that measure the cost of basic bank transactions such as opening and closing bank accounts, withdrawing and transferring money. To measure these costs, we developed "baskets" of transactions that are typical to an average customer and estimated the costs based on average frequency of usage. A methodological note on the calculation is included in chapter 2, while the findings are described in a series of infographics from page 14.

3. To identify actionable recommendations to incentivize both private sector solutions as well as government policies aimed at increasing market transparency and affordability.

[2] See http://www.cost-of-credit.com/ (last accessed in July 2017)

CHAPTER 2

METHODOLOGY

2.1 METHODOLOGY USED IN THIS STUDY: A 3-STEP PROCESS

To measure the cost of banking services in Kenya, we tracked the cost of several transactions: opening an account, withdrawing, transferring funds, account maintenance, switching and closing accounts. Mystery shoppers visited bank branches to obtain the costs of these transactions. The research followed a simple, 3-step process:

2.1.1 Step 1- choosing the focus banks

While there are over 40 commercial banks in Kenya, majority of customers and deposit accounts are held by only a few of these banks. This study focussed on the 11 largest which together hold 97% of all deposit accounts in Kenya as at December 2015. The banks selected in this study are outlined in table 1.

Table 1: Banks selected for the study: net assets, number of deposit and loan accounts

	Deposit accounts		Loan accounts		Net assets	
	Number (millions)	% of the market	KSh (millions)	% of the market	Number (millions)	% of the market
Commercial Bank of Africa (CBA)	12.934	37.30%	198,484	5.70%	2.691	31.60%
Equity Bank	8.78	25.30%	341,329	9.80%	0.947	11.10%
Kenya Commercial Bank (KCB)	3.795	11.00%	467,741	13.40%	1.259	14.80%
Co-operative Bank of Kenya (Co-op)	2.849	8.20%	339,550	9.70%	1.191	14.00%
Family Bank	1.794	5.20%	81,190	2.30%	0.159	1.9%
Barclays Bank	1.502	4.30%	241,153	6.90%	0.32	3.80%
National Bank of Kenya (NBK)	0.695	2.00%	125,295	3.60%	1.608	18.9%
Diamond Trust Bank (DTB)	0.656	1.90%	190,948	5.50%	0.013	0.20%
Standard Chartered Bank (SCB)	0.218	0.60%	234,131	6.70%	0.054	0.60%
Stanbic Bank	0.134	0.40%	198,578	5.4%	0.033	0.40%
NIC Bank	0.091	0.30%	156,762	4.50%	0.032	0.40%

2.1.2 Step 2 – selecting focus accounts for each bank

Kenyan banks offer a variety of accounts, some generic, while others are segmented by specific customer segments such as targeting women, youth or high net-worth individuals. However, our goal was to focus on those accounts that are most likely to be used by ordinary Kenyans, rather than niche accounts. The mystery shoppers visited three branches for each bank, introducing themselves as either an entrepreneur running a road-side car wash or as a junior salaried employee earning KSh 30,000 a month, both in need of a basic bank account with minimal charges to manage liquidity. The objective was for the bank staff to recommend the account based on the income level and the customer's need, rather than the mystery shopper to ask for a specific account. The accounts that were recommended by the bank staff are listed in table 2 below:

Table 2: Most recommended accounts at each bank

	Most recommended account for entrepreneur profile	Most recommended account for salaried profile
Barclays	Pepea transactional	Ultimate account
CBA	Freedom account	Salary plus account
Stanbic	Smart banking account	Pay-as-you-go
Coop	Current account	Coop Salary account
DTB	DTB current	Salary account
Equity	Personal current	Equity ordinary
Family	Mwananchi account	Salary account
KCB	Jiinue account	Bankika account
NBK	Switch salo account	Wages account
NIC	Entrepreneur account	Zero ledger fee account
SCB	Ordinary current	Hifadhi account

[3] For more information on the composite indicators, see the indicator's tree, and the tables in the annex of this report.

[4] It is important to note that some banks like Commercial Bank of Africa rank extremely high because of mobile-based accounts like M-Shwari, which are not the focus of this report. This report focuses entirely on conventional bank accounts.

2.1.3 Step 3 – determining costs

The costs per bank were determined using usage patterns by a typical customer. The approach was simple: determine the frequency of usage of key transactions and multiply by the cost of the transaction to determine the average cost of usage. As the accounts are transactional, the costs incurred by the customer depend on the level of usage: an entrepreneur making multiple real-time money transfers per day spends more than a household making deposits and withdrawals once or twice per month. Defining an "average user" or determining usage patterns for the entire market is extremely difficult considering the heterogeneity of the market. However, the findings of a novel dataset collected by ThinkBusiness Kenya in 2017 sheds light on broad usage patterns. Over 50% of bank customers transact once or twice a month; 22% to 23% transact three to four times; and less than 10% transact more frequently (figure1). The most common withdrawal channel is an ATM and most deposits are conducted over-the-counter (OTC) at bank branches (figure 2). Alternative channels such as mobile money and bank agents are important but not as much as traditional channels.

Figure 1: Average number of monthly withdrawals and deposits among banked Kenyan adults (Source: ThinkBusiness 2017)

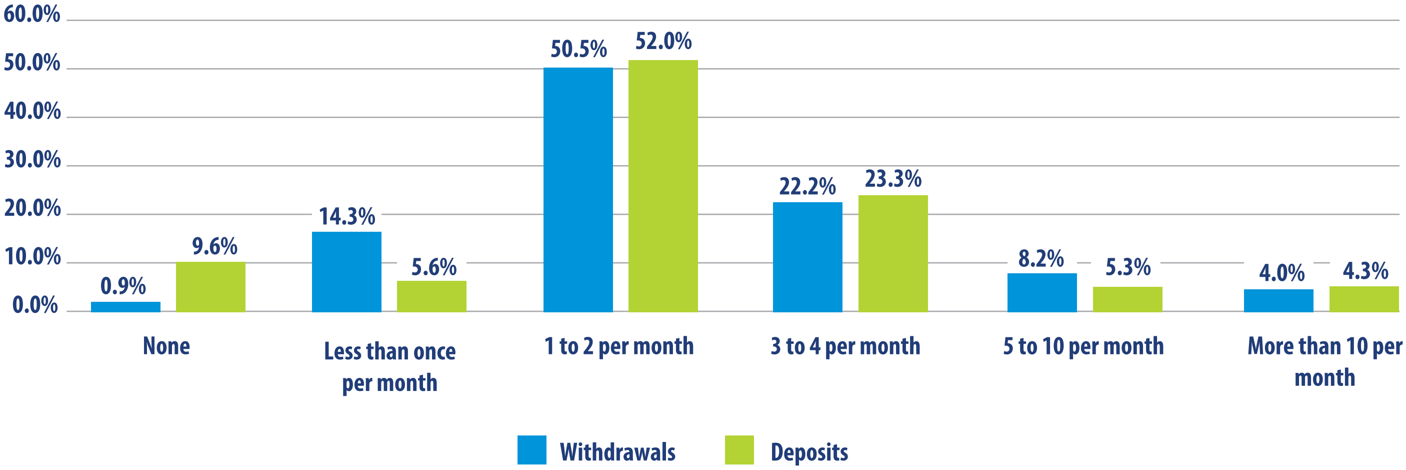
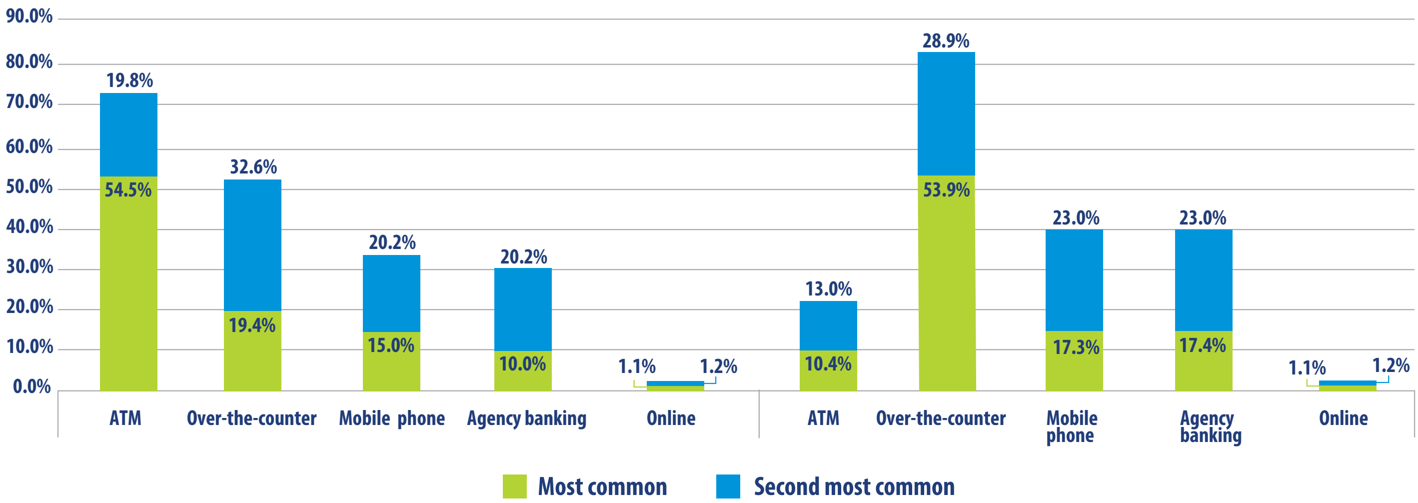


