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# Future of Finance

August 2023

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**dentsu**



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This report explores the way in which the identified trends have been shaped by current the economic situation in Kenya and predicts their future trajectories in the context of an ever-changing economic landscape.

# Contents

Economic Backdrop: The Cost-of-Living Crisis & Consumers in Kenya .....	1
Trend 1: Financial Wellness .....	4
Trend 2: Banking Goes Green .....	7
Trend 3: Inclusive Banking .....	9
Trend 4: Humanized Banking .....	12
Trend 5: Purposeful Rewards .....	14
Trend 6: New Payment Frontiers .....	18
Trend 7: The Investment Revolution .....	20
Trend 8: The Credit Makeover .....	23
Trend 9: AI-Powered Insurance .....	25
Trend 10: Branches Reinvented .....	27
Conclusion .....	29
Reference List .....	31

# Economic Backdrop: The Cost-of-Living Crisis & Consumers in Kenya

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This economic backdrop acts as an entry point to understanding the state of consumer attitudes and behaviour in Kenya



Kenya is one of the strongest economies in Eastern Africa, due in large part to its vibrant private sector and its highly skilled and educated workforce. However, the ongoing cost-of-living crisis, which is the greatest of its kind in the 21<sup>st</sup> century, has not left any corner of the globe unscathed.<sup>1</sup>

The term ‘cost-of-living’ refers to the amount of money required to maintain a certain quality of life, the bearing of this crisis means “ordinary people are struggling more and more every day with the price of fuel, food and basic commodities” on the rise.<sup>2</sup>

The escalating cost-of-living has been a glaring and persistent issue since the COVID pandemic took hold of the world early 2020, followed by Russia’s invasion of Ukraine, coming together to create increments in the cost of energy and food, a rise in unemployment and insecurity, disrupted supply chains, worsened chronic debts and civil unrest.

Kenya has not been exempted from the recurrent crises and has been especially hard hit due to the economic instability that preceded the pandemic.

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1 reliefweb.int. (2022). Global Cost of Living Crisis, World Economy in a Fragile State - World | ReliefWeb. [online] Available at: <https://reliefweb.int/report/world/global-cost-living-crisis-world-economy-fragile-state>  
2 Sharma, S. (2022) *The rising cost of living in Kenya: Causes, effects and policy options*, Strathmore University Business School. Available at: <https://sbs.strathmore.edu/the-rising-cost-of-living-in-kenya-causes-effects-and-policy-options/>

The price of commodities such as sugar, cooking gas and maize flour saw an increase of 46% between 2013 and 2020,<sup>3</sup> and between 2020 and 2022 the price of maize more than doubled.<sup>4</sup> Further yet, the ongoing drought in the country which has resulted in shortfalls of rain for six years in a row has only placed greater strain on the social and economic welfare of its citizens who are feeling the pressure from every direction.

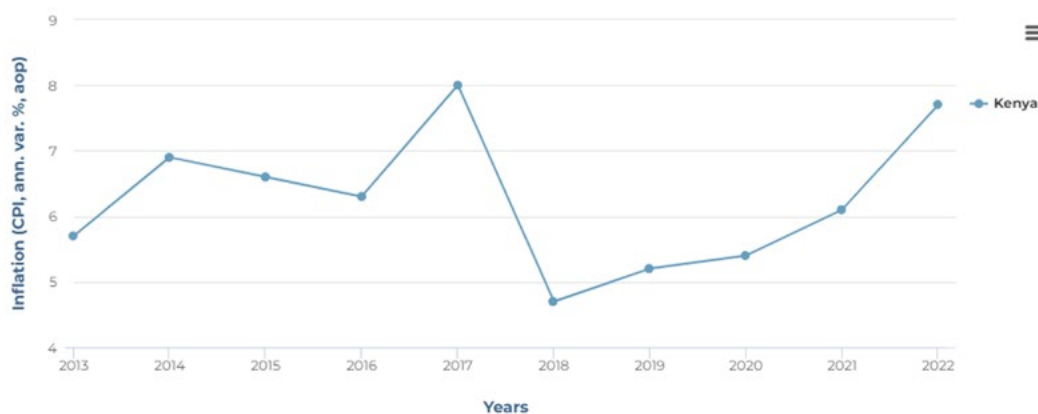
This economic backdrop acts as an entry point to understanding the state of consumer attitudes and behaviour in Kenya in the face of global and national financial volatility that directly impact the personal finances of its 57 million inhabitants.

The Dentsu Finance DNA (2023) identifies ten core trends that will shape the future of finance and payments over the coming decade, with the cost-of-living crisis in central focus.<sup>5</sup>

This report explores the way in which the identified trends have been shaped by

current the economic situation in Kenya and predicts their future trajectories in the context of an ever-changing economic landscape. The graph below displays the rate of inflation in Kenya between 2013 and 2022. Its continuous rise between 2018 and 2022, going into the present where it stands at 9.2%, suggests that the rate of inflation will remain on this course unless serious government intervention comes into play, otherwise, “prospects of a rapid economic recovery for Kenya and a better quality of life for most Kenyans in a post-pandemic period look increasingly grim.”<sup>6</sup>

The impact of the ongoing cost-of-living crisis is most felt by ordinary citizens, the projected trends this report will provide insights into how Kenyans are coping amid economic and financial hardships, how these coping mechanisms influence their consumer habits, and how brands in turn are responding and adapting to these changes.



This chart displays the rate of inflation (CPI, annual variation in %) for Kenya between 2013 and 2022.<sup>7</sup>

3 Warah, R. (2022). COVID-19 only heightened Kenya’s existing economic problem. [online] Available at: <https://www.one.org/africa/blog/covid19-kenya-economy-inflation/>

4 Njeru, T.N. (2022). Kenya’s maize price has doubled in a year: 6 ways to avoid a staple food shortage. [online] The Conversation. Available at: <https://theconversation.com/kenyas-maize-price-has-doubled-in-a-year-6-ways-to-avoid-a-staple-food-shortage-190149>.

5 Dentsu (2023), Finance DNA – The Future of Finance and Payments.

6 Warah, R. (2022). COVID-19 only heightened Kenya’s existing economic problem. [online] Available at: <https://www.one.org/africa/blog/covid19-kenya-economy-inflation/>

7 Source: Central Bureau of Statistics Kenya at FocusEconomics. (2023). Kenya Inflation (CPI, ann. var. %, aop). [online] Available at: <https://www.focus-economics.com/country-indicator/kenya/inflation/>

# The 10 Trends Kenyan Brands Must Master Today:



Financial  
Wellness



Banking  
Goes Green



Inclusive  
Banking



Humanised  
Banking



Purposeful  
Rewards



New Payment  
Frontiers



The Investment  
Revolution



The Credit  
Makeover



AI-Powered  
Insurance



Branches  
Reinvented



# Trend 1: Financial Wellness

Financial Wellness is defined as a state of being wherein a person can: fully meet current and ongoing financial obligations, feel secure in their financial future and be able to make choices that allow them to enjoy life.<sup>8</sup> It can be measured through assessing one's ability to manage short-term financial obligation and consumption needs, absorb financial shocks and remaining on track to achieving long-term goals, and to feel confident and in control of one's finances.<sup>9</sup>

