THE PROPOSED ACQUISITION OF 84.89% OF THE ISSUED SHARE CAPITAL IN CENTURY MICROFINANCE BANK LIMITED BY BRANCH INTERNATIONAL LIMITED

1. The Competition Authority of Kenya has approved the proposed transfer of 84.99% of the issued share capital in Century Microfinance International Limited subject to fulfilment of certain conditions.

2. Branch International Limited, the acquirer, is incorporated in Kenya as a wholly-owned subsidiary of Branch International Holdings Limited (Branch Holdings). Branch is app-based financial services provider, specifically undertaking consumer lending.

3. Century Microfinance Bank Limited, the target, is incorporated in Kenya as a deposit- taking microfinance institution offering commercial loans to micro, small and medium-sized businesses.

4. The proposed transaction involves the acquisition of control of Century by Branch, through the purchase of 84.89% of the microfinance's issued share capital. The transaction therefore qualified as a merger within the meaning of Section 2 and 41 of the Competition Act No. 12 of 2010.

5. Whereas the proposed transaction qualified for exclusion as provided in section 42(1) of the Act, the Authority's preliminary review of the filing established that it was likely to raise competition and public interest concerns. Specifically, the transaction would result in data access, aggregation and processing across the two lending platforms. The Authority also took note of the fact that data is increasingly being used as a competition too, especially in the e-commerce market.

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6. Based on the foregoing, the parties were required to make a notification for full merger analysis as provided in the **Competition (General) Rules, 2019.**

7. As earlier elucidated, the acquirer is a digital (mobile-based) money lender in Kenya while the target offers deposit-taking microfinance banking services, including micro-lending.

8. Based on the foregoing the commercial activities of the merging parties overlap with respect to micro-lending. Therefore, for purposes of analyzing the proposed transaction, the relevant product market was determined as the market for micro-lending.

9. Critically, the parties also aggregate lenders' data and rely on it when making lending decisions. Based on this, analysis of the proposed transaction involved the Authority considering data as a crucial asset in the transaction, the business operation and as a public interest concern.

10. The parties offer their services throughout the country and, therefore, the relevant geographical market is national**.**

11. Digital innovations through dynamic technological advancements have revolutionized the Kenyan finance sector landscape. Financial institutions are leveraging Big Data, Artificial Intelligence (AI) and Application Programming Interfaces (APIs) to customize products and services to meet consumers' evolving needs.

12. Typically, service providers access the marketplace through developing an inbuilt digital platform. Alternatively, they may collaborate with FinTech startups to deploy 'plug and play' digital interfaces.

13. Regulated financial institutions providing digital financial services in the country include; Mshwari, Timiza, KCB-MPesa, Eazzy Loan, among others.

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14. A report by the Financial Sector Deepening Kenya indicated that at the end of 2019, there were over 49 mobile loans lenders operating in Kenya. The main players were; Branch, Tala, Ipesa, Opesa, Kashway, Zenka and many others.

15. Data assessed by the Authority on the digital lending market indicates that the market shares of the main players are: Mshwari and Fuliza (29%) KCB M-Pesa (12%), EquityEazzy (4%), Tala at 1.8%, Branch 1.5% and others (50.4%).

16. In order to entrench adequate data governance in the digital services sector, the CBK has identified five (5) key factors: data sharing and consent, payments, transactions and digital identity. Credit information and data sharing is key among them.

17. The CBK has licensed three (3) Credit Reference Bureaus (CRBs) to provide credit reports for licensed financial institutions and customers. These institution are: Metropol, Transunion and Creditinfo.

18. The number of credit reports requested from the credit bureaus by subscribing financial institutions (MFIs and commercial banks) has increased exponentially in the past five years. This growth is attributable to the burgeoning money lending market which is supported by customer credit data obtained from CRBs.

19. To enhance the credit information databases, the CRBs partnered with third party data providers to promote data-sharing. In 2019, the CBK approved 2,618 credit data providers, including SACCOs, non-deposit taking MFIs, insurance companies and trade institutions.

20. However, the approval for digital (mobile-based) and non-deposit taking MFIs was revoked in April 2020 following a public uproar over practices that allegedly infringed on the rights of consumers.

21. Post-merger, the merged entity will have a combined market share of less than 5%. The combined market share is considerably low and unlikely to raise any

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competition concerns. In addition, it is anticipated that the merged entity will face competition from the other players in the market.

22. Based on the foregoing, it is the Authority's view that the proposed transaction is unlikely to lead to a substantial lessening or prevention of competition in the micro-lending market in Kenya.

23. Additionally, it is expected that the proposed transaction will enable the two entities to collate a varying range and amount of data, including on borrowing trends relating to their potential customers, enabling them to provide customized interest rates and, potentially, lowering default rates.

24. During merger analysis, the Authority also considers the impact that a proposed transaction will have on public interest. The public interest concerns the Authority considers include;

   i. extent to which a proposed merger would impact employment opportunities;
   ii. impact on competitiveness of small and medium enterprises (SMEs);
   iii. impact on particular industries/sectors; and
   iv. Impact on the ability of national industries to compete in international markets.

25. With regard to public interest, the Authority has identified the following issues as being of concern with regard to the proposed merger: -

   a. **Employment**: the merging parties indicated intention to retain all employees of the two entities.

   b. **Data sharing and access**: the Authority is concerned that parties may leverage on the target's license from the CBK to list the acquirer's defaulters with CRBs. This is based on the fact that its licence to directly list defaulters stands revoked.

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c. **Loan terms:** Additionally, the Authority is concerned that the parties may also subject existing loans to new terms, thereby negatively affecting existing borrowers.

26. Premised on the foregoing, the Authority approved the proposed transfer of 84.99% of the issued share capital in Century Microfinance International by Branch subject to the parties' commitment to:

    i. Each maintain the terms agreed with the borrowers in respect of all loans existing in their loan books at the time of the acquisition; and

    ii. Each retain their existing performing and non-performing loans in accordance with their terms up to and until the expiry of such loans so long as the said terms are not in contravention of the provisions of the Competition Act No.12 of 2010.

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