Figure 2: Most common channels used to deposit and withdraw money (Source: ThinkBusiness 2017)



A different picture emerges when analysing the role of banks in money transfer services. Very few customers (8% to 10%) use money transfer services such as real time gross settlement (RTGS), or electronic fund transfer (EFT), cheques and standing orders, and only once or twice per month if they do. On the other hand, over 25% make transfers between bank accounts and mobile money wallets (table 3).

Table 3: Frequency of money transfers among banked adults in Kenya (Source: ThinkBusiness 2017)

	Bankers cheques	Standing orders		EFT	Mobile-to-bank	Bank-to-mobile
None	83.0%	86.6%	87.9%	87.8%	45.0%	44.1%
Less than once per month	0.3%	0.3%	0.4%	00.3%	3.0%	4.3%
1 to 2 per month	10.5%	10.3%	8.5%	8.6%	24.8%	29.0%
3 to 4 per month	4.2%	2.1%	1.9%	2.4%	13.8%	13.2%
5 to 10 per month	1.1%	0.6%	.9%	0.6%	5.8%	5.6%
More than 10 per month	0.9%	0.1%	0.4%	0.3%	7.6%	3.8%

CHAPTER 3

RESEARCH FINDINGS: TRANSPARENCY AND AFFORDABILITY OF BANKING SERVICES

3.1 TRANSPARENCY

Despite visiting over 30 bank branches and consulting tariff guides, customer care representatives, bank websites, enquiring from colleagues and friends, over several weeks in 2015 and 2016, we still could not get consistent pricing information. While some charges are straightforward, such as ATM withdrawals costs, others are surprisingly difficult to obtain. Many branches displayed outdated tariff guides and have complex pricing structures that even the frontline bank staff are not familiar with. The mystery shopper exercise mirrored a typical customer's journey, with most customers obtaining information on banking from branches. The inability to obtain consistent information over several weeks of data collection reflects a transparency issue in the market.

Table 4: Summary of findings from the mystery shopping study

Indicator	2015	2016	Notes
Number of banks visited	11	11	The 11 largest banks by assets and customer base were selected
Number of branches visited	38	30	3 to 4 branches per bank in 2015 and 2 to 3 in 2016
Number of branches without tariff guides	20 (53%)	12 (40%)	Mystery shoppers could not locate the tariff guide at the branch
Number of branches with outdated tariff guides	12 (32%)	10 (33%)	Tariff guides were displayed but were over one year old
Number of branches with limited knowledge of fees for specific transactions/accounts	22 (58%)	14 (47%)	Branches gave imprecise, wrong or no information on the cost of some transactions (e.g. paybill functions, ATM withdrawal in other networks, etc.)
Number of banks whose branches provided different information for the same product	9 (82%)	9 (73%)	Same bank, same product; different branches different information
Number of banks with branches where bank staff gave information that was different from the tariff guide	11 (61%)	10 (56%)	
Number of branches pushing specific products regardless of customer's need	28 (74%)	20 (67%)	
Transactions that were most difficult to track	9 (82%)	9 (73%)	• Mobile to bank and bank to mobile • Mobile wallet versus app versus USSD charges • Standing order, other bank • Intra and interbank transfers • Salary processing, other bank • Account closure fees • ATM withdrawal at other bank's machine • Paybill functions

[5] This study captures only some of the customer costs. For example, it doesn't capture intermediation costs, such as interest rates, and costs such as transportation to reach financial access points in rural areas. The focus of this study is to track direct costs (fees and charges) for a specific set of transactions. For more info on the indicators collected see annex.

There were three main findings:

- ***Confusion over the cost of different banking products and services:*** the mystery shoppers had to make up to six visits per bank and consult tariff guides at branches to determine the cost of a transaction. Most bank staff were familiar with the cost of basic transactions, such as withdrawal and monthly ledger fees, but not for more complicated transactions such as the cost of bank-to-mobile wallet transfers, costs of mobile banking when using the bank's app versus using the bank's paybill, salary processing fees, transfers between different banks, etc.

- In most instances, this obscurity did not seem intentional. To the contrary, it seemed to stem from a ***lack of standardised tariff information and how this should be organised and presented.*** Staff from the same bank, sometimes at the same branch, gave different costs for the same transaction. This was complicated by complex tariff structures in some banks. For instance, some banks don't debit accounts with charges if a certain minimum balance is maintained, even for accounts that would ordinarily attract charges. Other times, the bank would deduct the charges but refund the customer later or waive some charges but retain others, or apply loyalty rebates. It becomes difficult for a customer to know exactly what he or she is being charged for. All this obscurity is reflected in the tariff guides in banking halls that don't reflect the exact charges for a transaction but rather give blanket figures.

- Lastly, we observed that the ***bank staff were keen and quick to recommend certain accounts based on a customer's income rather than recommend an account based on the customer's need.*** Most of the enquiries on the accounts available were immediately proceeded by a discussion of the shopper's income source and level. If the shopper indicated that he was salaried, then a salary account that attracts charges would be quickly recommended even in cases where a different charge-free account was available. If the shopper asked for a specific tariff-free account, then the bank staff would make some effort to sell a charged account. This we observed mainly in the mass-market retail banks. Other banks, to their credit, recommended accounts suitable for the customer's needs. In one instance, one bank advised the shopper to try a different bank as the bank did not have any account that met the shopper's needs.

3.2 COST

3.2.1 Cost indicators

This section highlights findings on the cost of basic transactions using different channels including ATMs, agents and branches. This is not a full analysis of affordability as banks have different tariff structures, for instance charging relatively low withdrawal fees but high ledger fees. Nonetheless, this section provides useful insights on how much it costs to operate a bank account in Kenya. Table 5 presents withdrawal costs across different channels and transaction sizes. On average, withdrawing over-the-counter is relatively expensive (KSh 139 to KSh 177 depending on the size of the withdrawal). The highest withdrawal fee observed is KSh 385 while some banks do not charge.

Interestingly, withdrawing large amounts over the counter (i.e. KSh 50,000) tends to be cheaper compared to small amounts (KSh 500). This is meant to encourage customers to use the ATM for withdrawing small amounts instead of withdrawing over the counter. Bank agents on the other hand charge higher for withdrawing large amounts compared to small amounts. Where charges are made, the lowest withdrawal fees are at the ATM where banks charge KSh 29 on average if the transaction is done within the bank's network. Some banks offer free ATM withdrawals but usually as part of a package offer that normally involves high ledger fees.