Over 1 in 2 adults in Kenya experienced financial shocks between 2021 and 2022<sup>10</sup>, with the cost-of-living on the rise into 2023, consumers are forced to scrutinize their spending and cut back on many non-essential expenses, while also searching for cheaper alternatives to accommodate a growing budget that exceeds their means. Roughly 35% of households have had to reduce consumption of non-food items

which are deemed non-essential, while 10% have sold their assets to survive the economic shocks.<sup>11</sup> Naivas supermarket for instance, which is the largest retail chain in the country has observed that while many customers have stuck to their preferred brands, they have downgraded the size and volume of their purchases. Alongside this, purchases of discounted items that fall into their "orange sticker program" doubled in the first 3 months of 2023.<sup>12</sup> Food, which accounts for one third of the shopping baskets for most Kenyans has seen the greatest rise in prices, leading to 5.4 million people experiencing food insecurity as compared to this same period last year where the figure stood at 4.4 million.<sup>13</sup> This link demonstrates the vital connection that exists between financial wellness and general wellness, and how the financial strategies Kenyans are adopting are necessary not just for their financial wellness but overall wellbeing.

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8 Consumer Financial Protection Bureau. (2017). *Financial Well-Being in America*. University of Wisconsin-Madison's Centre for Financial Security.

9 Gubbins, P. and Heyer, P. (2022). *The State of Financial Health in Kenya: Trends, Drivers, and Implications*. Financial Sector Deepening Kenya.

10 Gubbins, P. and Heyer, P. (2022). *The State of Financial Health in Kenya: Trends, Drivers, and Implications*. Financial Sector Deepening Kenya

11 Kivuva, E. (2022). *Inflation hurts spending power of consumers*. [online] Business Daily. Available at: <https://www.businessdailyafrica.com/bd/economy/inflation-hurts-spending-power-of-consumers--4055288>

12 Igadwa, L. (2023). *Kenyans cut luxury spending as high inflation keeps families awake*. [online] Business Daily. Available at: <https://www.businessdailyafrica.com/bd/economy/kenyans-cut-luxury-spending-as-high-inflation--4153008>.

13 European Commission. (2023). *Kenya: Acute Food Insecurity Situation February 2023 and Projection for March - June 2023 | Knowledge for policy*. [online] Available at: <https://knowledge4policy.ec.europa.eu/publication/kenya-acute-food-insecurity-situation-february-2023-projection-march-june-2023>.

**Trend in Action:**

Given the challenges of coping with the rising inflation, media outlets and banks have given more focus to financial literacy in their publications, helping to transform a culture that often experiences conversations around money as being disconcerting.<sup>14</sup> I&M Bank Kenya published an article, *Survive Inflation with These 5 Tips*, that demonstrates the proactive role banks can play to help consumers through these trying times.

This article explores what inflation is and what impact it has on the finances of Kenyans, it encourages consumers to reassess their wants and needs to better balance their spending, it warns of the reduced interest rates that are given on loans in times of financial crisis, suggests being more attentive to discounts and promotional sales – a change in behavior seen through the increased purchases of discounted items at Naivas stores – , draws attention to loyalty and reward programs that enable consumers to convert points to cash, and investing savings through secure avenues. By informing consumers of the benefits reward programs can offer, I&M Bank is able to highlight its own programs and assist customers in making the most of them, all while suggesting a variety of ways to better manage their financial wellness.<sup>15</sup>

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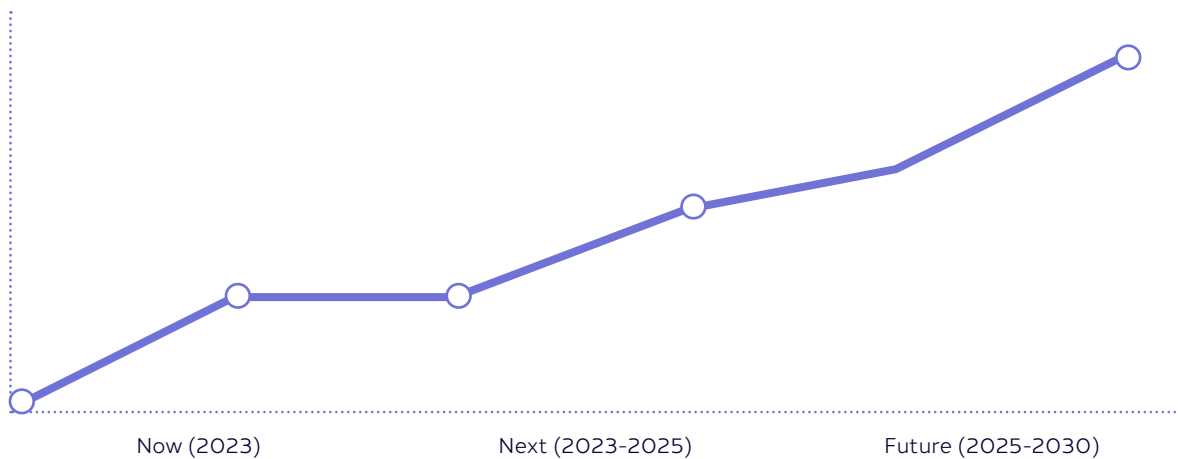
with the cost-of-living on the rise into 2023, consumers are forced to scrutinize their spending and cut back on many non-essential expenses

14 Burini, G. (2020). *We need to talk about money and how to ensure that we remain financially stable*. [online] Available at: <https://nation.africa/kenya/blogs-opinion/opinion/we-need-to-talk-about-money-and-how-to-ensure-that-we-remain-financially-stable--1840>

15 Wanyoike, B.G., John and Nicholas, B.G., Moturi George, Shadrack (2022). *SURVIVE INFLATION WITH THESE 5 TIPS*. [online] I&M Bank Kenya. Available at: <https://www.imbankgroup.com/ke/survive-inflation-with-these-5-tips/>

As it stands, the savings rates of Kenyans are below average on the African continent at 13% against Africa’s 17%.<sup>16</sup> Neighboring countries in the region such as Tanzania on the other hand had a savings rate of 34% as of 2020.<sup>17</sup> This significant difference is owed to lower financial literacy in Kenya, which can be defined as one’s ability to understand and apply financial literacy skills such as personal financial management, budgeting and saving effectively, in order to become self-sufficient. With financial literacy increasing alongside the cost-of-living, we can expect a rise in financial wellness in the coming years, as well as greater openness around

money related conversations both in private and public spheres. The current crisis, although taxing, is likely to have a lasting positive impact on financial literacy and mentoring in Kenya, which in turn positively impacts financial wellness in the country, better equipping consumers to handle unpredictable changes in the economic landscape. This trend is particularly critical as developments in financial wellness means that more consumers will have the ability to stay informed and meet current and future financial obligations in a self-sustaining fashion, therefore positively impacting the future trajectories of every other trend.



