Enhancing Growth of Plastic Cards in Kenya

Report prepared for FSD Kenya
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FSD Kenya
Financial Sector Deepening

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Acknowledgements

Background to the study

The key business objective is to grow cashless transaction through increased penetration and usage of plastic cards while making purchases

- Usage of plastic cards in Kenya has grown substantially over the years with some people slowly towards card based payments

- However, usage of plastic cards to make purchases is still very low, even amongst those who have them

More money from each customer

- FSDK is supporting Kenya Bankers Association [KBA] and the Kenya Credit and Debit Card Association [KCDCA] to do a review of the current status of card usage in the country

- FSDK in turn commissioned TNS to conduct this review

- This document presents   insights gathered from this study

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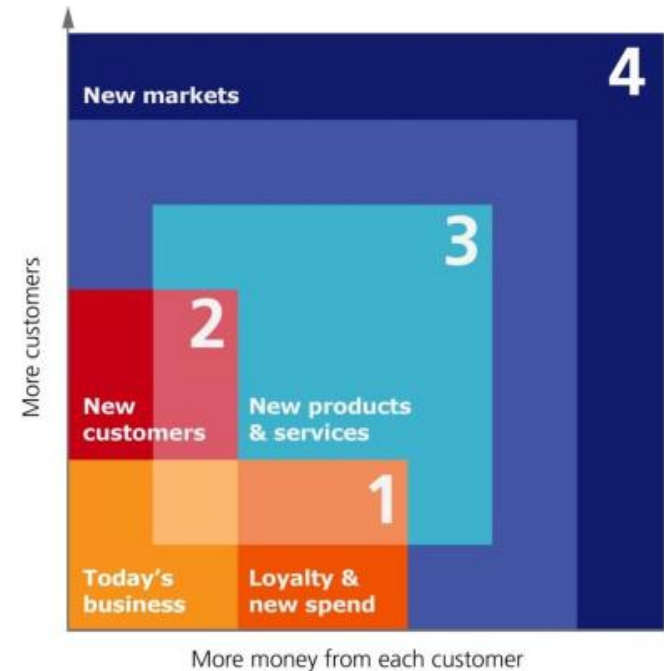
Purpose of the report

- The key aim of this document is to:

1

Highlight barriers to plastic card usage as a mode of payment

2

Identify opportunity areas for future growth

Across the whole cycle – Consumers, Merchants, Issuers, Acquirers, Telcos, Schemes, Regulators and Card producers

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Detailed objectives per segment

Segment	Main objective	Information to assist in…
Consumers – users of debit and credit cards to make purchases	▪ Establish initial trigger and subsequent motivation for usage ▪ Identify key challenges faced	▪ Triggers will assist in communication development ▪ Challenges will aid in establishing opportunity areas for future improvement
Consumers – holders of cards but are non-users when it comes to making purchases	▪ To identity key barriers to non usage	▪ Barriers will aid in establishing opportunity areas for future improvement
Merchants – that allow use of plastic cards	▪ To establish initial trigger and subsequent motivation to usage ▪ Key challenges faced	▪ Triggers will assist in communication development ▪ Challenges will form opportunity areas for future improvement
Merchants – that do not allow use of plastic cards + Lapsed users	▪ To establish key barriers to adoption/dis-adoption	▪ Establish ways of overcoming these barriers and dis-adoption areas
Merchant staff – staff who swipe	▪ Understand swiping experience ▪ Decision making process – to choose an acquirer etc ▪ Key challenges faced while using the machines	▪ Identify current gaps in order to enhance both merchant and customer experience

Detailed objectives per segment – cont'd

Segment	Main objective	Information to assist in…
Issuers , acquirers, schemes, card producer, telcos and switches	▪ Establish how they feel about the current operating environment, and establish any challenges currently faced	▪ Challenges will aid in establishing opportunity areas for future improvement

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Sample structure

Towns visited

	IDIS USERS HIGH INCOME	FGDS NON USERS	FGDS USERS	FGD MERCHANTS	IDIS WITH MERCHANTS	IDIs –
Nairobi	6	2	4	1	6	14
Mombasa	4	2	4	1	4	-
Nakuru	4	2	4	1	4	-
Machakos	2	1	1	1	2	-
Total	**16**	**7**	**13**	**4**	**16**	**14**

Issuers, Acquirers, Schemes, Telcos, Switches, Card Producers

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Executive summary

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Key barriers and precise action plans – Consumer segment

Three key consumer barriers

- *Lack of information on the full value of the card*
  - Most of the non-users are not aware that the cards they currently hold can be used for other roles other than withdrawing money

- *Misconceptions/myths about plastic cards*
  - Shopping with cards is an elite's lifestyle
  - Swiping is expensive. There are charges involved
  - Swiping is for 'foreigners'
  - 'ATM' , 'VISA'. 'Master card' , 'debit card' are all stand alone cards

- *Fear of using cards to make purchases*
  - Mistrust in the system - fear of card fraud or system failure
  - This fear is driven by negative past experience and media reports

Precise action plans – *for both issuers and acquirers in collaboration with schemes*

- Motivate bank and POS staff to communicate the full value of the card
  - Encourage them to use the cards at a personal level to make payments in order to make these values top of mind
  - Equip them with tools to make it easy to for them to communicate the value of the card to the customer
  - Demonstrate the benefits of promoting card over cash amongst POS staff – no coinage issues; less money to reconcile at the end of the day etc. I.e. leads to peace of mind overall

- Use **communication** to de-bunk myths that surround plastic cards
  - Erase the misconception that cards are for certain class of people through use of diverse social settings and characters
  - Explain to the consumer that the service is offered free and that the service charge is incurred by the merchant
  - Use different scenarios to make different swiping occasions top of consumer's mind. E.g. restaurants, clubs, hospitals, chemists etc
  - Avert the perception that they are all different cards via:
    - Rolling out a generic campaign sponsored by the various stakeholders – i.e. that is not linked any of the stakeholder
    - Using a neutral terminology [while communicating] in place of 'ATM', VISA, 'MasterCard' and debit card
    - Rebranding key consumer touch points such as banking hall, cash access point and POS with neutral terminologies