Table 5: Withdrawal costs by channel and withdrawal size (KSh)

Channel	Size	Average cost*	Min	Max
OTC	500	177	0	385
	5,000	177	0	385
	50,000	139	0	385
ATM (within network)	500	29	0	35
	5,000	29	0	35
	50,000	29	0	35
ATM (outside network)	500	127	75	220
	5,000	127	75	220
	50,000	127	75	220
Agent	500	30	22	55
	5,000	45	33	55
	50,000	182	110	215

* Simple average between the 22 accounts selected for this study

Transferring money through banks also attracts different charges depending on the type (and not size) of the transaction. Table 6 shows that RTGS is the most expensive (averaging KSh 535) followed by EFT averaging KSh 318. Bank-to-mobile transactions are cheaper (averaging KSh 70). Mobile-to-bank transactions, however, are more expensive (KSh 44 to KSh 220 depending on the size of the transfer).

Table 6: Bank money transfer costs by type and size of transaction (KSh)

Channel	Size	Average cost*	Min	Max
EFT	500	318	110	660
	5,000	318	110	660
	50,000	318	110	660
RTGS	500	535	330	550
	5,000	535	330	550
	50,000	535	330	550
Bank-to-mobile	500	70	39	110
	5,000	70	39	110
	50,000	70	39	110
Mobile-to-bank	500	45	44	55
	5,000	58	55	85
	50,000	220	220	220

* Simple average between the 22 accounts selected for this study

The range of costs is too large to comprehensively measure and list. Table 7 shows some of the most common ones: ledger fees; cost of bank statements and account closing fees. There are considerable differences in the costs across banks: some banks charge over KSh 700 for ledger fees while others use a pay-as-you-go model without fixed monthly costs. In the 22 accounts selected, the average ledger fee is KSh 144. Similarly, some banks provide limited free bank statements and new debit cards, while others charge up to KSh 220 and KSh 660, respectively.

Table 7: Other account "maintenance" costs (KSh)

Transaction	Average cost*	Min	Max
Ledger fee	144	0	759
Bank statement (over-the-counter)	144	0	220
New debit card	362	0	660
New cheque book (100 leaves)	845	0	1,925
Account closing fee	681	230	1,100

* Simple average between the 22 accounts selected for this study

3.2.2 Composite cost indicators

As mentioned earlier, analysing the cost of individual transactions does not indicate whether bank accounts are affordable. This section analyses the cost of a 'basket of transactions' reflecting services that an average customer is likely to use annually and the frequency of usage. Some transactions and the associated annual costs are easy to determine, such as account opening (including incidental costs for the first month's ledger fee, the minimum operating balance and the cost of a new ATM card).

Based on the analysis of usage frequencies in chapter 2.2.3, we calculated the average number of transactions done in a year and weighted them by channels used, with the weight reflecting the frequency of usage of that channel in a month. Certainly, these are based on measures of actual usage in the market which itself can be expected to be a function of cost. If costs were lower then users might well find it valuable to use their accounts frequently.

Table 8: Bundles of transactions: methodological note on the construction of indicators

Indicator	Yearly transactions	Transactions	Weight
1. Opening a bank account	One-off (not repeated)	Ledger fee	1st month
		Minimum opening balance	1
		New ATM card	1
2. Bank withdrawals*	24 per year	ATM withdrawals	50%/30%
		ATM withdrawals (at a different bank)	10%/5%
		OTC withdrawals	20%/15%
		Withdrawal to mobile	20%/20%
		Agent withdrawals	0%/30%
3. Bank transfers	12 per year	Bank-to-mobile	50%
		Bankers cheque	30%
		EFT	15%
		RTGS	5%
4. Maintenance	Yearly (repeated)	Ledger fee	12 months
		Mini-statements OTC	2 per year
		ATM card replacement	Every 3 years
5. Running a bank account	Yearly	Withdrawals (weighted as in indicator 3)	12 months
		Transfers (weighted as in indicator 4)	2 per year
		Maintenance cost (weighted as in indicator 4)	Every 3 years
6. Closing a bank account	One-off (not repeated)	Closing fee	12 months
		Ledger fee (last month)	2 per year
		Final cash withdrawal (OTC)	Every 3 years
7. Switching accounts	One-off (not repeated)	Opening an account (as in indicator 1)	12 months
		Closing an account (as in indicator 2)	2 per year

* Two sets of weights are developed for withdrawal cost indicators depending on whether the bank has an agent network or not. Banks without an agent network use the first set of weights, while banks with an agent network use the second

[6] The minimum opening balance is not technically a cost but we included it because it still represents an amount customers must have to open an account.

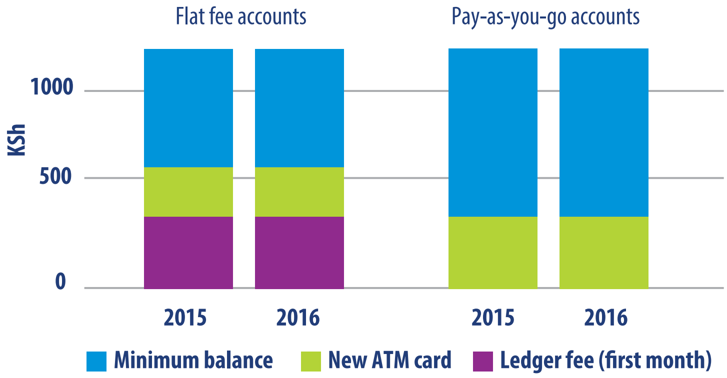
Running a bank account, including withdrawing, transferring and paying for fixed maintenance costs, will cost an average of KSh 6,436 annually, with a large variance between the cheapest (estimated at KSh 3,629) and the most expensive (estimated at KSh 13,460). The most striking difference is fixed maintenance costs, which vary from around KSh 100 to around KSh 10,000 a year. Pricing models are designed to attract different user segments and therefore are not simple to compare. However, these accounts were still recommended to our mystery shoppers who consistently introduced themselves as low income earners in all the branches. An effective comparison between different bank accounts could have saved them up to KSh 10,000 annually. The following pages are a series of infographics will show the results of Table 9 in greater detail, describing the results for each composite indicator and showing which accounts are cheaper.

Table 9: Cost for composite baskets of transactions (KSh)

	Average cost*	Min	Max
Opening an account	1,322	155	5,660
Withdrawing money	1,702	354	2,878
Transferring money	2,577	1,979	4,168
Account maintenance costs	2,085	99	9,585
Closing an account	1,002	495	1,815
Switching an account	2,324	760	6,155
Running an account	6,436	3,629	13,460

* Simple average between the 22 accounts selected for this study

1. Opening a bank account

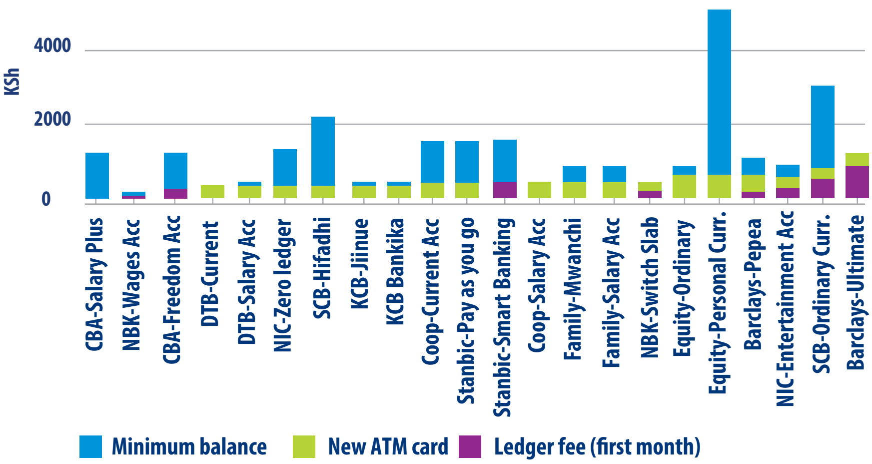


Estimated cost in 2016 (KSh)

Accounts (all)	506	816	1,322
Flat fee accounts	642	619	1,261
Pay-as-you-go accounts	428	929	1,357

Findings

We estimate that customers opening a bank account in 2016 needed a total of KSh 1,322 on average, including the opening minimum balance which is not technically a cost but is needed in the initial disbursement. Opening a pay-as-you-go account has lower direct charges but requires high minimum opening balances compared to flat fee accounts. The chart below shows very large differences between individual accounts. Some banks place low cost barriers to opening an account (e.g NBK, DTB, KCB), while others demand a relatively high minimum initial balance, which probably stops customers from opening accounts they have no intention of using.