<p><b>Now (2023)</b></p> <p>Financial wellness is low due to the high cost of living. This will promote the need for financial literacy.</p>	<p>&gt;</p>	<p><b>Next (2024 – 2025)</b></p> <p>Financial wellness will rise because of improved financial literacy and cultural transformations that allow Kenyans to be more open and transparent around money-related issues.</p>	<p>&gt;</p>	<p><b>Future (2025-2030)</b></p> <p>Kenyans will experience high and lasting levels of financial wellness and be better equipped to navigate economic and financial turbulence.</p>
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16 Kimtai, A. (2023). *To boost Kenya’s savings culture, financial literacy must begin at home*. [online] Business Daily. Available at: <https://www.businessdailyafrica.com/bd/opinion-analysis/columnists/financial-literacy-must-begin-at-home--4168630>

17 [tradingeconomics.com](https://tradingeconomics.com). (2023). *Tanzania - Gross Savings (% Of GDP) - 2023 Data 2024 Forecast 1990-2020 Historical*. [online] Available at: <https://tradingeconomics.com/tanzania/gross-savings-percent-of-gdp-wb-data>.



## Trend 2: Banking Goes Green

Green banking involves the promotion of environmentally conscious practices that seek to reduce the carbon footprint created from banking activities. Its strategies are made up of two components: managing environment risk and identifying opportunities for innovative environmentally oriented financial products.<sup>18</sup> This trend is particularly relevant to Kenya as it is among the countries most at risk from climate change worldwide.<sup>19</sup> Given that the agricultural sector contributes 33% of Kenya's GDP, and employs over 40% of the country's population, the role played by drought in the current cost-of-living crisis has seen Kenyans especially affected.

The Central Bank of Kenya aims to foster a banking sector that *works for and with Kenyans*, and by doing so has aligned itself with environmental and social issues, with the goal of building a world where all financial services go green, for they acknowledge that climate change is one of the major risks threatening the well-being of mankind.<sup>20</sup>

In line with this, the CBK issued a "Guidance on Climate Related Risk Management", which seeks to enable banks to integrate climate-related risks into their governance, strategy, risk management and disclosure frameworks. Because climate change brings with it distinct risks related to the unpredictability and costliness of extreme weather events, this Guidance seeks to mitigate its impact on consumer assets to safeguard the credit risk of Kenyan banks.

### **Trend in Action:**

Absa Bank has deployed 6 billion Kenyan shillings towards sustainable investments and financing with the aim of accelerating climate transition by 2025. Among its initiatives was the "Birdies for Good" project which was announced during the Kenya Magical Open at Muthaiga Golf Club in March 2022. As part of its announcement, ABSA pledged to donate KES 1,200 for every birdie (a golf score in which a person makes one less stroke than par on a hole) toward planting fruit trees in Kenyan schools. These trees would go above and beyond the previously committed 10,000 trees the bank would plant as it works steadily towards its aim of planting 10 million trees in Kenya in the next five years.

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18 Awino, O.B. (2012), *The Relationship Between Green Banking and Financial Performance of Commercial Banks in Kenya*. University of Nairobi.

19 Were, A. (2023). *The impacts of climate change on fiscal and monetary policy in Africa*. [online] Available at: <https://www.fsdkenya.org/blogs-publications/blog/the-impacts-of-climate-change-on-fiscal-and-monetary-policy-in-africa/>

20 Central Bank of Kenya. (2021). *Guidance on Climate Related Risk Management*.

In the words of Jane Waiyaki, head of sustainability: “As Absa, we are a deliberate force for good, with a heart that beats for the communities in which we operate. We want to make a difference in people’s lives beyond the tournament, and the Birdies for Good initiative exemplifies this commitment. As a result, we challenge the golfers to bring their best game to the tournament and be a part of impacting our community through their scores”.<sup>21</sup>

Over 36 million people in Eastern Africa are being affected by climate change in 2023.

The steps being taken by the banking sector in Kenya toward restoration will over time cushion the devastation being faced by agriculturalists and pastoralists who are among the hardest hit due to their direct dependence on weather patterns and reliable rainfall.

In the short term, the continued emphasis on green banking will ensure that economic growth takes social and environmental issues into consideration going forward. As climate change continues to impact this region, environmental concerns will be emphasised more and more, which in turn promotes the need for green initiatives across the banking sector, creating a cyclical process that keeps Kenya on the path of environmental repair.

### Now (2023)

The vital role that green banking can play in alleviating the disastrous effects of drought on the livelihoods of consumers will become more apparent compounded by the cost-of-living crisis.



### Next (2024 – 2025)

The vital role that green banking can play in alleviating the disastrous effects of drought on the livelihoods of consumers will become more apparent compounded by the cost-of-living crisis.



### Future (2025-2030)

Green banking will become the new norm, with banks providing products and services to consumers who take environmental and social issues into account in their activities, a new value system will develop whereby the commercial activities of banks will seek to be equally beneficial to consumers, the economy, and the environment.<sup>22</sup>

21 Absa. (2022). Absa Bank Unveils Sponsorship for Kenyan Pros at the 2022 Magical Kenya Open. [online] Available at: <https://www.absabank.co.ke/media-centre/press-releases/absa-bank-kenya-to-raise-funds-for-environmental-sustainability-during-the-magical-kenya-open/>

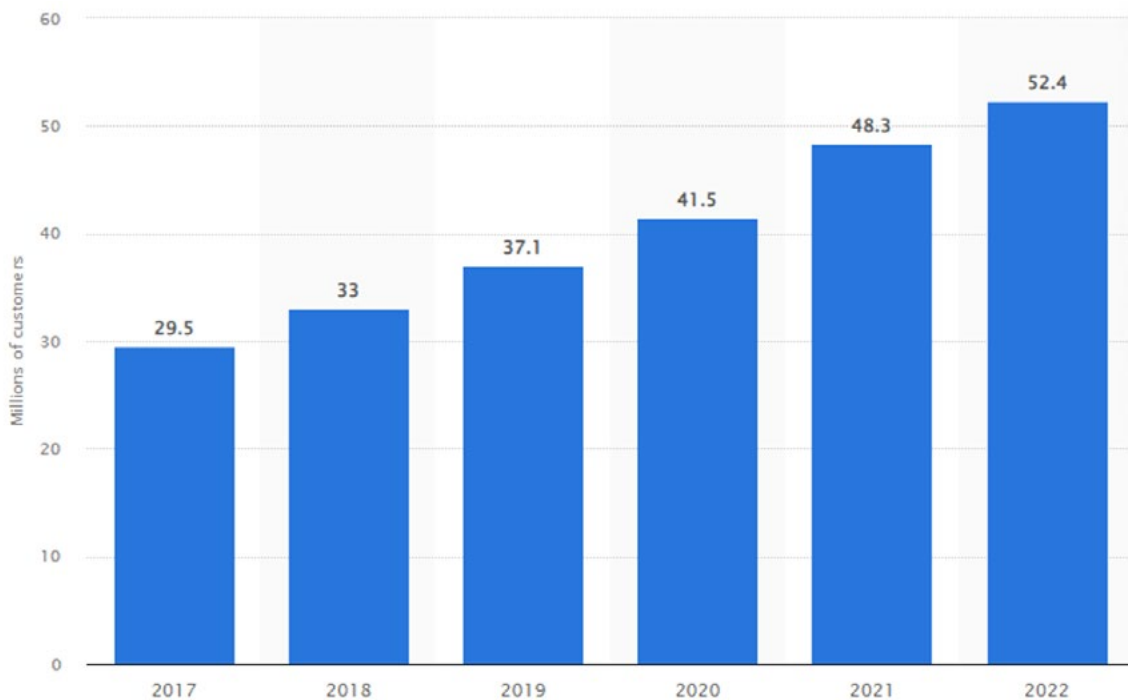
22 Kariuku, F. (2015). Sustainability in the Financial Sector in Kenya. Kenya Bankers Association.