- Re-build consumer trust on cashless transactions by explaining the enhanced safety of chip and PIN technology over magnetic stripe

Key barriers and precise action plans – Merchant segment

Three key merchant barriers

- *Negative experience with the POS system leading to resistance /reservations to use the system:*
    - Slow speed or entire system failure leading to long queues, lost sales and customer dissatisfaction
    - Erroneous transactions such as double –debiting the consumer leading to perceived self-efficacy issues
    - Slow dispute resolution process

- *Perceived high cost of initial installation and commission charges*

- *Inertia – not appreciating/seeing the huge role cashless transactions would play within the outlet*

Precise action plans

Promote a positive merchant experience :
- CBK:
    - Set minimum service standards for all players. E.g. to control downtime and speed of data transmission
    - Set a maximum time frame within which disputes arising from must be resolved e.g. within a week
- Acquirers + Schemes:
    - Minimize self-efficacy barriers amongst till attendants by: **a)** Extending training beyond the supervisor [to include till attendants]; having **b)** Organizing jointly sponsored training on a regular basis **c)** Using technology that is easy to use/that reduces training needs e.g. tap technology

- Banks + Schemes:
    - Explore low acquisition infrastructure e.g. phone as opposed to PDQ
- Acquirers:
    - Enlighten merchant decision makers to look beyond commission costs :
        - Demonstrate risks and costs associated with cash: **a)** Extra supervisor/double checker **b)** Cash in transit escort costs **c)** Insurance costs **d)** Exposure to loss of cash in transit and insecurity at the outlet

- Acquirers:
- Encourage merchant decision makers to support cashless by making them see the benefits of cashless transactions:
    - Raises the profile of the customer that frequents the outlet
    - Offers a peace of mind – no worries about robbery attacks or loss of cash in transit
    - Less stressed workforce [less reconciliations]
    - Brings other savings such as reduced insurance premiums and reduced CIT costs

Key barriers and precise action plans – Issuer and acquirer segment

Two key issuer and acquirer barriers

- *Non -conducive operating environment*
  - Unreliable network and constant down time challenges which affects bank's operation and subsequent reputation, particularly for acquirers
  - Lenient penalties to fraudsters
  - High cost of investing and running card business – attributed to lack of sufficient local investment by service and infrastructure providers
  - High taxation on white plastic
  - Lack of collaborative effort by banks to work together to solve common challenges

- *Regulatory challenges – KRA, judiciary and CBK*
  - Knowledge gap on how the whole card eco-system works by the prosecuting arm of the government leading to lenient penalties to fraudsters and long judicial process es when it comes to dispute resolution
  - Knowledge gap on how the whole card eco-system works amongst customs officials leading to wrong valuation of white plastic and subsequent punitive taxation

Precise action plans

- CBK:
  - Set up minimum standards and penalties to bring up time to nearly 100%
  - Make fraud penalties punitive. Strengthen enforcement and prosecution
  - Make payment industry attractive to investors by
    - Improving conditions and competition
    - Collecting and presenting industry data to demonstrate country's growth opportunity to potential investors
- Banks:
  - Unite with each other to solve common challenges facing banks. For instance infrastructure can be shared and other non-competitive costs

- KBA:
  - Organize training and workshops to KRA and officials from the prosecuting arm of the government to enlighten them on:
    - Value of the card at various stages. E.g. white plastic vs. plastic with data encoded etc
    - Reasons why value of a white plastic cannot be standard. I.e. it is dependent on various factors such as quantities purchased, bargaining powers and vendor used

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Key barriers and precise action plans – Card producers

One major issue amongst the card producers

- *Non -conducive operating environment*
    - High tax duty on value of the card – at 25%
    - Inaccurate valuation of cards leading to higher taxation than necessary. This is attributed to a lack of understanding on card valuation by the tax man

The high tax is passed down to banks which in turn makes card producer pricing uncompetitive. This has led to loss of business to international companies

Precise action plans

- CBK:
- Create an enabling environment for the card producer to operate competitively - Bring the taxation on the value of the card down – to about 10%
- KRA:
    - Have your own mechanism to identify whether the card is encoded or not, in order to make an informed decision on taxation
- KBA:
    - Organize training and workshops to KRA to enlighten them on value of cards at different stages. E.g. data encoded vs. not encoded

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Key barriers and precise action plans – Schemes

Two key issues that schemes face

Precise action plans

- *Non-conducive operating environment*
  - Poor network connectivity in some regions limiting card acceptance
  - High acquisition costs limiting the proliferation of financial inclusion at the lower tiers of the market
  - Lack of pro-activity by bank staff to sell the full value of the card. i.e. key agenda geared towards card as a tool to withdraw money
  - Misrepresentation of the card business by reporters

- *Regulatory challenges*
  - Lack of a legal framework to strengthen regulation to effectively Curb fraud
  - Lack of a payment regulations to define framework in which payment should be carried out

- Telcos:
  - Roll out 3G technology in all parts of the country to improve communication on devices
- Schemes and banks:
  - Explore low cost acquisition technology such as mobile POS in order to promote rural penetration
  - Include reporters into training programs to enable them understand the whole card eco-system
- Banks:
  - Make selling the full value of the card by bank staff as part of the process of issuing cards

- CBK:
  - Set up a legal framework to strengthen regulation to effectively curd fraud
  - Establish payment regulations to define framework in which payment should be carried out

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Key barriers and precise action plans – Switches

Two key issues that switches face

- *Commercial challenges – high operating costs*
  - Resistance by some banks to embrace inter-operability. I.e. they prefer to work independently
  - High cost of infrastructure – both setting up and upgrading
  - Lack of local vendors to offer the needed infrastructure and technology. I.e. it has to be imported

- *Lack of enforcement of data safety and security standards*
  - This state of affairs is reported to be a key contributing factor to fraud
  - With EMV compliance, it is anticipated that fraud will move to the physical data centers, impacting negatively on the effect EMV chip