How were these costs calculated?

1 month ledger fee

+

Minimum opening balance

+

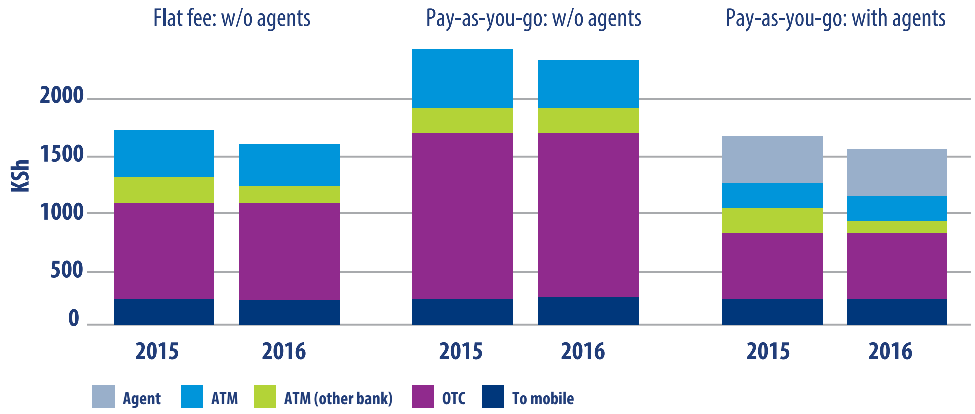
New ATM card

Pay-as-you-go accounts	Charges	Min balance	Total
CBA-Salary Plus	-	1,200	1,200
NBK-Wages Acc	55	100	155
CBA-Freedom Acc	220	1,00	1,220
DTB-Current	220	100	320
DTB-Salary Acc	220	-	220
NIC-Zero ledger	330	1,000	1,330
SCB-Hifadhi	330	2,000	2,330
KCB-Jiinue	440	100	540
KCB Bankika	440	100	540
Coop-Current Acc	500	1,000	1,500
Stanbic-Pay as you go	550	1,000	1,550
Stanbic-Smart Banking	550	1,000	1,550
Coop-Salary Acc	550	-	550
Family-Mwanchi	550	550	1,100
Family-Salary Acc	550	550	1,100
NBK-Switch Slab	605	-	605
Equity-Ordinary	660	400	1,060
Equity-Personal Curr.	660	5,000	5,660
Barclays-Pepea	699	500	1,199
NIC-Entertainment Acc	715	350	1,065
SCB-Ordinary Curr.	1,045	2,000	3,045
Barclays-Ultimate	1,249	-	1,249

Methodological notes

Opening a bank account comprises a bundle of transactions that attracts charges. We computed the sum of three basic costs: the ledger fee for the first month, the cost for new ATM card and the minimum opening balance. The latter is not technically a cost, but we included it because it still adds up to the initial amount customers must disburse to open an account. The charts above show that while some banks charge for each of thereof the three transactions others, such as the pay-as-you-go accounts, do not charge any ledger fees. Some also allow customers to open the accounts with a zero balance. The estimated annual cost of KSh 1,322 is calculated as simple average of the 22 accounts tracked in this report.

2. Bank withdrawals



Estimated yearly cost in 2016:

KSh 1,702 (all accounts)

KSh 1,253 (Flat fee account)

KSh 1,353 (Pay-as-you-go: banks with agent)

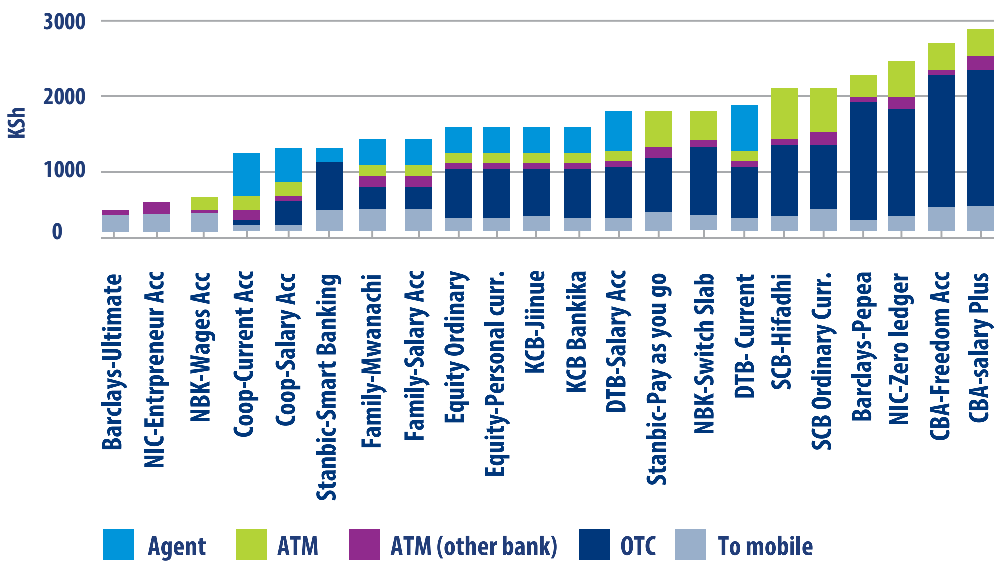
KSh 1,874 (Pay-as-you-go: banks w/o agent)

Findings

We estimate that customers withdrawing twice a month annually will spend about KSh 1,700 in bank charges. Some banks such as CBA, seem to discourage over-the-counter withdrawals to minimize queues and costs at branches. OTC charges are therefore relatively high. Other (premium) accounts like Barclays Ultimate charge high ledger fees, but withdrawals are almost free. Other banks like NIC use very different pricing strategies depending on target customers (entrepreneurs or employees).

How were these costs calculated?

For banks with agents	For banks w/o agents
30% at an agent	50% at the ATM (own bank)
30% at the ATM (own bank)	10% at the ATM (other bank)
5% at the ATM (other bank)	20% to mobile wallet
20% to mobile wallet	20% over-the counter
15% over-the counter	

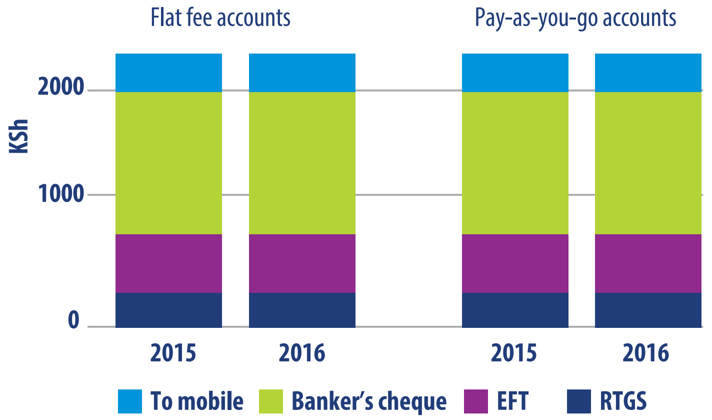


Pay-as-you-go accounts	KSh
Barclays-Ultimate	354
NIC-Entrepreneur Acc	529
NBK-Wages Acc	845
Coop-Current Acc	1,280
Coop-Salary Acc	1,366
Stanbic-Smart Banking	1,426
Family-Mwananchi	1,515
Family-Salary Acc	1,515
Equity Ordinary	1,624
Equity-Personal curr.	1,624
KCB-Jiinue	1,633
KCB Bankika	1,633
DTB-Salary Acc	1,811
Stanbic-Pay as you go	1,822
NBK-Switch Slab	1,901
DTB- Current	1,917
SCB-Ordinary	2,094
SCB Ordinary Curr.	2,125
Barclays-Pepea	2,374
NIC-Zero ledger	2,496
CBA-Freedom Acc	2,677
CBA-Salary Plus	2,878

Methodological notes

To calculate the annual cost of withdrawals, we developed a customer profile who withdraws twice a month annually and calculated a simple average cost between 22 accounts. We combined transactions of different size (KSh 500, KSh 5,000, KSh 10,000 and KSh 50,000) and from different channels (ATM, agents, OTC, etc). Since some banks have agents and others don't, we developed different weights as outlined in grey box above: customers of banks without an agent network are more likely to withdraw from ATMs and, less frequently, from ATMs of other bank networks and over-the-counter.