## Trend 3: Inclusive Banking

In earlier years, Europe and North America defined the wider world's understanding of what a 'banked population' was. The ability to transact, save, borrow, and invest money in Kenya is however not a service limited to banking customers.

For most Kenyans, Mpesa and other forms of mobile money act as their primary tools for managing their finances. This is what places Kenya at the forefront of inclusive banking, Mpesa has allowed previously disenfranchised people to do everything you can do with a bank account – over a device. Without submitting you to previous scrutiny regarding paperwork that most people do not have.



A graph illustrating the steady rise in Mpesa customers between 2017 and 2022, with the current figure having exceeded 52.4 million.<sup>23</sup>

<sup>23</sup> Source: Statista. (2022). *M-Pesa customer numbers from 2017-2022*. [online] Available at: <https://www.statista.com/statistics/1139190/m-pesa-customer-numbers>.

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## As of 2021, the proportion of Kenyans with a bank account, alternative financial institutions or mobile money account stood at 79.2%, with a continuous rise documented since 2011

Inclusivity in banking refers to the move toward taking banking services to customers who so far, have not benefited from the banking system as a whole and who are dependent on non-banking and informal financing options. As of 2021, the proportion of Kenyans with a bank account, alternative financial institutions or mobile money account stood at 79.2%, with a continuous rise documented since 2011.<sup>24</sup>

Of this number, 50.6% possess bank accounts specifically, also showing how high the proportion of Kenyans who solely rely on mobile banking is.

Graph indicating the global rise in account ownership, with Kenya highlighted as having seen the 4<sup>th</sup> highest increment.<sup>25</sup>

As of 2017, 17% of Kenyan adults were fully excluded — meaning that they did not have a bank account, mobile money, nor did they make use of informal mechanism such as savings collectives. In a nation where over 90% of this excluded population is aware of mobile money, and where 67% live within walking distance of an access point,<sup>26</sup> how can banks, in the midst of the cost-of-living crisis appeal to both the excluded Kenyans as well as those who rely solely on mobile banking and other alternative avenues? Saccos for instance have been found to be particularly attractive to consumers in the current crisis the interest rate on savings in these institutions were in 2021 twice as high as that of banks.<sup>27</sup>

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24 The Kenyan Wallstreet, (2022). *Kenya stands out in the 2021 Global Findex - Kenyan Wallstreet*. [online] Available at: <https://kenyanwallstreet.com/kenya-stands-out-in-the-2021-global-findex/>

25 Source: The Kenyan Wallstreet, (2022). *Kenya stands out in the 2021 Global Findex - Kenyan Wallstreet*. [online] Available at: <https://kenyanwallstreet.com/kenya-stands-out-in-the-2021-global-findex/>

26 Cook, W. (2017). *Who Are Kenya's Financially Excluded?* [online] Available at: <https://www.cgap.org/blog/who-are-kenyas-financially-excluded>.

27 Mwanza, E. (2022). *Kenyans Are Ditching the Big Banks - Money Weekly*. [online] Available at: <https://www.money254.co.ke/post/kenyans-are-ditching-the-big-banks-money-weekly>

**Trend in Action:**

Absa Bank launched their Timiza loans application, which is eligible to those without smartphones, with no minimum limit on their income, and that provides differentiated and lower pricing for returning customers. Through Timiza, one can also pay off various utility and subscription bills, and purchase insurance from their mobile phone. By providing great flexibility and convenience in who can access the application and secure a loan, Absa illustrates how banks can be more inclusive, especially during the cost-of-living crisis when incomes are undermined. The bank has also targeted parts of the population that have a higher proportion of exclusion through targeting women-

focused start ups in partnering with Melanin Kapital to offer access to finances of up to KES 3 million, gain financial training, and build structured mentorship networks.<sup>28</sup>

Achieving financial inclusion in the coming years will require not only applying and building on existing products, but also continued innovation in order to better meet the needs of the excluded.<sup>29</sup> Of the 59 million mobile phones connected to networks in Kenya, 26 million were smartphones. It is necessary to develop ways for the remaining 33 million mobile phone users to access banking services and for consumers not to feel disqualified on account of fluctuating income, especially during times of economic crisis when financial inclusion is at its most critical.

**Now (2023)**

The cost-of-living crisis is encouraging innovation around creating access for those with limited resources to banking services. These services further take into consideration consumers of different income levels who are facing job insecurity and rather than barring them, they are creating accommodating features within services and products.

**Next (2024 – 2025)**

Innovations made to accommodate excluded consumers will become attractive to previously included consumers who will take advantage of the flexibility and convenience of newly developed services and products.

**Future (2025-2030)**

Banks will develop a stronger understanding of consumer desires, tailoring alternative services and products to meet the needs of different kinds of customers with varying needs and resources, and in turn, previously unincluded and included consumers alike will feel seen and represented by their banks.

<sup>28</sup> Absa. (2021). *Absa digital banking Timiza*. [online] Available at: <https://www.absabank.co.ke/app-online-and-other-banking/timiza/>

<sup>29</sup> Cook, W. (2017). *Who Are Kenya's Financially Excluded?* [online] Available at: <https://www.cgap.org/blog/who-are-kenyas-financially-excluded>.



## Trend 4: Humanized Banking

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Since the COVID pandemic, more consumers than ever are engaging with bank services and products over mobile and internet banking.

According to the Banking Industry Customer Satisfaction Survey, as of 2022, bank customers who preferred human-assisted customer service increased to 16% from 12% in 2021. Given that the ongoing cost-of-living crisis drives the need for more compassionate and supportive brand engagement, banks are looking to invest into occupying an advisory role in their customers lives, rather than simply acting as a provider of commodified banking transactions.<sup>30</sup> The secure access banks have to consumers' real time data makes this trend incredibly beneficial for the financial wellness of Kenyans in a time of economic strain.

Since the COVID pandemic, more consumers than ever are engaging with bank services and products over mobile and internet banking. The average consumer in 2023 is likely to bank daily

without setting foot inside a bank branch, the M1, Dentsu proprietary tool, the only one of its kind in Kenya illustrates this point in revealing that that 9.1 million adults manage their personal finances or bank accounts online weekly. This switch to digital banking will push banks to provide interactive experiences for their consumers, for although mobile banking is becoming the preference for many, customers often still depend on human interactions to solve challenges encountered.<sup>31</sup> Banks will therefore need to learn to merge human interactions and digital platforms to meet the needs of consumers.<sup>32</sup> Streamlined communication channels between consumers and the customer care services also makes humanized banking more efficient for managing complaints timeously and remotely.