Precise action plans

- KBA:
  - Persuade banks on the benefits of interoperability:
    - Convenience – outsourcing services
    - Cost effectiveness – brings costs of transactions down due to shared resources

- CBK:
  - Protect customer data in order to avert fraud by enforcing regulations that govern system security and safety

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Key barriers and precise action plans – Telcos

Two key issues that Telcos face

- *Regulatory challenges*
  - Lack of clear-cut business boundaries in the telecoms area. I.e. the boundaries are 'blurred'. E.g. MSP providers venturing into infrastructure or banking space. This has created a negative business environment

  - Lack of enforcement of regulation around civil engineering. i.e. road construction companies are not held responsible for the damages they cause to telecom infrastructure while constructing roads

  - Increased way leave charges, particularly with the on set of county governments

- *High operating costs*
  - High cost of installing infrastructure making it difficult to roll out to all parts of the country

- *Planning and logistical challenges*
  - Multiple connections and network on the ground making it difficult to install fiber optics cables

  - Poor planning – telecom infrastructure not usually considered during the planning stages of projects/estates/cities

  - Duplication of infrastructure by the various stakeholders which is not cost effective

Precise action plans

- CCK:
  - Enforce regulations that compel civil engineering companies and other users of the ground [on which telecom cables are installed] to be responsible for the destruction they cause in the course of their operations

  - Enforce planning by-laws and regulations that ensure proper planning is not disrupted

  - Make the county governments see the benefits of fiber optics so that they can review their way leave charges. E.g. enhances E-marketing, E-health and attracts investors to setup offices in the counties

- Government
  - Install backbone [broadband] cable that connects all counties to make it cheaper for Telcos to offer services

- Telcos and CCK
- Work closely with county governments during the planning stages of their cities. I.e. be part of the designing for their estates shopping centers, schools, libraries, hospitals etc.

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In sum:

It will take collaborative effort between the various stakeholders to influence behavior change

"...It is about 2 hands, 10 fingers working together. None of the fingers should be injured or ignored..."

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Detailed findings

i) Current situation

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Information gathered from issuers and acquirers in the course of the study suggest the following

1. **As much as both debit and credit cards have experienced exponential growth, up-take of debit cards still remains higher than that of credit card.**

2 **Up-take of debit cards reported highest amongst females**

   Up-take of credit cards reported highest amongst Males

3. **A substantial amount of cards remain dormant post acquisition**

4. **Cards are not associated with small value transactions. Average card transaction is between kes 3500 – kes 4500. Largest value reported is over a million**

NB: Being a qualitative sample, this information is largely indicative

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ii) Consumer challenges and barriers

Three consumer profiles emerge when it comes to relationship with plastic cards

The aware	▪ These are individuals who know that their debit cards can be used for making purchases but do not use them ▪ key barriers amongst this segment revolve around trust issues, negative past experience and inertia - no compelling reason to shift from cash
The unaware	▪ These are individuals who do not know that their 'ATM' cards can be used for making purchases hence do not use them ▪ Majority think that there are independent 'shopping' cards known as 'Debit' or 'Visa' cards ▪ Therefore bottleneck to usage amongst this segment is either complete lack of awareness or mis-conception
Lapsed users	▪ These are individuals that dis-adopted ▪ Dis-adoption is largely driven by negative past experience → system failure, erroneous transaction, coupled with slow reversal process

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Consumer challenges and barriers (1)

Perceptual barriers – myths

❖ **Shopping with cards an elite's lifestyle:** Influenced by higher presence of swiping machines in high end out-lets and use of high end settings in adverts

❖ **Swiping is expensive** : Projecting ATM withdraw and M Pesa charges to shopping to cards and in some instances sur-charging by merchants

❖ **Swiping is a 'foreign concept':** Close association with foreigners, particularly in Mombasa

❖ **Cards are only ideal for certain outlets.** E.g. supermarkets as opposed to bars and clubs

Informational barriers

❖ **Communication disconnect:** Bank staff talk of 'ATM' cards while adverts talk of debit/Visa/Mastercard, leaving the consumer thinking they are all stand alone cards

❖ **Lack of pro-activity** by bank staff and POS cashiers to inform of the customer on the possibility of cashless transaction: Learning reported to be largely 'accidental' e.g. via observing other customers at the till
   ▪ Cashiers only offer this information as a solution e.g. if cash at hand is lower than the bill

"…For the informed….For the exposed. Those who go to Nakumatt Nyali…" Non user

"…It is very expensive… You are charged 30/- per transaction. Banks do not offer free service!..." User

"…Telling the customer they can use their card would look suspicious…It is like you want to duplicate their card…" Merchant staff

"…I wanted to leave the shopping at the till in order to withdraw more money… That is when the cashier told me I could pay with the ATM card .." User

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Consumer challenges and barriers (2)

Emotional and social barriers

Emotional barriers mainly emanate from system issues

❖ **Negative customer experience** as a result of system failure, slow processing speed or erroneous transaction leading to dis-adoption

❖ **Emotional turmoil** as a result of difficult dispute resolution process which is considered 'bureaucratic' and time consuming

❖ **Loss aversion:** fear of exposure to fraud or loss of important documents i.e. debit card + ID, hence some do not carry these documents around

❖ **Safety concerns :** Fear that card usage exposes one's account details and balance to the 'entire world'