3. Bank transfers



Estimated yearly cost in 2016:

KSh 2,577 (all accounts)

KSh 2,600 (Flat fee account)

KSh 2,564 (Pay-as-you-go: banks w/o agent)

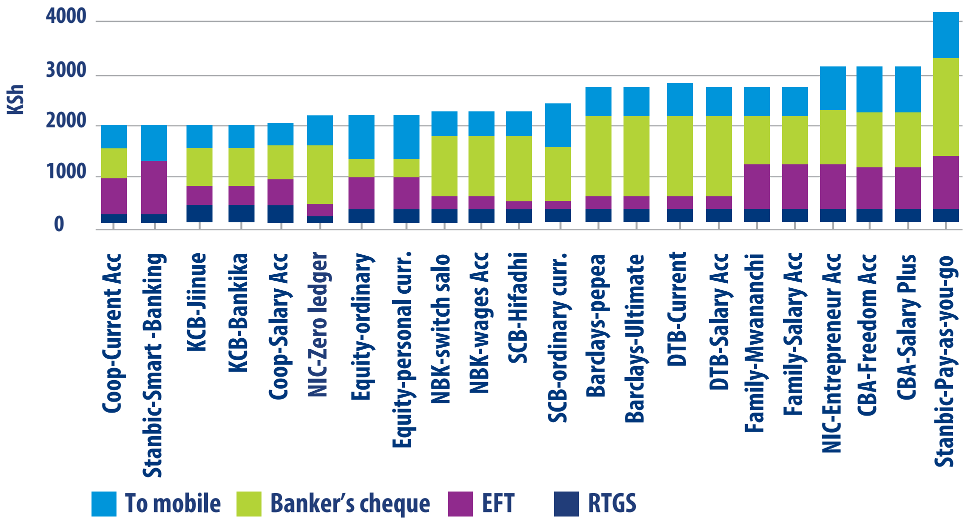
Findings

We estimated that customers who effect monthly transfers will spend an average of KSh 2,577 annually on bank fees. The difference between flat fee and pay-as-you-go accounts is minimal. As banks go increasingly digital with new solutions such as Pesalink, bankers cheques are likely to be replaced by simpler and cheaper options meaning there will be enormous changes in the upcoming years. The chart below shows different pricing strategies of different banks across different channels. Some accounts, like Stanbic smart banking, provide limited free cheques, while others offer relatively inexpensive EFTs to attract niche customers.

How were these costs calculated?

Money transfers: 12 per year

50% Bank-to-mobile wallet
30% Banker's cheque
15% EFT
5% RTGS

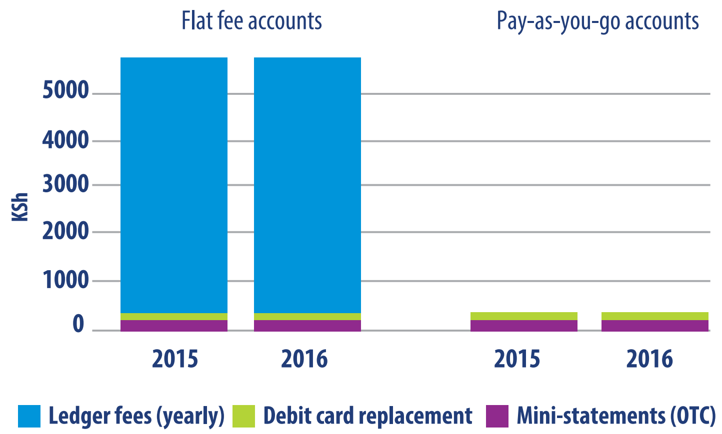


Account name	KSh
Coop-Current Acc	1,979
Stanbic-Smart -Banking	1,990
KCB-Jiinue	1,997
KCB-Bankika	1,997
Coop-Salary Acc	2,051
NIC-zero ledger	2,264
Equity-ordinary	2,277
Equity-personal curr.	2,277
NBK-switch salo	2,389
NBK-wages Acc	2,389
SCB-Hifadhi	2,434
SCB-ordinary curr.	2,434
Barclays-pepea	2,690
Barclays-Ultimate	2,690
DTB-Current	2,785
DTB-Salary Acc	2,785
Family-Mwananchi	2,884
Family-Salary Acc	2,884
NIC-Entrepreneur Acc	3,108
CBA-Freedom Acc	3,114
CBA-Salary Plus	3,114
Stanbic-Pay-as-you-go	4,168

Methodological notes

To calculate the annual cost of bank transfers we developed a customer profile who transfer money once a month and calculated a simple average between the 22 accounts . We combined transfers of different size (KSh 500, KSh 5,000, KSh 10,000 KSh 50,000) and from diffrent channels (EFT, RTGS, bank-to-mobile and banker's cheque). The weights were developed as indicated in the grey box above: per estimates, bank-to-mobile transfers are the most common, accounting for 50% of the total. Banker's cheques, which are often used today school fees, are the second most important. Other transfers types that are included are EFT and RTGS transactions (within Kenya,) but combined they only account for 20% of the total transactions.

4. Bank account maintenance



Estimated yearly cost in 2016:

KSh 2,085 (all accounts)

KSh 5,038 (Flat fee accounts)

KSh 397 (Pay-as-you-go accounts)

Findings

The average annual maintanance costs across the 22 accounts tracks in this study is KSh 2,085. Pay-as-you-go accounts tend to charge customers minimal fixed costs, and charge more to operate the account. Other accounts, such as Barclays ultimate sccount, takes an opposite approach, charging high ledger fees (note that the amount is charged only when the account balance is low) and minimal withdarawal costs. The customer therefore need to have full clarity on how they intend to use the account in order to make an informed descion.

How were these costs calculated?

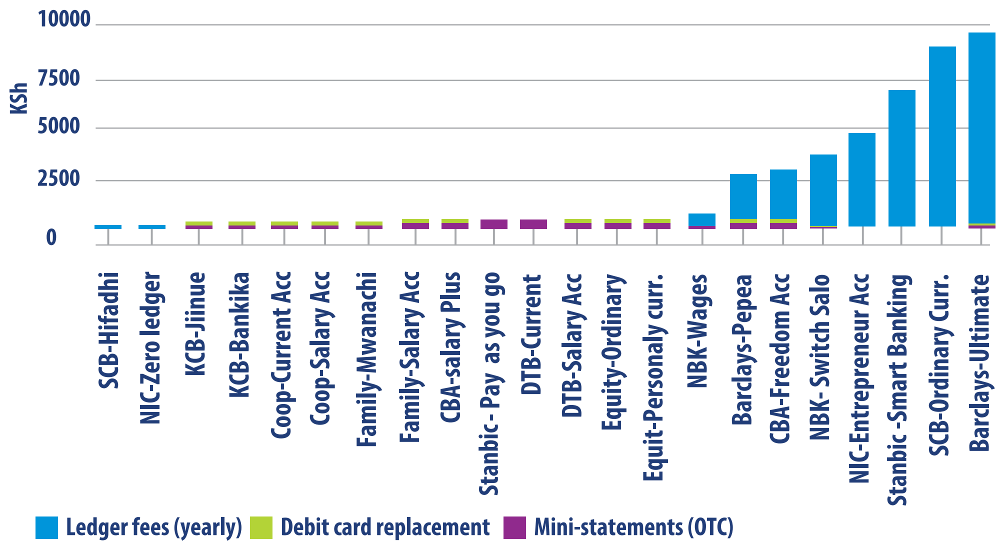
12 months ledger fee

+

2 mini-statements OTC

+

ATM card replacement (once every three years)