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30 McKinney, D. (2017). *Humanizing Banking*. [online] Finxact. Available at: <https://finxact.com/humanizing-banking>.

31 Digital Banker Africa (2021). *The top 10 digital banking trends for 2021*. [online] Digital Banker Africa. Available at: <https://digitalbankerafrica.com/the-top-10-digital-banking-trends-for-2021/>

32 William, N. (2014). *Customer Service Strategies and Bank Performance in Kenya a Survey of Selected Commercial Banks in Eldoret Town, Uasin Gishu County Kenya*. *Kenyatta University*.

**Trend in Action:**

Various Kenyan banks have established AI chat bots with names and personalities across multiple platforms that consumers have grown fond of.<sup>33</sup>

Absa Bank has launched a virtual assistant named Abby which can be accessed through their website as well as WhatsApp. Their website further provides detailed instructions on the functionalities Abby offers, and how consumers can make the most of this tool.

For instance, Abby can inform customers of which services may require a physical branch visit, and which visits can be completed via internet banking, the mobile app or over the phone. This is an incredibly useful and convenient means for customers to manage their time and provides flexibility through the number of options available to them.

“For any bank to continue improving on its performance, it must differentiate itself by consistently providing exceptional customer service strategies.”<sup>34</sup>

**Now (2023)**

The cost-of-living crisis and improved financial literacy will see Kenyans wanting to be more hands-on in their financial management and staying informed on banking services and products. This alongside greater digital reliance will require banks to humanise their banking to better meet the needs and desires of consumers.

**Next (2024 – 2025)**

Customers who previously preferred physically visiting banks will observe the benefits of digital customer service and likely migrate to these services, increasing the necessity of improving the capabilities of these digital systems and their humanised services.

**Future (2025-2030)**

Most banks will have fully humanised their digital banking services, creating competition between different commercial banks and providing consumers with a variety of options to meet their needs.

33 Nwokoji, C. and Tribune, N. (2023). *Seven banks compete in Artificial Intelligence adoption: Kenya*. [online] [www.zawya.com](https://www.zawya.com/en/economy/africa/seven-banks-compete-in-artificial-intelligence-adoption-kenya-jpp2z4xr). Available at: <https://www.zawya.com/en/economy/africa/seven-banks-compete-in-artificial-intelligence-adoption-kenya-jpp2z4xr>

34 William, N. (2014). *Customer Service Strategies and Bank Performance in Kenya a Survey of Selected Commercial Banks in Eldoret Town, Uasin Gishu County Kenya*. *Kenyatta University*.



## Trend 5: Purposeful Rewards

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Banks can use purposeful rewards to build meaningful connections with consumers, while helping them make more beneficial financial decisions

Being rewarded impacts the way we build and repeat practices that are good for us. Rewards create and support a positive feedback cycle that keeps us on track towards our goals. Rewards linked to the financial behaviour are therefore a great tool to promote levels of commitment and productivity in consumers.<sup>35</sup>

Banks can use purposeful rewards to build meaningful connections with consumers, while helping them make more beneficial financial decisions, especially in the current cost-of-living crisis where income is stretched thin. They also create the opportunity for banks to better understand the needs of their consumers and how to best meet them creatively.

Purposeful rewards are identified as a keyway to building customer loyalty by providing personalised rewards that suit the needs of different consumers.<sup>36</sup> By providing consumers with a variety of everyday discounts, refunds and bonuses in a time of economic and financial hardship, they are able to recognise that their continued loyalty is beneficial in tangible ways that are tailored to their individual needs.

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35 Moneythor. (2022). *Rewards | Behavioural Science in Banking*. [online] Moneythor. Available at: <https://www.moneythor.com/2022/04/29/rewards-behavioural-science-in-banking/>

36 Coinscrap (2022). *How rewards programs work in digital banking*. [online] Coinscrap Finance. Available at: <https://coinscrapfinance.com/fintech-news/how-rewards-programs-work-in-digital-banking>.

**Trend in Action:**

KCB Bank Kenya unveiled a loyalty rewards campaign in 2022 that sought to appreciate its customers, merchants, and agents. The “Simba Rewards”, campaign saw customers and partners who performed the highest number and value of transactions receive cash rewards of up to KES 10,000. The transactions that qualified included sending or receiving money from businesses and customers, and transfers to and from financial institutions to a KCB mobile wallet or bank account. This campaign worked well to incentivise customers who usually engage with different payment avenues to conduct their transactions through KCB channels. KCB Bank director expressed that this campaign was created to “appreciate and recognise our customers for doing business with us” With the goal of strengthening the bank’s partnerships and relationships”.<sup>37</sup>

Majority of purposeful reward programs are beginning to take place on digital platforms, linking this trend with trend 3, for as digital customer services become more personalised, it becomes possible to link different consumers to the rewards programs that would best cater to their lifestyle. As banks refine their purposeful rewards, they need to ensure that these programs are easy to understand and use for their customers, for difficulties encountered when applying for the program or redeeming awards can reduce consumers interest and willingness to participate. It is also necessary to raise awareness and build trust around these programs as one in three consumers who are not part of any loyalty programs state that it is because they are unaware of any, while others do not enrol as they are sceptical of the program.<sup>38</sup>

**Now (2023)**

The cost-of-living crisis creates the opportunity for banks to alleviate the financial burden of consumers through purposeful rewards. Building awareness and ease of access to rewards programs raises their popularity.

**Next (2024 – 2025)**

Rewards programs will have been integrated into digital banking services, and alongside more humanised banking, consumers will be able to stay informed on purposeful rewards tailored to their individual needs, in turn growing consumers engagement with digital banking.

**Future (2025-2030)**

Purposeful rewards will have grown in variety and specificity due to improvements in the ability of digital banking to track customer satisfaction and preferences. Consumers will be informed and aware of what works best for them, strengthening the relationships and loyalty between banks and their customers.

<sup>37</sup> KCB Group. (2022). *KCB Bank Kenya Ltd.* [online] Available at: <https://ke.kcbgroup.com/about-us/news-room/banking/kcb-in-kshs-13m-loyalty-cash-rewards-to-customers>.

<sup>38</sup> KPMG (2021). *The truth about customer loyalty - KPMG Global.* [online] KPMG. Available at: <https://kpmg.com/xx/en/home/insights/2019/11/customer-loyalty-survey.html>.







