POLICY BRIEF

Behavioural Biases: Driving a Wedge Between Access and Usage of Financial Services

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Key Messages

- Kenya has made significant strides in financial inclusion, but a gap remains between access and usage.
- Behavioural biases lie at the heart of the access-usage divide, as financial decisions are influenced by individual behavioural differences, self-exclusion attitudes, and emotions.
- Even though behavioural biases are not exclusive to low-income earners or the unbanked, they still hinder the desired levels of financial inclusion.
- Behavioral biases are more profound in women than men, inhibiting their ability to make good financial decisions, even when we know they are against their best interests.
- Demand-side behavioral biases are worth addressing to bridge the mobile money access and usage divide and increase gender equality in Kenya.

What's the issue?

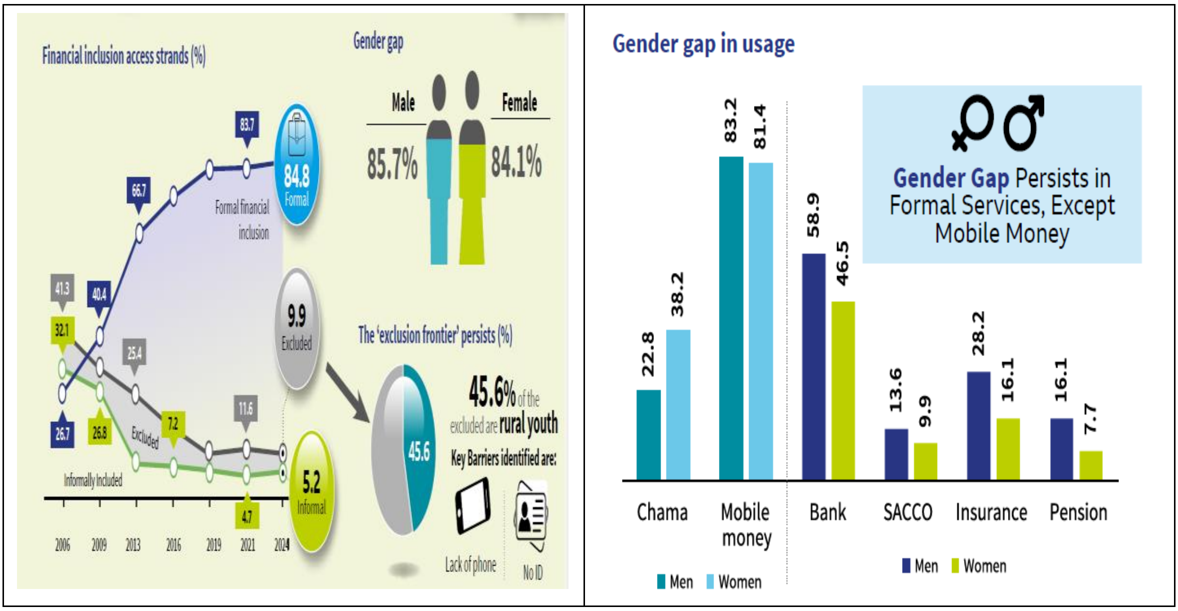
The noticeable strides that Kenya has made in financial inclusion underpins the assumption that access automatically translates into usage of digital financial services. The plausibility of this assumption is questionable given that demand for financial services is influenced by behavioural biases.

Individual behavioural heterogeneity and self-exclusion attitude account for the differences in financial decision making, with biases creating the wedge that inhibit the usage of financial services even when there are no limitations of access. The implication of such biases is that households have a predisposition of making financial decisions that leads to less optimal welfare outcomes.

Why is it important?

Kenya's progress in digital finance is evident, with financial inclusion of the adult population rising from a low base of 26.7 percent in 2006 to 84.8 percent in 2024. However, there is a need to distinguish between access and usage of mobile money, as access does not automatically translate to usage.

Access to and usage of Finance: 2006 – 2024



Consumers of financial services are normal but not always rational decision makers. Human biases tend to inhibit the ability of the consumers to make good financial decisions, eroding the strides made for inclusive digital finance in Kenya.

Mitigating behavioural biases can promote gender equality and poverty reduction, as financial inclusion serves as a catalyst for economic empowerment. Women are particularly affected by behavioural biases, which disadvantage them in the digital space—a critical enabler of financial inclusion. Concerted efforts need to look at the demand-side behavioral biases to account for the missing link in achieving the desired levels of mobile money access and usage among the Kenyan adult population. Empirical investigations into whether behavioural biases affect the transition from access to enhanced usage of digital financial services (DFS) in Kenya reveal that various behavioural biases act as significant constraints. Consequently, basic payment services enabled by mobile telephony dominate usage, while enhanced services such as savings and credit remain underutilized.

What should policy makers do?

Policy makers should acknowledge that gender sensitive approaches are essential to enhance the decision-making processes that promote enhanced usage of mobile money. The core approach is policies to address the binding behavioral biases mitigating against access and usage of mobile money. Specific measures to address these biases include:

- **Enhancing household income levels**: Households with higher incomes are less likely to incur the costs associated with confirming the benefits of mobile money access and usage (confirmation bias) compared to those with lower incomes. Women exhibit higher confirmation bias than men in mobile money access and usage. They tend to either assume or disregard information that contradicts their decisions regarding mobile money. Measures aimed at increasing household incomes are crucial, as they have the potential to reduce the financial exclusion gaps experienced by women and low-income earners.
- **Training on digital skills to enhance their financial decision-making skills**: Women tend to be more risk-averse and cautious in their financial decisions, making them better savers than men, who are often affected by overconfidence bias. Women also exhibit higher self-discipline in budgeting, which can enhance their welfare and empowerment. To further empower women, training them in digital skills can help them make better financial decisions at every stage of their lives.
- **Inculcating trust to obviate self-exclusion**: Women are more likely to have lower mobile money access and usage compared to men due lack of trust of financial providers. Muslim men and women are more likely to exhibit endowment bias due to their religious beliefs. Financial products must be sharia embedded to increase their attractiveness to both Muslim and non-Muslim consumers.

- **Carefully consider fiscal policy and its impact on consumption of financial services:** A credible policy position will discourage the use of basic digital financial services as a revenue mobilization platform through direct taxation, as this could be counterintuitive.

Sources

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