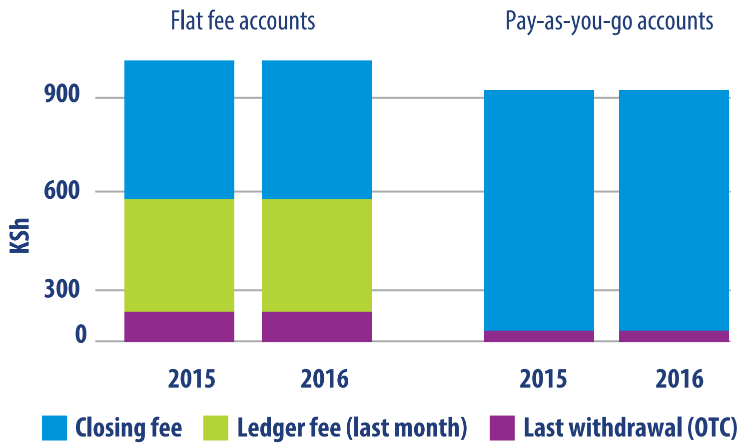


Account name	KSh
SCB-Hifadhi	99
NIC-Zero ledger	176
KCB-Jiinue	352
KCB-Bankika	352
Coop-Current Acc	370
Coop-Salary Acc	385
Family-Mwanachi	385
Family-Salary Acc	385
CBA-salary Plus	495
Stanbic- Pay as you go	495
DTB-Current	506
DTB-Salary Acc	506
Equity-Ordinary	528
Equit-Personaly curr.	528
NBK-Wages	880
Barclays-Pepea	2,985
CBA-Freedom Acc	3,135
NBK- Switch Salo	3,619
NIC-Entrepreneur Acc	4,719
Stanbic-Smart Banking	6,699
SCB-Ordinary Curr.	8,679
Barclays-Ultimate	9,585

Methodological notes

In order to calculate the yearly maintenance costs, we created a simple composite indicator that sums three main transactions: the annual ledger fees, the cost associated with replacing debit cards (once every three years) and two mini-statements obtained over the counter at the bank branches. Following the approach used for all other indicators, we calculated a simple average between the 22 most recommended accounts in the 11 largest banks listed in the table on the right. Note that the profile we have created is middle to lower income and therefore tends to have a relatively low balance in the account. This is important because some accounts have a waiver on ledger fees when the average monthly balance is high (usually above KSh 50,000).

5. Closing a bank account



Estimated cost in 2016:

KSh 1,002 (all accounts)

KSh 1,134 (Flat-fee accounts)

KSh 926 (Pay-as-you-go accounts)

Findings

The average for closing a bank account is KSh 1,002 with slightly higher costs in flat-fee accounts (KSh 1,134) than pay-as-you-go accounts (KSh 926), especially because of the ledger fee charged in the last month of opereation. If we look at the closing fee in isolation, pay-as-you-go accounts tend to charge higher amounts. The cost for closing a bank account usually receives little attention in the financial inclusion literature, but it is a critical step to make account switching more agile, triggerring competition in the banking sector. It is also important to note that often the main costs associated with closing an account are non-monetary: they relate more to the time spent conducting the operation and other non-monetary barriers.

How were these costs calculated?

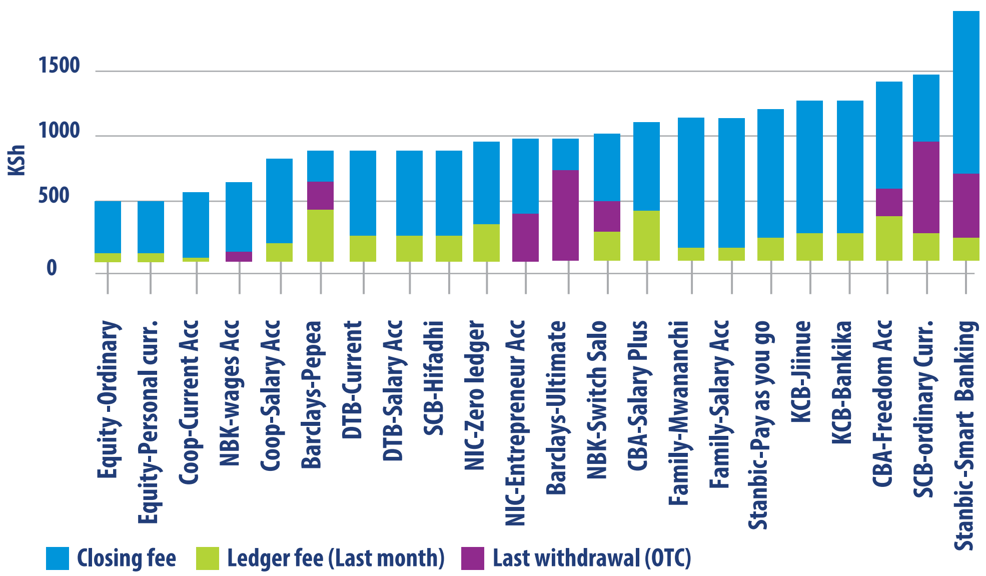
Closing fee

+

Last month ledger fee

+

Last cash withdrawal (over-the-counter)

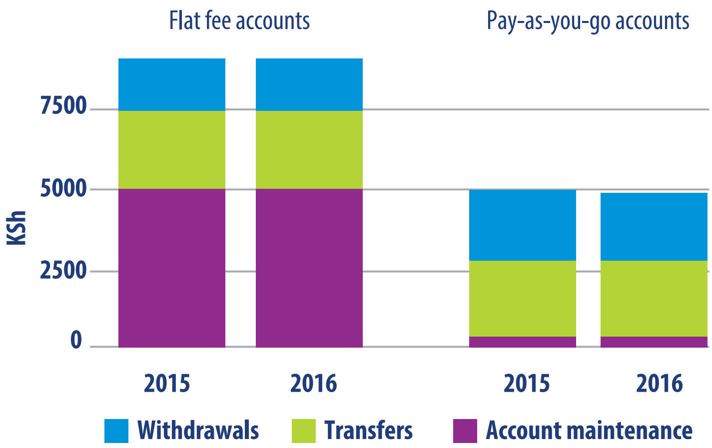


Account name	Ksh
Equity -Ordinary	495
Equity-Personal curr.	495
Coop-Current Acc	589
NBK-wages Acc	605
Coop-Salary Acc	660
Barclays-Pepea	770
DTB-Current	770
DTB-Salary Acc	770
SCB-Hifadhi	770
NIC-Zero ledger	880
NIC-Entrepreneur Acc	935
Barclays-Ultimate	990
NBK-Switch Salo	1,045
CBA-Salary Plus	1,210
Family-Mwananchi	1,210
Family-Salary Acc	1,210
Stanbic-Pay as you go	1,265
KCB-Jiinue	1,320
KCB-Bankika	1,320
CBA-Freedom Acc	1,430
SCB-ordinary Curr.	1,485
Stanbic-Smart Banking	1,815

Methodological notes

In order to calculate the costs for closing an account, we created a simple indicator that includes the closing fee, the last month's ledger fees and the cost associated with a final over-the-counter withdrawal. We then calculated a simple average between the 22 most recommended accounts in the 11 largest banks.

6. Running a basic bank account



Estimated yearly cost in 2016:

KSh 6,436 (all accounts)

KSh 9,289 (Flat-fee accounts)

KSh 4,805 (Pay-as-you-go accounts)

Findings

Our estimates show that running a bank account in Kenya costs, on average KSh 6,436 per year, with considerably higher costs for flat fee accounts (KSh 9,289) than the pay-as-you-go accounts (Ksh 4,805). These numbers are estimated for customers who withdraw 24 times per year, make bank transfers 12 times per year and pay annual fixed costs for account maintenance (ledger fees, cards, etc). The major difference between accounts depends on the fixed "account maintence" costs.