## Trend 6: New Payment Frontiers

According to VISA, Kenya is the first ranking country in Africa in the realm of digital payments.<sup>39</sup> The use of mobile money payments has risen greatly following the CBK's push for the service in recent years, and during the COVID pandemic particularly. In 2020, the Kenyan government released a directive through the CBK that instructed commercial banks and payment service providers to stop charges on all transfers from mobile money wallets and bank accounts.<sup>40</sup>

In 2023 however, the Kenyan government introduced new taxes that caused the cost-of-living to rise further. The excise duty on airtime and telephone services went up from 15% to 20%. This has had a major impact on the 21 million internet users and 59 million sim card subscribers who rely on

mobile phones not only to communicate, but to make and receive payments.<sup>41</sup>

On the other hand, 69% of Kenyan businesses have expressed that digital payments – in the form of mobile money transfer, card payment, contactless cards, and bank transfer – have positively impacted their business, as they have made it easier to track expenses and revenues, and have enabled fast transactions and cut down the issue of shortfalls in returning change to customers.<sup>42</sup> Kenyan bankers seek greater functionality, cost effectiveness, ease of use and reliability in their payment methods, making room for new and emerging payment frontiers in the country such as PayPal which is favoured due to its speed, security and confidentiality.<sup>43</sup>

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39 Oluwole, V. (2022). *Kenya ranks first in the use of digital payments across Africa, according to VISA*. [online] Business Insider Africa. Available at: <https://africa.businessinsider.com/local/markets/kenya-ranks-first-in-the-use-of-digital-payments-across-africa-ahead-of-south-africa/pm35j1e>.

40 Oluwole, V. (2022). *Kenya ranks first in the use of digital payments across Africa, according to VISA*. [online] Business Insider Africa. Available at: <https://africa.businessinsider.com/local/markets/kenya-ranks-first-in-the-use-of-digital-payments-across-africa-ahead-of-south-africa/pm35j1e>.

41 Warah, R. (2022). *COVID-19 only heightened Kenya's existing economic problem*. [online] Available at: <https://www.one.org/africa/blog/covid19-kenya-economy-inflation/>

42 Warah, R. (2022). *COVID-19 only heightened Kenya's existing economic problem*. [online] Available at: <https://www.one.org/africa/blog/covid19-kenya-economy-inflation/>

43 Abuyeka, Z. (2022). *List Of Best PayPal Alternatives In Kenya*. [online] <https://victormatara.com/>. Available at: <https://victormatara.com/list-of-best-paypal-alternatives-in-kenya>.

**Trend in Action:**

In 2022, the CBK launched a national payment strategy that seeks to provide “a secure, fast, efficient and collaborative payments system that supports financial inclusion and innovations that benefit Kenyans.” At the foundation of this strategy are principles of trust, security, usefulness, choice and innovation. These core principles facilitate: the support of payment systems

that meet the varied needs of consumers as it strives for financial inclusion, the enhancement of safety and security measures embedded in payment systems, the creation of customer-centric innovations that are anchored in collaboration and lastly, legal, and regulatory frameworks that function effectively across new payment frontiers.<sup>44</sup>

**Now (2023)**

As new payment frontiers emerge within the high cost-of-living context, accompanied by government taxes on these payments, consumers will likely restrict themselves to payment methods that are comparatively cheaper.

**Next (2024 – 2025)**

As the cost-of-living continues to rise alongside government taxes, new payment frontiers will continue to emerge to compete for consumers seeking more affordable, convenient, and seamless payments methods.

**Future (2025-2030)**

There will be an abundance of new payment frontiers that enable consumers to use multiple alternatives to suit different contexts and needs.

<sup>44</sup> Mburu, J. (2022). *Launch of Kenya's National Payments Strategy: Inclusive, collaborative, efficient payment systems that benefit Kenyans*. [online] Available at: <https://www.fsdkenya.org/blogs-publications/launch-of-kenyas-national-payments-strategy-inclusive-collaborative-efficient-payment-systems-that-benefit-kenyans/>.



## Trend 7: The Investment Revolution

In simple terms, cryptocurrency is defined as virtual money that can be used just like real money to purchase items or to send to others. An estimated 4.5 million Kenyans owned cryptocurrency as of 2021.<sup>45</sup> Although the pandemic caused significant disturbances to the financial stability of Kenyans, the COVID aftermath saw approximately \$1.5 million worth of transactions take place in 2021.

The growing popularity of cryptocurrency investments has been abated by the strict rules imposed by the CBK that treats cryptocurrency as property, similarly to real estate, being taxed on every transaction. Kenya has experienced many setbacks when it comes to making digital transactions across different parts of the world. Cryptocurrency has therefore come in to fill this void, acting as a helping hand

to Kenyans in sending and receiving payments across the globe without the need for third-party involvement.<sup>46</sup>

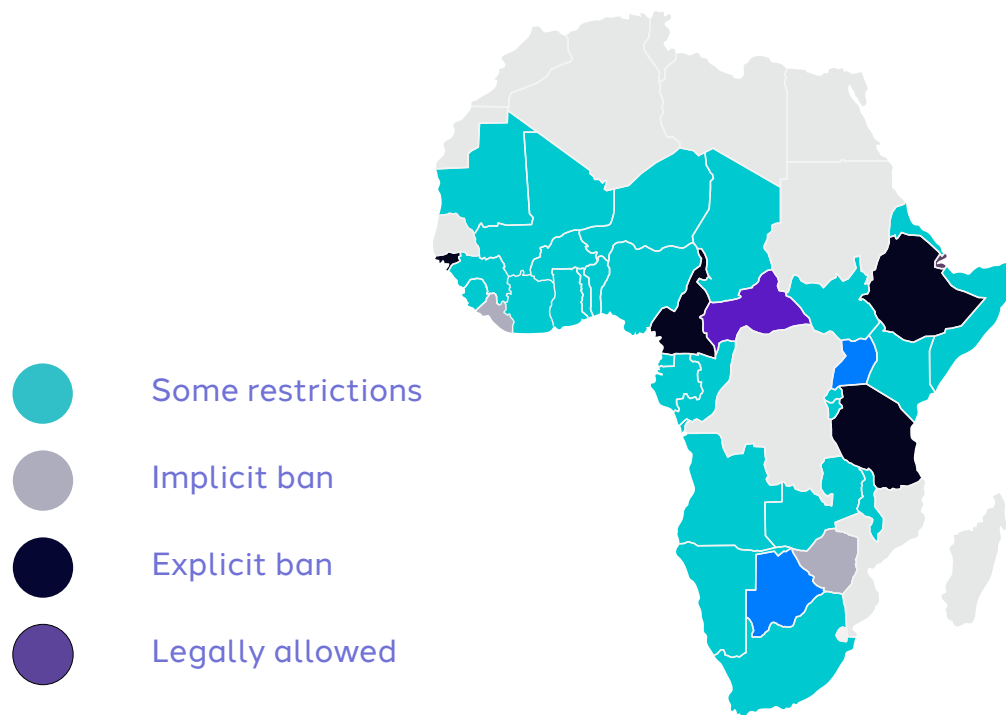
However, despite Africa being one of the fastest growing crypto markets in the world, governments are worried about how widespread investments in these digital currencies could undermine monetary policies and create risk for financial and economic stability.<sup>47</sup> The map below shows countries in Africa that have already explicitly banned, those where it has been implicitly banned and where it is legally allowed. Kenya is among the countries that fall into experiencing 'some restrictions', creating uncertainty around the future of cryptocurrencies in the country and the freedom consumers can experience in engaging with this means of investing.