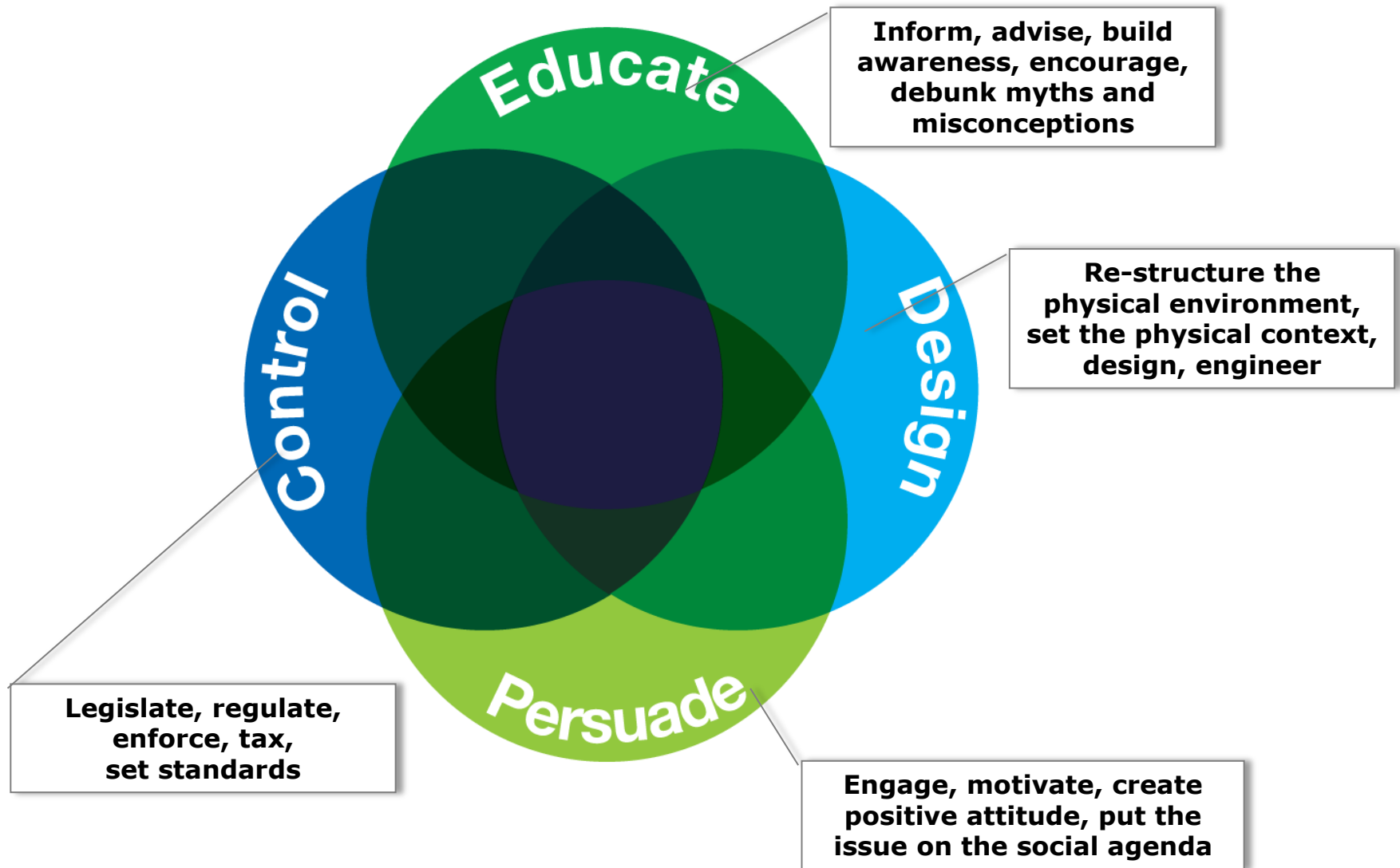*"...I still carry some cash just in case the system fails...Cash never fails you!..."* User, Nairobi

"...There is a time I was told to write a letter to the headquarters which is in Nairobi...It took over 3 months to solve the problem!..." Lapsed user, Mombasa

"...It is not wise carry an ATM and ID in the same purse..." Non user, Nakuru

Physical barriers

❖ Lack of POS terminal – concentration largely urban

❖ Forgetting ID at home

❖ Forgetting PIN while at the POS

❖ Lack of funds in the account

YOUR CARD HAS BEEN DECLINED

Inertia

❖ Cash a deep rooted habit that is hard to change

Overcoming consumer challenges and barriers

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Our proposed approach to influencing behavior

Inform, advise, build awareness, encourage, debunk myths and misconceptions

Re-structure the physical environment, set the physical context, design, engineer

Legislate, regulate, enforce, tax, set standards

Engage, motivate, create positive attitude, put the issue on the social agenda

Adopted from TNS's behaviour change model

Educate the consumer

1. Change the perception that ATM, debit VISA, and MasterCard are different cards that   serve different roles

- Run a joint sponsorship]campaign   that is not linked to any particular bank or scheme

- Use multiple media approach – TV, radio, road shows etc to increase chances of visibility

- Ensure the length of time is substantial enough to warrant a mind –set change. For instance over a one year period

- Deter from using 'ATM', Debit card, VISA, MasterCard. Use different terminology e.g. 'Payment card'

2. Debunk myths that surround plastic cards as a mode of payment

Use communication to change the following mis-conceptions:

- Shopping with cards is an elites' lifestyle →*Use diverse social setting and characters to send the message that cards are for everyone*

- Shopping with cards is done in supermarkets → *Have diverse social scenes such as shopping malls, restaurants, clubs, hospitals, pharmacies markets etc to send the message that paying with cards applies to different situations*

- There are hidden charges when you swipe your card → *Explain how the process works*

- The charge of swiping on a machine [POS] that is not from my bank is higher than if I swipe from my bank's machine → Highlight that no POS terminal is superior to the other. Use any that you find in the outlet

- The cashier at the till is able to access my bank balance when they swipe. Otherwise how do they know my account has funds or not? → *Explain how the process works*

Capitalize on the issuance of new chip and pin cards to educate the consumer

Persuade the consumer

1. Re-build trust in cashless transactions

- Explain enhanced safety of chip and PIN technology over magnetic stripe:
  - Tell the consumer why they are getting this new card – hard to crack chip information and safer than the 'old' card
  - Inform them that they would have to key in their PIN nobody else knows

2. Sell the benefits of cashless transactions

Use interactive communication to drive the following:
- Not susceptible to coinage issues
- Convenient – no need to waste time withdrawing money from the ATM
- Cheap – unlike withdrawing the money, it does not involve any charges on the part of the consumer. The merchant pays for the transaction to the bank
- Safe – no need to carry cash around
- Helps in tracking expenditure

NB:
- *Interactive communication would include use of call-in TV & radio programs whereby the audience also shares their positive experiences with cashless transactions*
- *Road shows are also an engaging avenue*

3. Build an aspirational lifestyle around plastic money

- Use emotional cues to drive the desired lifestyle imager y - Smartness, trendy, up-dated etc.