How were these costs calculated?

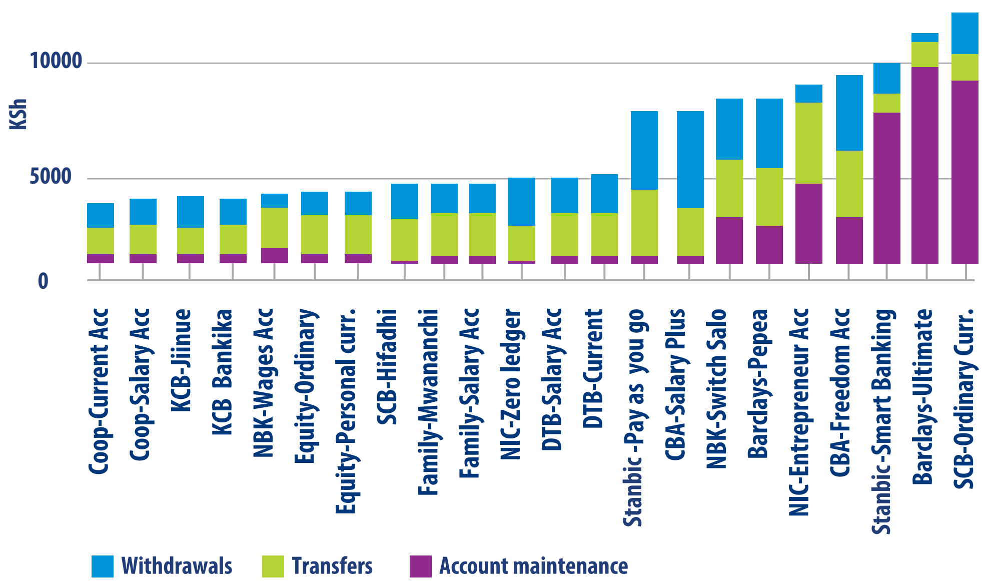
24 withdrawals

+

12 money transfers

+

Account maintenance costs

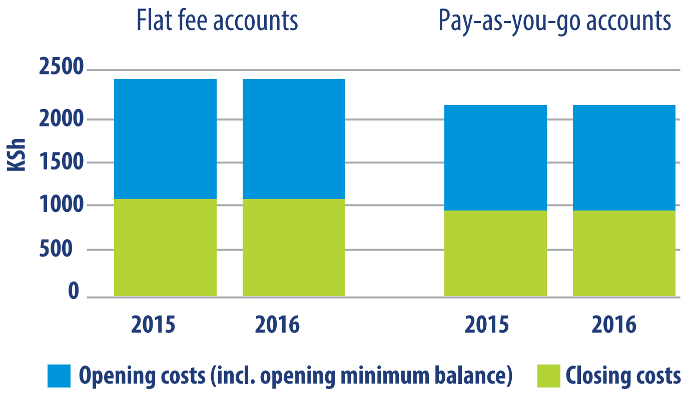


Account name	KSh
Coop-Current Acc	3,629
Coop-Salary Acc	3,802
KCB-Jiinue	3,982
KCB Bankika	3,982
NBK-Wages Acc	4,167
Equity-Ordinary	4,429
Equity-Personal curr.	4,429
SCB-Hifadhi	4,765
Family-Mwananchi	4,784
Family-Salary Acc	4,784
NIC-Zero ledger	5,094
DTB-Salary Acc	5,102
DTB-Current	5,208
Stanbic-Pay as you go	6,641
CBA-Salary Plus	6,645
NBK-Switch Salo	7,962
Barclays-Pepea	8,098
NIC-Entrepreneur Acc	8,555
CBA-Freedom Acc	8,976
Stanbic-Smart Banking	10,379
Barclays-Ultimate	12,718
SCB-Ordinary Curr.	13460

Methodological notes

The cost of running a basic bank account is the sum of the three main incubators: withdrawing money (24 times per year across different channels), transferring money (12 times per year, using different money transfer options) and account maintenance (fixed yearly cost e.g ledger fees, card replacements, etc). Depositing money is not included since the research shows that is free for virtually all accounts. The average annual cost was calculated as the simple average of the 22 accounts selected for this research.

7. Switching bank accounts



Estimated yearly cost in 2016:

KSh 2,324 (all accounts)

KSh 2,395 (Flat-fee accounts)

KSh 2,283 (Pay-as-you-go accounts)

Findings

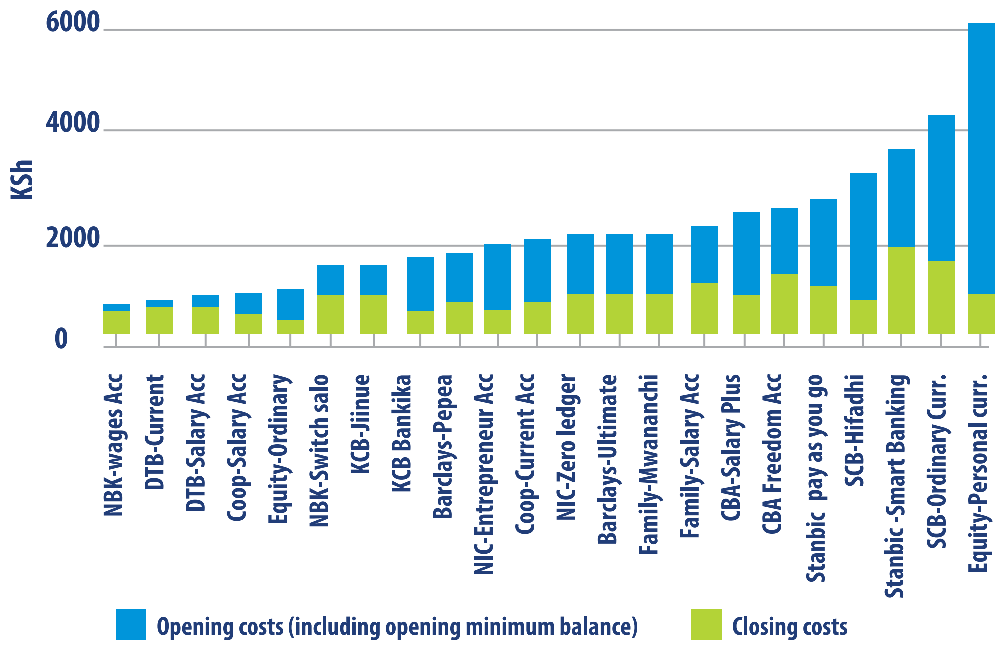
This indicator measures the cost of switching in or out of an account. According to our estimate, the average amount is KSh 2,324 with only small differences between flat fee (KSh 2,395) and pay-as-you-go accounts (KSh 2,283). The chart below shows that some accounts, like Equity personal current, place high barriers to entry (with a high minimum opening balance) but a low cost to dose the account. Arguably, this suggests that Equity disincentives customers from opening an account unless they plan to use it and makes it easy to close the account, probably to avoid fixed administrative costs of dormant accounts. Other accounts, like NBK wages accounts or DTB accounts, take a different approach, charging very low fees to both entry and exit.

How were these costs calculated?

Account opening costs

+

Account closing costs



Account name	KSh
NBK-wages Acc	760
DTB-Current	990
DTB-Salary Acc	1,090
Coop-Salary Acc	1,210
Equity-Ordinary	1,555
NBK-Switch salo	1,650
KCB-Jiinue	1,860
KCB Bankika	1,860
Barclays-Pepea	1,969
NIC-Entrepreneur Acc	2,000
Coop-Current Acc	2,089
NIC-Zero ledger	2,210
Barclays-Ultimate	2,239
Family-Mwananchi	2,310
Family-Salary Acc	2,310
CBA-Salary Plus	2,410
CBA Freedom Acc	2,650
Stanbic- pay as you go	2,815
SCB-Hifadhi	3,100
Stanbic-Smart Banking	3,365
SCB-Ordinary Curr.	4,530
Equity-Personal curr.	6,155

Methodological notes

This indicator is calculated as the sum of opening and closing costs that bank charge for each of the accounts. Calculating the cost for switching an account is not straightforward because it involves the cost of closing an account at a certain bank and the cost of opening an account at a different bank making the number of possible combinations extremely high. The estimate of KSh 2,324 is the average of the 22 accounts tracked for this research.