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45 Triple-A. (2021). *Cryptocurrency Ownership Data for Kenya 2021*. [online] Available at: <https://triple-a.io/crypto-ownership-kenya-2021>

46 Mules, I. (2020). *Africa's quiet cryptocurrency revolution | DW | 08.10.2020*. [online] DW.COM. Available at: <https://www.dw.com/en/africas-quiet-cryptocurrency-revolution/a-55199637>.

47 Fuje, H. Quayyum, S. and Molosiwa, T. (2022). *Africa's Growing Crypto Market Needs Better Regulations*. [online] Available at: <https://www.imf.org/en/Blogs/Articles/2022/11/22/africas-growing-crypto-market-needs-better-regulations>.



### Trend in Action:

During the COVID-19 pandemic, many Kenyans took to investing their finances in cryptocurrencies such as Bitcoin and Ethereum. Motivated by the need to adapt to financial challenges such as market instability and wanting to ensure their assets remain strong into the future, consumers explored the possibilities cryptocurrency could offer with KES 46.2 million being invested in cryptocurrencies as they gained in popularity.<sup>48</sup>

Another feature that attracted investors was the low cost of remittances compared to traditional investments which rose even higher during the pandemic period and its imposed lockdowns. Cryptocurrencies are continuing to grow in convenience given that the Kenyan shilling is becoming increasingly weaker against the dollar in the current economic climate, whereas the alternative investments cryptocurrencies offer do not require the exchange of currencies which often causes investors to lose money.<sup>49</sup>

48 Muiruri, K. (2022). *Kenya's rich move wealth to crypto assets*. [online] Available at: <https://citizen.digital/business/kenyas-rich-move-wealth-to-crypto-assets-n290452>

49 Kivuva, E. (2022). *UN: Over 4 million Kenyans own crypto, highest share in Africa*. [online] Business Daily. Available at: <https://www.businessdailyafrica.com/bd/markets/currencies/un-kenya-tops-africa-s-share-of-crypto-clients-3870328>.

### Now (2023)

Given the cost-of-living crisis, cryptocurrency will continue to grow in popularity and gain trust as more consumers begin to view them as more stable and easier to utilise as compared to traditional investment avenues



### Next (2024 – 2025)

Cryptocurrencies will become a more mainstream avenue through which to invest, likely attracting government involvement in the form of policies and regulations.



### Future (2025-2030)

Newly imposed regulations around investing in cryptocurrencies will restrict the growth of this revolution, with consumers pushing back against limiting policies to gain financial freedom in their choice of investment



Despite Africa being one of the fastest growing crypto markets in the world, governments are worried about how widespread investments in these digital currencies could undermine monetary policies and create risk for financial and economic stability.



## Trend 8: The Credit Makeover

Kenya has the most mature mobile money market in the world.<sup>50</sup> Over 30% of adults borrow money using their mobile money account.

The Business Daily reported that in 2022, 36% of Kenyans had procured a loan via a mobile app, the highest number globally with 18% India and 16 % Pakistan while this number is directly related to the prevalence of mobile money in the country, it shows the changing consumer behaviour when it comes to lending, from formal bank loans and informal lending through chamas, to growth in mobile based lending. 49.8 % of adults in the country express that “If I really want something I’d rather buy it on credit than wait.”

As of 2023, buy now pay later payments are expected to grow by 23.2% on an annual basis, with the industry recording strong growth over the last COVID period. This is likely due to the financial impact the pandemic had on consumers who looked to

find alternative ways of sustaining themselves.

Although BNPL was previously offered in electronic and furniture retailers, other types of markets have begun to embrace it to reach young consumers who enjoy the flexibility of modern instalment payments.<sup>51</sup> Given that consumers with low or no credit scores will be the main target for BNPL, it is crucial that these new players in the credit makeover be transparent about how BNPL affects personal credit ratings, and do not take advantage of the financial strain caused by the cost-of-living crisis.

Insights from Paul Waweru of Absa show how banks can play an active role in informing consumers on how credit systems work: “Absa has embedded educative messaging into core transactional messages encouraging early repayments and highlighting the merits of the same. We also work together with Kenya Bankers Association to drive education on credit management”.

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50 The Kenyan Wallstreet, (2022). *Kenya stands out in the 2021 Global Findex - Kenyan Wallstreet*. [online] Available at: <https://kenyanwallstreet.com/kenya-stands-out-in-the-2021-global-findex/>

51 Amadala, V. (2023). ‘Buy Now Pay Later’ sale model picking up in Kenya. [online] The Star. Available at: <https://www.the-star.co.ke/business/kenya/2023-01-25-buy-now-pay-later-sale-model-picking-up-in-kenya/>

**Trend in Action:**

Lipa Later, a Kenyan credit platform in 2022 expanded its reach into new markets in the country, developing an exclusive partnership with Carrefour, one of the largest supermarket chains in the country. Through their partnership, customers are

allowed to pay for items such as furniture, electronics, and perishable goods in monthly instalments with an interest rate of 2.3%<sup>52</sup> giving consumers opportunities to navigate the financial cost of inflation in ways that best suit them.

**Now (2023)**

Buy now pay later credit gains popularity as the incomes of Kenyan consumers struggle to compete with the inflating cost of products across the market.



**Next (2024 – 2025)**

Greater financial literacy and education on credit will help make consumers more informed decisions, making credit use more sustainable and less predatory.



**Future (2025-2030)**

BNPL providers will expand across a greater variety of products and services, and will develop innovative programs and offers to attract more customers.

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52 Njanja, A. (2022). *Kenyan BNPL startup Lipa Later eyes more African markets after raising \$12 million*. [online] TechCrunch. Available at: <https://techcrunch.com/2022/01/13/kenyan-bnpl-startup-lipa-later-eyes-more-african-markets-after-raising-12-million/>



## Trend 9: AI-Powered Insurance

According to the International Development Research Centre, Kenya is the most AI-ready country in Africa.<sup>53</sup> The past decade has seen a surge in insurance trends, which have been largely attributed to technological advancements.

When it comes to insurance, loyalty is often determined by the comparative ease with which customers can access their products,

services, and customer care. Artificial Intelligence in Kenya is being targeted to cater to vital consumer needs that have so far been unmet or overlooked. Companies in the insurance industry are working to improve their consumers' awareness of AI technology and how its use can be advantageous in accessing coverage options, making payments, and receiving assistance with complaints in a convenient and timely manner.<sup>54</sup>

### Trend in Action:

Jubilee Insurance, the largest insurance company in East Africa has started to integrate AI into their automated messaging platforms to streamline customer feedback and support operations. In 2019, the company also launched a new product,

“Recover in Style” that takes a holistic approach towards patient care. It seeks to shift the focus around recovery from the body alone, to include the mind, spirit, and emotion as it works towards enhancing the overall well-being of its members.<sup>55</sup>

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53 Agency, E. (2019). *Kenya is the most ready for Artificial Intelligence in Africa, according to IDRC and Oxford Insights*. [online] Ecofin Agency. Available at: <https://www.ecofinagency.com/telecom/1306-40169-kenya-is-the-most-ready-for-artificial-intelligence-in-africa-according-to-idrc-and-oxford-insights>

54 Simon, N. (2019). *Is AI Disruption on the way for Kenya's Insurance Space?* [online] Mantra Labs. Available at: <https://www.mantralabsglobal.com/blog/is-ai-disruption-on-the-way-for-kenyas-insurance-space/>.