4. Enhance frequency of usage

- Develop a loyalty programme where customer earns points every time they swipe
- Have co-branded cards. For instance acquirer partnering with a mobile service provider where one earns free airtime or internet bundles every time they swipe their card

Re-structure consumer's physical environment

1. Enhance confidence in the safety and security of the system

- Use authentication procedures that are considered to be hard to duplicate e.g. use of finger-print
- Re-design the POS area to assist customer 'shield' their PIN. E.g. via a small screen

2. Encourage interaction with the system at an individual level

- Introduce self-administering booths in appropriate places such as convenient stores, fuel stations and soda and alcohol dispensers

3. Improve customer's experience

- Use technology that relieves consumer's anxiety such as **near-field technology**
- Ensure inter-operability. i.e. the customer should not have to carry different cards for different situations. E.g. transport cards

4. Re-structure key consumer touch-points

- Support consumer mind-set - from ATM to a card that plays more than one role by re-branding:
  - **Banking hall area** – Change from 'ATM/DEBIT CARD COLLECTION' to a more neutral name
  - **ATM lobby area** - put communication that reminds the other values of the card – for payments

Regulate consumer's operating environment

1. Create demand for cashless transactions

- Enforce cashless transactions in government institutions via:
    - Regulating value of transactions that can made via cash. i.e. above a given value of transaction, it can only be done through card and not cash
- Offer incentives to encourage cashless transactions e.g. tax relief while making tax returns
- Penalize for transacting through cash. E.g. 'administrative charges' for paying through cash

2. With EMV compliance, anticipate the next potential security lapse area – ATM lobby and data centers

- Protect the consumer and alleviate chances of another level of mistrust by:
    - Setting minimum safety and security standards and features at ATM lobbies and data centers [within the banks]
    - Having compliance benchmarks, performance below which the stakeholder is penalized

3. Encourage a positive experience for the consumer

- Set a maximum time-frame within which dispute arising from card transactions must be resolved e.g. within a week
- Set minimum service standards for all players .e.g. to control down time and speed of data transmission

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iii) Merchant challenges and barriers and overcoming them

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We spoke to three types of merchants

Those that allow use of plastic cards	▪ These are merchants that do not restrict use of plastic cards in their outlets ▪ Most of their challenges revolve around system issues, training gaps and perceived high commission charges
Those who do not allow use of plastic cards	▪ Those that have the POS but restrict usage ▪ Key hindrances to encouraging usage of plastic cards that emerged were - perceived high commission and fear of leaving the trail of transaction/'evidence'
Lapsed merchants	▪ Those that used to allow but have since lapsed. Key hindrances was mainly around outlet location, small customer base coupled with perceived high commission charged

▪ **High commissions** is a common concern across the various types of merchants

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Merchant challenges and barriers

Perceptual barriers

❖ Perceived **high acquisition** cost [POS] and **high commission**

❖ Perception on outlet caliber:

- 'Down-town' hence not trustworthy

- Located on a non-busy street hence low card business [to warrant better commission charges]

- Consumer profile: No money in their accounts

- Low profit margins e.g. fuel stations hence minimal flexibility for commissions

- High risk business e.g. hardware, wines and spirits etc.[First point people thinks of swiping stolen cards]

"…Here I have never had a customer asking to swipe their card…They wouldn't trust these sides of town!..." Merchant Decision maker

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"…For us we have to pay our suppliers on delivery unlike bigger outlets that enjoy credit terms…Cards reduce liquidity which is not good for us…" Merchant decision maker

Training and support issues

❖ Slow response rate to issues/problems. E.g. in case of technical failure

❖ Training largely done amongst the supervisors who do not cascade the knowledge to the cashiers

❖ Staff transfer or turnover leading to skill gap

❖ Infrequent training [a few mentions]

NB: Lack of technical know how to operate the machine came out a key barrier amongst till attendants to encourage use of cards. I.e. they simply tell the customer the machine is not working

"…We had to write a letter explaining why we double swiped… Dealing with such bureaucracies is time wasting…" Merchant Decision maker

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"…Some machines are complicated to use yet their representatives never come to train… So we end up never using them…" Merchant staff

Merchant challenges and barriers – cont'd

System issues

❖ Slow speeds or entire system failure leading to:
  - Long queues
  - In some instances, lost sales
  - Customer dissatisfaction
  - Potential erosion of the outlet's equity

Negative customer and staff experience leading to dis-adoption

"…If you swipe a customer's card more than once they tend to think you are incompetent… That is why I prefer cash …"
Merchant Staff

"…For me when I see the queue is building up I stop accepting cards. They are the ones which contribute to long queues…"
Staff

Tax evasion

❖ The fact that card transactions are documented leaving a trail of evidence on actual revenue

"…We are a small SME who are still growing and when it comes to things like cards, they record everything…Our taxation system is very punitive an if you pay everything you will soon close business…" Decision maker

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Overcoming merchant challenges and barriers

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Educate the merchant

1. Enlighten the merchant [decision maker] to look beyond commission charged

"…Merchants have to start seeing the commission charged in the same way they see insurance… Why do they pay the premium yet 80% of the time the incidence does not happen?..."