CHAPTER 4

CONCLUSION AND RECOMMENDATIONS

4.1 CONCLUSIONS

This study sought to measure the cost of banking services and assess the level of price transparency in the sector. Cost data was collected from the 11 largest banks which account for 95% of all deposit accounts . For each bank, we selected the two accounts that were the most recommended by the bank staff based on customer profiles developed.

There were three main findings:

1. It's very difficult for customers to get accurate information on bank fees and charges. Bank staff and tariff guides lack precise information on the cost of opening, transacting and closing bank accounts.

2. Bank staff are likely to recommend accounts that are not suitable to the customer. It appears that bank staff are often incentivised to push certain accounts rather than help meet customer needs.

3. The cost of services varies greatly across banks and accounts. Tariff structures vary significantly across banks and accounts, with tariffs dependent on usage and market segment targeted.

4.2 RECOMMENDATIONS

The study findings strongly suggest that the level of transparency in the Kenyan banking market is simply not good enough, despite recent initiatives to improve it. Unless it is addressed it is unlikely that the government's policy objectives on competition and consumer protection will be met. Inevitably if the industry does not improve its performance then pressure will grow for regulatory action.

As the recent introduction of interest rate controls has shown, this may be in a form which the industry regards as unhelpful. There is a limited opportunity for the banking industry to take the lead here, acting both collectively and individually. The best information is not always the most information. Demands for transparency have often led banks to provide a lot of information that is of little value to the customer. Instead, banks should provide information that is useful and helps consumers make informed decisions.

The box below highlights some ideas for addressing the problems highlighted in this study.

- ***Standardise disclosure templates.*** Consumers must be able to understand and compare costs and this can be enhanced if information is displayed in a cross-industry standardised, simple and comparable way.

- ***Disclosure should come early during the transaction.*** Customers can't evaluate the full terms of service or make a decision based on price if they're not given sufficient time before opening an account and if tariff guides and any other key documents are not up-to-date.

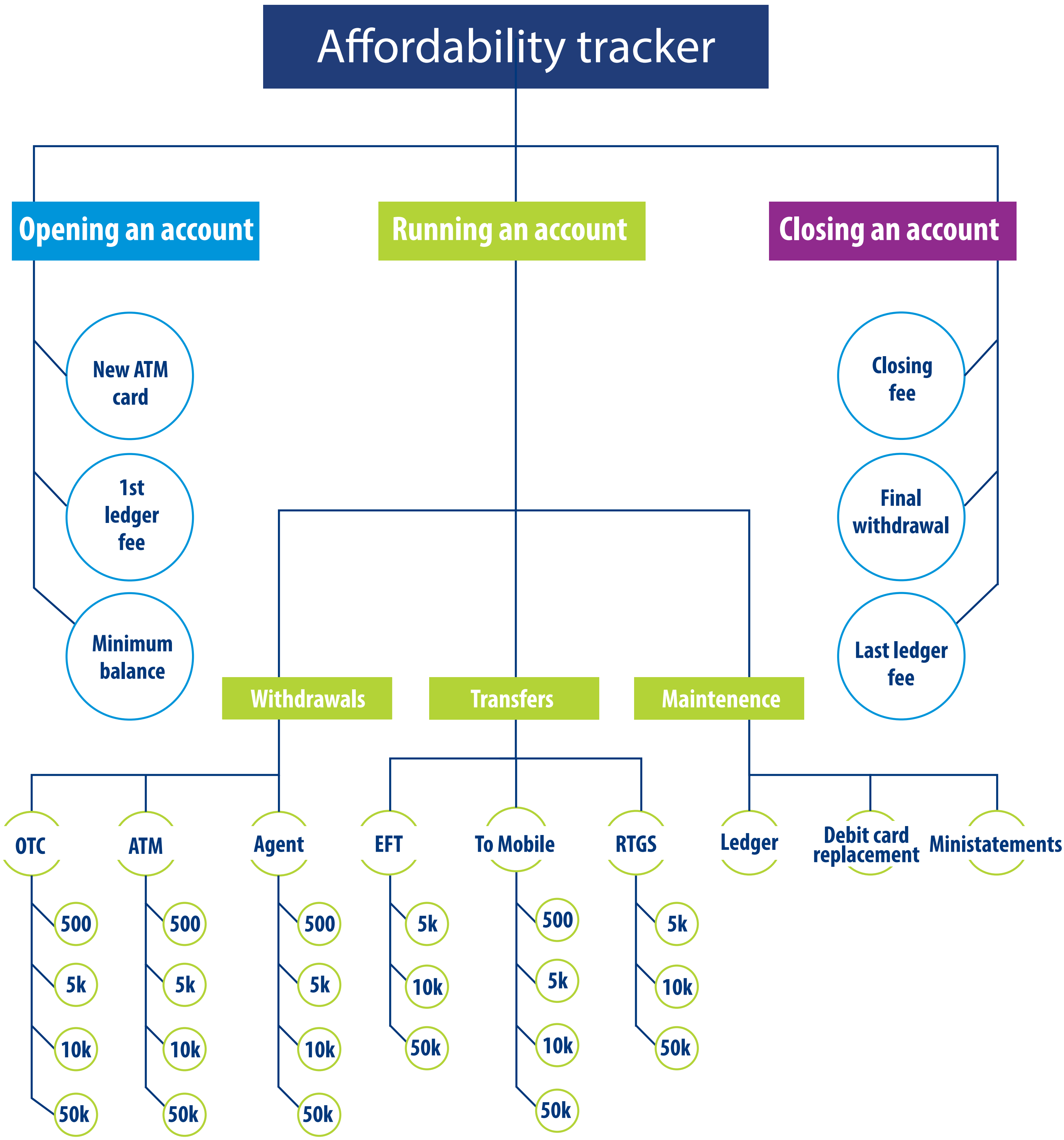
- ***Consumer protection is an opportunity, not a burden.*** Banks that engage actively and meet customer needs are simply pursuing a competitive advantage. They shouldn't do this because of concerns over regulatory compliance but because it is good business. The banking industry as a whole is facing threats from new forms of competition. Its best defence in the long-term is to offer a better deal to its customers.

- ***Leverage behavioural research.*** Disclosure alone is insufficient for consumers to make better decisions. Studies show that understanding consumer biases and their impact on consumer choice is crucial to create products that better serve customers. The UK's Financial Conduct Authority (FCA) has been at the forefront of conducting behavioural studies that place product disclosures at the centre to ensure consumer protection and facilitate competition. The Competition Authority of Kenya (CAK) has instigated a market enquiry to establish behavioural biases that impact consumer ability to access and assess relevant information from banks.

- ***Establish market solutions for price comparisons.*** The private sector can play an important role by facilitating price comparisons. While this study focused only on bank accounts, similar research should be done for other services (e.g. fixed deposits, payments, etc.) and different industry segments (insurance, SACCO, mobile, etc.). The Kenya Bankers' Associations recently launched a "cost of credit calculator" to increase transparency in the credit market and incentivise price competition in the banking sector. This initiative shows willingness in the banking industry to improve market information and transparency, and should be replicated with other financial services to increase its impact.

[6] For example, see "Money Supermarket" and "Nerd Wallet" in the US.

ANNEX


Affordability tracker
Opening an account
Running an account
Closing an account
New ATM card
1st ledger fee
Minimum balance
Closing fee
Final withdrawal
Last ledger fee
Withdrawals
Transfers
Maintenence
OTC
ATM
Agent
EFT
To Mobile
RTGS
Ledger
Debit card replacement
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Financial Sector Deepening

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