55 The Aga Khan Development Network. (2019). *Jubilee Insurance unveils revolutionary in-patient care program*. [online] Available at: <https://the.akdn/en/resources-media/whats-new/in-the-media/jubilee-insurance-unveils-revolutionary-in-patient-care-program>

### Now (2023)

Consumers in Kenya begin to grow less sceptical about AI as its features and the convenience it provides become more apparent as it is slowly coming into greater use by different insurance companies.



### Next (2024 – 2025)

AI will have been integrated into most insurance websites and customer care functionalities. Consumers will have grown accustomed to its presence and recognise the ease it creates in engaging with insurance companies.



### Future (2025-2030)

AI-powered insurance will be refined to perform better and more efficiently. Consumers will have grown accustomed to its use as it will be the norm across the insurance industry.





## Trend 10: Branches Reinvented

In 2022, the Central Bank of Kenya issued a report indicating that the number of commercial bank branches in the country saw a decrease from 1,502 in 2020 to 1,405 in 2021. Nairobi, the capital city saw the highest number of branch closures, accounting for 33 of the 97 closures. This decrease is in part due to the adoption of alternative channels of operation which include, mobile banking, internet banking and agency banking.

The uptick in these channels occurred because of the COVID pandemic, where the capabilities of these systems were greatly improved to accommodate lockdown measures which restricted the freedom of movement of Kenyans all over

the country. The number of customers visiting physical bank branches dropped from 29.6% in 2019 to 23.8% in 2021.<sup>56</sup>

The financial gains that are being made from making the move to digital platforms will likely see these platforms performing multiple functionalities, while physical branches offer very specified services. CBK for instance found that during the pandemic lockdowns, banks saved KES 6.3 billion in rental charges after shutting down branches. The money that can be saved from reinventing branches will see more money invested into digital platforms while operating platforms experience greater focus and performance.

### Trend in Action:

SBM Bank Kenya, previously known as Fidelity Commercial Bank, shut down five of its branches in 2021, after having previously shutting down another five in 2020 in the move to encourage its customers to embrace digital banking. The CEO of the bank was quoted as saying that *“At SBM Bank Kenya we plan to leverage on the growing mobile usage in the country to offer digital products that will make*

*banking for our customers more efficient and convenient.”* Prior to these closures, 82% of the bank’s customers were conducting transactions through alternative channels such as atm cards and mobile money, and the bank has responded to these consumer behaviors by diverting attention to more seamless functionality in the increasingly popular alternative channels.

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<sup>56</sup> Otini, J. (2022). *Banks close 43 branches as innovation takes root.* [online] Available at: <https://www.pd.co.ke/business/banks-close-43-branches-as-innovation-takes-root-129077/>

**Trend in Action:**

Contrastingly, banks such as NCBA have been in the process of expanding the presence of their bank branches across the region, opening twelve new branches in Kenya and two new branches in Rwanda in 2022. The bank notes that branches are critical in recruiting new customers and that consumers are more likely to choose a bank that has a physical outlet in their neighborhood.

Their long-term plan sees the opening of 104 new branches across Eastern Africa. This trend suggests that whilst some branches may invest more in digitization and attract consumers who prefer online tools, other banks may invest in physical branches to draw in consumers who are not fulfilled by digital services.<sup>57</sup>

**Now (2023)**

The aftermath of the pandemic has seen consumers to grow accustomed to digital banking platforms, reducing the need for physical bank branches to perform functions that digital platforms are increasingly able to manage



**Next (2024 – 2025)**

Physical bank branches will not be as numerous as they once were, with digital banking growing to be more efficient, accessible, and reliable.



**Future (2025-2030)**

Digital banking platforms will perform roles separate from physical bank branches, making it so that customers visiting branches will be reduced to those seeking specific services, whereas digital banking will be dominant in day-to-day use thanks in part to developments in AI and humanised banking.

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57 Mwenda, E. (2022). *NCBA to open 12 new branches in local, regional expansion push*. [online] Business Daily. Available at: <https://www.businessdailyafrica.com/bd/corporate/companies/ncba-to-open-12-new-branches-in-local-regional-expansion-push-3803470>

# Conclusion

The ongoing cost-of-living crisis in the aftermath of the COVID-19 pandemic has impacted millions of consumers in Kenya.

Through the 10 trends discussed, this report has been able to identify how consumer behaviours and needs are changing because of increasing financial pressures, and how brands in turn are adapting to these changes.

Trend 1, financial wellness plays a fundamental role in the upward trajectories of the other 9 trends, as consumers who can meet their present and future financial needs and have the financial freedom to be able to enjoy their lives are able to actively engage and invest in their favoured brands.

The challenges posed by drought in Kenya also fuels the need for banks to go green as is discussed in Trend 2, as the high number of consumers whose livelihoods depend on reliable rainfall patterns will benefit and be drawn to brands that take this major factor into consideration.

The huge successes of Mpesa have knocked down any barriers to inclusivity as is shown in the growth of its consumer numbers in

Trend 3, which means this trend, similarly to Trend 1 contributes positively to the growth of all trends. Ensuring that as many Kenyans as possible have the means to manage their finances in a way that works best for them allows consumers to contribute and remain loyal the brands that see them and meet their needs. As financial literacy begins to improve, consumers will greatly benefit from the offerings of humanised banking in Trend 4 as customer care becomes more tailored to individual customers and their financial contexts, and convenience.

Trend 5, purposeful rewards benefits from the improvements in humanised banking as consumers will be able to stay informed of rewards that best suit their needs and interests. Trend 6 allows consumers to access a variety of methods to make different payments, which makes it possible to benefit more from purposeful reward programs. The investment revolution sees Trend 7 providing consumers with new alternatives through which to grow their finances and will likely grow in popularity alongside financial literacy.

Buy now pay later options in Trend 8 are greatly beneficial to consumers in the current cost-of-living crisis, and its continued growth in popularity works well alongside newly emerging payment frontiers that provide consumers with variety and ease in paying their credit. The improvements in artificial intelligence in insurance discussed in Trend 9 gains traction alongside humanised banking as consumers are becoming more aware of the ease AI introduces to interactions with their brands as well as customer service. Trend 10 shows the different directions banks can go in in the cost-of-living crisis when reinventing their branches, and that it is important to stay in touch with their

consumers' needs, which is possible through humanised banking.

The interconnected nature of the 10 Trends discussed in this report illustrates how beneficial it is for brands to invest in their consumers and their needs in the current economic context. By investing in them, consumers who will experience greater financial literacy and wellness in the coming years will be able to reinvest in their brands because of the relationships that were built, and loyalties gained during times of financial hardship.

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The interconnected nature of the 10 Trends discussed in this report illustrates how beneficial it is for brands to invest in their consumers and their needs in the current economic context.

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