



M-Shwari shifts loans of below KES.2,000 to Fuliza

- NCBA and Safaricom have raised the minimum loan size on the mobile lending platform M-Shwari four times to KES.2,000 in a move expected to reduce defaults largely by borrowers taking smaller amounts.
- Borrowers have been accessing a minimum of KES.500, through M-Pesa, on the M-Shwari platform.
- Customers who do not qualify to borrow at least KES.2,000 on the monthly loan product have been relegated to use the daily overdraft service Fuliza which is more expensive, but structured to lower defaults.
- Borrowers pay a facility fee of 7.5% monthly when taking the M-Shwari loans, amounting to an annualised interest rate of 90%.
- On Fuliza, the fee is 1.1% daily or 395.2% annualised, underlining the high cost of using the short-term credit services regularly.
- According to NCBA Group managing director, the changes will bring a clear product differentiation for borrowers seeking digital loans through Fuliza, M-Shwari or Stawi products in which the lender participates.
- While the M-Shwari loan comes as credit in a customer's account, allowing the borrower to withdraw the money or transfer it out, Fuliza is an overdraft service that allows customers to complete M-Pesa transactions when they have insufficient funds.
- M-Shwari had by mid-December last year disbursed a cumulative KES.430Bn in loans to 31Mn customers, seven years since its launch.
- Fuliza on the other hand had lent an estimated KES.81Bn in the six months to June last year with the service introduced in January 2019.

Our View

- **We expect the change to lead to an increase in NCBA and Safaricom M-Pesa revenues through the increased fees and commission income owing to higher fees charged for Fuliza compared to M-Shwari.**
- According to the bank, most customers seeking credit below KES.2,000 were for unplanned expenditures and for this we believe the move will help in curbing defaults due to the structure of Fuliza.
- Fuliza has a near zero default rates due to the auto-collection when a customer deposits or receives money in their M-Pesa wallet while M-Shwari customers make their payments directly.
- Since its launch in January 2019 Fuliza has had a positive impact on M-Pesa transactional volumes, revenues, customer acquisition as well as retention and we expect this to continue going forward.
- Fuliza served up resilience for M-Pesa revenues compensating for the decline in revenues from gaming on the back of the government crackdown on the betting industry.
- The extension of waiver on fees on M-Pesa transactions below KES.1,000 to December 2020 is likely to result in loss of revenues for Safaricom to the tune of (KES.1.5Bn – KES.1.6.5Bn).