"…If the merchant does not understand the whole process that surrounds commission they will act as negative agents…"

- Demonstrate risks and costs associated with cash.in order to make the merchant appreciate the premium
  - Need for extra supervisors to verify reconciliations
  - Cost of the escorting the money to the bank
  - Cost of insurance
  - Handling a lot of cash exposes the merchants to risks such as loss of cash in transit, insecurity [easy target in case of a robbery attack] and theft by staff
- Make them see the logic behind the commission charged/how it is arrived at:
  - the stakeholders involved/have to be paid out of the commission
  - Cost of setting up the infrastructure
  - Cost of maintaining the relationship – aftersales service etc

2. Minimize self-efficacy barriers amongst till attendants who are not confident on operating the machines

- Extend training to go beyond the supervisor – include the till attendants
- Make training more regular. In order to contain costs, have jointly sponsored training organized by all the acquirers as opposed to working independently

3. Educate merchants who do not understand how the whole system works

- Explain:
  - The technical aspect of the machine - how the whole system works
  - That support and training is offered by the acquirer
  - How disputes are resolved

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Persuade the merchant

1. **Encourage merchant decision makers to support cashless transactions**

- Make them see the indirect benefits of cashless transactions:
    - Card acceptance **raises the profile of their outlet** and **overall** the **equity of your outlet** .e.g. the type of customer who frequents the outlet
    - Offers a **peace of mind** – you do not have to worry about robbery attack or loss of cash in transit
    - Encourages **more purchase per transaction** when compared to cash, [e.g. when purchasing fuel] which translates to more revenue for the outlet
    - By reducing shortages, you have a **less stressed workforce**
    - Brings in **other savings** such as reduced insurance premiums, reduced CIT costs etc

2. **Make merchant decision maker start accepting low value transactions**

- Inform them that with improved technology telephone connection costs are now significantly low. E.g. from 10/- to 1/- per call

3. **Make the till attendant endorse plastic money/to be an agent of disseminating information on plastic money. Make them see themselves as part and parcel of the whole process**

- Make the till attendant see the benefits they would accrue by embracing cash transactions:
    - No coinage issues
    - Less money to reconcile at the end of each day
    - In case of an error, it is easy to trace back
    - Feeling of safety – not handling huge sums of money

- Incentivize merchant staff as a way of motivating them to support plastic cards

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Re-structure merchant's physical environment

1. **Enhance till attendant's perceived self-efficacy**

   - Introduce technology that is easy to use in order to reduce training need and make the till attendant confident while using it e.g. tap technology

2. **Surmount the barrier of initial installation cost amongst small outlet owners**

   - Introduce low cost acquisition infrastructure e.g. use of a phone as opposed to PDQ machine
   - Offer suitable solutions depending on merchant type and level of transaction. E.g. PDQ that is suitable for a merchant that does 10,000 transactions per month and a different one for a merchant that does 3,000 transactions per month

3. **Overcome perceived low turn-over barrier amongst small outlet owners**

   - Enhance a collaborative relationship in the distribution chain. E.g. manufacturer supporting the small retailer to push sales

4. **Improve both merchant and customer experience**

   - Reduce number of PDQs in the outlet – integrate them into one
   - Have integrated POS [EFT] with PDQ to avoid sending the customer to the customer service desk

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Regulate merchant's operating environment

1. **Alleviate the frustration that comes with system failure and bureaucracy that surrounds dispute resolution**

   - Set a maximum time-frame within which dispute arising from card transactions must be resolved e.g. within a week
   - Set minimum service standards for all players .e.g. to control down time and speed of data transmission

2. **Heighten acceptance of payment cards within government**

   - Offer incentives for transactions done through card

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iv) Issuer and acquirer challenges and barriers

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Issuer and acquirer challenges and barriers

Internal and inter-bank challenges

- ❖ **Bank staff** [that issue cards to customers] **not communicating** the full value of the card to the customer. i.e. issuing it as a tool to access funds from their accounts

  "…They [staff] fear that if they tell the customer that the card can be used for shopping, the customer will have a negative experience at the POS…will make them lose trust in the card altogether…"

  "…Even our very own staff do not use their cards for shopping… Then we expect them to communicate this value adds to the customer… That is how bad it is…"

  "…Making our internal staff change their mind-set that the card is no longer an ATM card but a card that can be used at the POS is a key educational campaign that we ignored…"

- ❖ **Lack of collaborative effort by banks** to solve common challenges facing banks .e.g. Purchasing plastic cards as a block and other infrastructure that can be shared e.g. switching

- ❖ **Unproductive competition** – under-cutting of commission charges and other 'incentives' practices by some acquirers. i.e. going below the minimum threshold to operate profitably making the POS business a loss making one.

Challenges with merchants

- ❖ **Surcharging** the customer which is against the regulations provided by the schemes, and can lead to the acquirer being penalized

  "…At times we are forced to withdraw our terminals from merchants who persistently sur-charge the customer despite constant warnings….This is lost revenue but we have to do it as sur-charging is against the rules…"

- ❖ **Blame shifting** – Every time there is a problem the acquirer is top of mind yet in some instances the problem is on their side e.g. power surges or not charging the machine

- ❖ **Staff turnover** which leads to a skill gap [operating the POS terminal]., making it expensive to keep re-training them

- ❖ **Fraudulent merchants** who collude with customers to run stolen cards

Issuer and acquirer challenges and barriers

Regulatory- KRA, Judiciary, CBK

❖ **Lack of understanding** on how cards work by customs officials, leading wrong valuation of the cards which in turn translates to punitive taxation

❖ **Lack of understanding** on how cards work by the prosecuting arm of government, leading to lenient penalties to fraudsters, coupled with **long judicial processes** when it comes to dispute resolution

"…KRA does not have a good understanding of how the entire eco-system within which cards works… this result in incorrect valuation and taxation of white plastic …"

"…The penalties are not commensurate with the damage caused…"

"…The lengthy judicial process is frustrating…"

Data and infrastructure providers

❖ **Down-time** issues . Higher than the acceptable levels. i.e. Beyond 45 secs is considered too long

❖ **Unstable and unreliable network/technology**, particularly over the weekend, when it is reported to become slower. This in turn forces banks to outsource for these services outside the country which is expensive

❖ Local providers that are reliable reported to be very expensive

"…You find that voice is working but data cannot be transmitted…We need an improvement be it on landline or wireless technology…"

"…The success of card business is largely reliant on connectivity…Until we get this right penetration of cards will remain low because of negative customer experience…"

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Issuer and acquirer challenges and barriers

Challenges with card producers

❖ High personalization costs – unit cost reported to be too high

"… Local personalization is so prohibitive to such an extent that it is cheaper to import personalized cards even after paying taxes…"

❖ Delays in delivering orders

"…At times they tell you that they are late to deliver because they are serving everyone… They don't have the capacity to serve all their customers.…"

"…It is faster to get cards personalized outside the country than it is to get them from De La Rue.…"

Overcoming issuer and acquirer challenges and barriers

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Overcoming issuer and acquirer challenges

"…The solutions to most of our challenges is all stakeholders to sit around the table…"

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Educate bank staff and government officials

1. Sensitize bank staff on the need to sell the full value of the card. i.e. make this agenda top of their mind

- Organize internal training and refresher courses to sensitize and remind them that the card is no longer an ATM card but an automated card that can play different roles
- Have a list of dos and don't dos while communicating about cards. i.e. terms and expressions they should not use as they skew customer's mind

2. Sensitize bank staff on the need to disseminate exhaustive and accurate information to the customer

- Avoid mis-selling . E.g. selling a credit card to a customer who has been denied a loan as this leads to client dissatisfaction and loss of trust

3. Make government officials understand how the whole card eco-system works

"…Customs officials should stop using previous values to judge current value of the cards…Each consignment should be treated independently and based on the evidence presented…."

- Organize training and workshop sessions to KRA and judicial officials
- Core content to include:
  - Value of card at various stages. E.g. white plastic vs. personalized card
  - Reasons why value of a white plastic cannot be standard. I.e. dependent on quantities purchased; bargaining powers and vendor used

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Persuade bank staff

1. Motivate bank staff to start selling the full value of the card, particularly during issuance of the chip and pin cards

- Make payment cards top of their minds by:
  - Incentivizing them make payments with` their cards at personal level . This would in turn make it easy for them to transfer the same to others

  - Equip them with tools that would make it easy for them to communicate the full value of the card to the customer.
  - This can be through visual chart that summarizes:
    - the various scenarios the card can be used
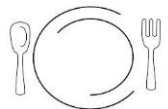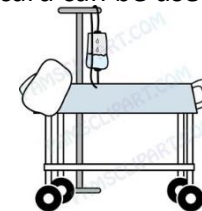
    - enhanced safety that comes with chip and PIN technology

    - The applicable charges for the different channels used e.g. 30/- for withdrawing money vs. free of charge on other channels – e.g. paying for bills or shopping

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Design bank's physical environment

1. Make the payments industry attractive to investors by improving conditions and competition

"…If only we had good local vendors card costs would significantly come down…. This would in turn make it easy for us transfer the same to the customer and eventually encourage rural penetration…"

- Work collaboratively with each other. For instance, sharing infrastructure and non-competitive costs
- Collect and present industry data on payments to demonstrate capacity of growth of payments industry to potential investors

2. Make investment in the category more conducive for acquirers

- Invest in low-cost acquiring devices

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Regulate bank's operating environment

"…The government has the power to prevent some the things hindering card up-take…"

"…The government has to step up and pass laws that are very punitive criminals…"

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Regulate bank's operating environment

1. Create an enabling environment for acquirers to operate profitably

"…The acquiring business is a loss making one… we only do it to bring value to our customers…"

- Set up minimum standards and penalties to bring the up-time to nearly 100%

- Encourage local investment by more players into the market through incentives

- Put in place regulations that are geared towards bringing the transactional charges lower

2. Create a favorable operating environment for both the acquirers and issuers

- Contain fraud by making the penalty punitive
- Strengthen enforcement and prosecution
- Implement differentiated inter-change geared towards driving adoption of card payments e.g. school fees 0%; restaurants 3% ; accommodation 2.5% etc.

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v) Card producers challenges and barriers & overcoming them

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Card producers challenges and barriers

Challenges with the government

❖ High taxation on cards: charging 25% tax duty on the value of the card considered punitive. This cost is passed down to the bank and the bank in turn passes it to the customer

❖ Perceived lack of understanding of the card business by KRA, subjecting the card provider to unfair taxation

❖ Government delays – taking too long to act on propositions:

Challenges with the banks

❖ Slowness in acting on government directives. E.g. on EMV compliance. All tend to rush at the last minute leading to a lot of pressure to the card producer to deliver on time. In order to deliver on time, this means extra costs for the card producer

❖ Pressure from banks to offer discounts yet pricing is highly driven by market forces, particularly taxation

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Over-coming barriers faced by card producers - at a glance

1. Create an enabling environment for the card producer

- [CBK]: Bring the taxation on the value of the card down. Bring it to about 10% in order to support card penetration to rural areas
- [KRA]: Have your own mechanism to identify whether the card is encoded or not, in order to make an informed decision on taxation

2. [Persuade] Make the bank appreciate the premium charged

- Explain to the bank what your cost personalization entails:
  - Securing the card personalization environment – in line with the stipulated standards
  - Operating on tight timelines which has a cost implication in terms of manpower
  - Taxation
  - Warehousing services of white plastic to the banks [for free]
  - Yearly accreditation/certification by schemes which is expensive

"…We almost make nothing out of the card business due to the associated costs…"

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vi) Scheme challenges and barriers
& overcoming them

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Scheme challenges and barriers

Challenges with issuers and acquirers

❖ Perceived **lack of pro-activity** by **bank staff** to cross-sell. I.e. not actively telling the customer that they can shop and pay bills with their cards

"…It is the issuer's responsibility to ensure that the full value of the card are stipulated to the customer… Current messages are geared towards a specific agenda…card as a tool to withdraw money…"

"…The moment you tell a customer 'here is your ATM card' you have already lost them…ATM should be erased completely from banking journals…This term is giving us a lot of problems…"

Challenges with merchants

❖ Refusal to accept low value transactions. I.e. below 1000

❖ [Merchant staff]**: Skill gap** on how to operate the machine as a result of high staff turnover

"…Some of them swipe the cards so many times and it is evident that they don't know what they are doing…"

Operating environment issues

❖ **Telcos** – Poor network connectivity in some regions limiting card acceptance

❖ **High cost of rolling out system/acquisition** limiting the proliferation of financial inclusion at the lower tiers of the market

❖ Lack of understanding of the card business by journalists/reporters, who end up cementing wrong perceptions to end-users

Regulatory issues

❖ Lack of a legal framework to strengthen regulation to effectively curb fraud

❖ Lack of payment regulations to define framework in which payment should be carried out

❖ Tendency to pass down directives to banks in form of letters and memos, and its not clear whether they are gazetted requirements

"…It is unclear whether the directives they come up are enforceable… Are there penalties for non- compliance?…"

Over-coming barriers faced by schemes – at a glance

1. Educate reporters, bank staff as well as customers on plastic money

- Make other values of the card [apart from withdrawing money] top of consumer's and bank staff's mind
- Outline the differences between the new Chip and PIN technology and the previous magnetic stripe card to bank staff. Ensure they are fully aware of the improved safety features of the chip and PIN technology before they are taxed with the responsibility of disseminating the new cards to customers
- Include reporters into training programs so that they can understand the whole card ecosystem and the right terminologies
- Erase 'ATM' in the minds of customers, bank staff and journalists

2. Persuade the customer to use their card as a payment tool

- [By bank staff]: Promote the security features around the chip and PIN card in order to alleviate fears of using the card in outlets. Highlight to the customer the improved security that comes with Chip and PIN technology

3. Design an enabling environment for card penetration

- Explore low cost acquisition technology such as mobile POS in order to promote rural penetration
- [By Telcos] Roll out 3 G technology in all parts of the country to improve communication on devices

4. Regulate the environment in which the schemes operate

- Set up a legal framework to strengthen regulation to effectively curb fraud
- Establish payment regulations to define framework in which payment should be carried out
- Make it clear whether directives issued are enforceable, and if so, penalties for non-compliance

Vii) Challenges and barriers faced by switches and overcoming them

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Switches challenges and overcoming them – at a glance

Commercial challenges

- ❖ **Resistance to embrace inter-operability** by some banks. I.e. preference to working their own independent vendors

    "…We have too many switches, too many platforms that people are running on…"

- ❖ **High cost of infrastructure** - both setting up and upgrading
- ❖ High costs of setting up a project and managing client's expectations/delivery dates
- ❖ The above are largely driven by the fact that there are no local vendors and hence the technology has to be imported

Data safety and security

- ❖ With EMV compliance , it is **anticipated** that fraud will move to may move to the physical data centers. Hence security of data centers is a concern

    "…If fraud remains rampant after EMV chip, there will be an impact on consumer confidence…"

Overcoming the challenges

1. **Persuade all stakeholders to work together in order to bring switching charges down:**

    ↓

    - ▪ Communicate the benefits of interoperability:
        - ▪ Convenience – outsourcing services
        - ▪ Cost effectiveness - brings cost of transactions down due to shared resources

2. **Protect customer data in order to avert fraud:**

    ↓

    - ▪ Enforce regulations that govern system security and safety

    "…Systems security needs to be paramount and PCI DSS needs to be implemented at all sites holding cardholder data… These standards have significant operational impact…"

Viii) Challenges and barriers faced by Telcos and overcoming them

Telcos challenges and barriers

1. Operating environment/regulatory challenges

❖ The market is described as 'immature' with a lack of 'pure wholesale companies' in the telecoms area. E.g. MSP providers venturing into infrastructure or banking space which is not good for business

"…The line is blurred with one business expanding into the business of the other… This is not good for our business…"

❖ Lack of enforcement of regulation around civil engineering. E.g. road construction companies are not held responsible for the damages they cause to telecom infrastructure while constructing roads

"…Civil engineering companies do not respect telecommunication infrastructure…They simply dig up fiber since it is our problem to fix it up…!

❖ High cost of installing the infrastructure making it difficult/not economically viable to roll out in all parts of the country

"…It is almost impossible to move to an area if it is only one bank interested… The costs would simply be unbearable …"

❖ Increased way leave charges, particularly with the on set of county governments

"…With county governments, way leave has become a revenue source…Paying Kes 10,000 per meter for a way leave is prohibitive…"

2. Logistical challenges/planning challenges

❖ Difficult to install fiber optics cables due to multiple connections and networks on the ground .

"…It is a logistical nightmare to install cables on an already developed area… There are so many connections underground…"

❖ Poor planning – telecom infrastructure not usually considered during the planning stages of projects/ estates/cities as opposed to during the inception stages

❖ Duplication of infrastructure by all players which is no cost-effective

"…The best way to develop a telecom system is during the planning stages…This way you are able to install a backbone cable that can be shared by anyone who wants to enroll.. But installing it later is usually to meet a particular client's needs which is first of all expensive and secondly it presents logistical challenges …"

Over-coming barriers faced by telcos – at a glance

1. Persuade the various stakeholders

- Make the county government see the benefits of fiber optics so that they can review their way leave charges:
  - E- marketing
  - E-health
  - Attracts investors to set up offices in the counties

2. [Design] Avert logistical and cost challenges associated with infrastructure installation [as a result of poor planning]

- Work closely with county governments during the planning stages of their cities.i.e. be part of the designing of their estates shopping centers, schools, libraries, hospitals etc so that backbone cables can be installed on the on set

3. Regulate then environment in which infrastructure providers operate

- Install backbone [broadband] cable that connects all counties
- Enforce regulations that compel civil engineering companies and other users of the ground [on which telecom cables are installed] to be responsible for the destruction they cause in the course of their operations
- Enforce planning by-laws and regulations to ensure that proper planning is not disrupted

"…In the UK if you dig up a fiber cable you have to ring the council immediately, stay there until the problem is fixed and you have to pay for it. The longer you stay before fixing the problem the higher you are charged… So those constructing roads have learnt to do it with due care …"

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Thanks!

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