

**CENTRAL BANK OF KENYA**



Speech by

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at the

**KENYA SCHOOL OF MONETARY STUDIES/FLETCHER SCHOOL  
(TUFTS UNIVERSITY) MOBILE BANKING CONFERENCE 2009**

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**Hon. Uhuru Kenyatta, Deputy Prime Minister and Minister for Finance;  
Distinguished Faculty Members from the Fletcher School, Tufts  
University;  
Executive Director, Kenya School of Monetary Studies;  
Distinguished Guests;  
Ladies and Gentlemen:**

It is my great pleasure to warmly welcome you all to the Official Opening Ceremony of the Kenya School of Monetary Studies/Fletcher School Mobile Banking Conference 2009. I thank all those present here today for accepting our invitation. Allow me in particular to thank the Honorable Deputy Prime Minister and Minister for Finance for agreeing to preside over the official opening ceremony.

On the same note, I take this opportunity to thank my colleagues at the Kenya School of Monetary Studies, the Central Bank of Kenya, and of course the Fletcher School (Tufts University). In addition, I thank all the resource persons for the extensive collaborative initiatives towards this historical event. The focus of this Conference is on the emerging and important issue of branchless banking and more specifically on the theme of balancing innovation and regulation. But even more importantly, it is an indirect challenge for regulators to come together as the market innovates and rules are modified.

The Conference brings together bankers, regulators, industry practitioners, telecommunication players, researchers, academics, policy makers and the media to discuss this critical agenda. The expected outcomes from this Conference are policy responses for both the public and private sectors geared towards providing safe, efficient, affordable and accessible financial services through branchless banking models.

**Honorable Deputy Prime Minister and Minister for Finance:** We have in the recent past witnessed a phenomenal growth in the use of mobile phones for money transfer, a banking service. We have also seen that mobile phone money transfer networks can only work with a banking platform. For this reason, a number of banks in Kenya have added mobile banking to their delivery channels. This is an important development for our financial sector for the following key reasons:-

- First, it offers **convenient** access to financial services to all current and prospective customers of banks with access to mobile phones. With customers' affinity for mobile phones, they are able to access banking services on a 24-7 basis for services that range from basic funds transfer to settlement of financial obligations.
- Second, **Banking the unbanked** - The proportion of Kenya's population with bank accounts stands at 6.4 million. The number of mobile phone subscribers on the other hand has risen to over 11 million and continues to grow. This is a clear indication that a more elaborate structure of mobile banking has the potential to reduce the number of unbanked Kenyans.
- Third, cost effective delivery through agency platforms.
- Finally, we note that mobile phone money transfer is not an alternative bank account, but a service for money transfer. This Conference can add value in mobile banking innovation where accounts in different branches and banks use mobile phones for transactions.

**Ladies and Gentlemen:** The Central Bank welcomes these innovations by the Banking sector and other financial service providers. It is the responsibility of the Central Bank to ensure that these services are provided in a safe and efficient manner by commercial banks. Towards this end, the Bank reviews these banking products before their introduction to ensure they comply with the existing prudential and statutory banking sector requirements. In particular, the Central Bank's review process focuses on:-

- Adherence to Risk Management Guidelines issued by the Central Bank that require banks to identify, measure, and mitigate the risks they face in their operations. For mobile banking solutions, just like other solutions, banks must demonstrate that they will adequately mitigate the operational frauds, continuity of business information security and reputational risks that are inherent in these solutions.
- With regard to Anti-Money Laundering, these solutions are subject to Prudential Guidelines that detail minimum, "Know Your Customer (KYC)" requirements that banking institutions should adhere to. The overarching objective of the KYC guideline is to ensure that our banking system is not used for money laundering purposes.

**Ladies and Gentlemen:** After the launch of mobile banking solutions, the Central Bank continues to monitor them in order to ensure their safety through ongoing onsite and offsite surveillance. In a nutshell, there is an existing supervisory framework to ensure the safety of mobile banking solutions offered by banks. This framework will continue to be reviewed in line with the dynamics in the mobile banking space. Other regulators also come in to support CBK, like the Communication Commission of Kenya that licenses mobile phone money transfer services.

**Honorable Deputy Prime Minister and Minister for Finance:** Kenya has also seen the successful launch of mobile phone money transfer services spearheaded by telecommunication players such as Safaricom, and others have joined in this lucrative business. It is important to note that the Central Bank continues to engage these players through frequent evaluations for purposes of safety and efficiency. The evaluation focuses on liquidity management, settlement risks, system reliability, system audit trail, anti-money laundering and consumer protection issues. In addition, it is equally important to note that safe and efficient

payment systems are essential for the proper functioning of the financial market and are necessary for the implementation of monetary policy.

More importantly, allow me to underscore that the funds underlying these emerging mobile phone money transfer services are ultimately held by a commercial bank under specified conditions that is within the purview of the Central Bank. Going forward, we will continue to work with other players to put in place an enabling legal and regulatory environment to catalyze mobile banking. Specific initiatives in this regard include:-

- The National Payments System Bill which will strengthen the oversight mandate of the Central Bank over the payments, clearing and settlement system.
- The Proceeds of Crime and Anti-Money Laundering Bill, 2008 that will strengthen the anti-money laundering legal and regulatory framework.
- The Banking Act to enable banks use non-bank agents such as SACCOs to extend their outreach. Such agents could leverage on mobile banking technologies to cost effectively provide services on behalf of the banks.

**Honorable Deputy Prime Minister and Minister for Finance:** Given this innovation and its attendant challenges, the Central Bank, as will be demonstrated in this workshop, aims at encouraging dialogue between different market players across Kenya and within the region. This dialogue takes cognizance of a dynamic market environment, paying special attention to innovation that may have significant macroeconomic benefits to all. We are therefore keen to draw on the policy debate arising from this Conference to move financial services in Kenya to new frontiers.

This Conference is benefiting from the regional role of The Kenya School of Monetary Studies as a premier capacity building institution. KSMS is a training and a research centre. Through this collaboration with Fletcher School (Tufts University), the Kenya School of Monetary Studies has brought together

participants from many countries to share experiences with a view to developing best practices for the integrated global markets. The proposals from this Conference must of course straddle the delicate balance between innovation and regulation to always ensure that public interest is upheld and financial stability is maintained.

With these remarks, **Ladies and Gentlemen**, I wish you all fruitful discussions and hope that this Conference will serve as the beginning of long-term collaboration in M-banking to provide solutions to challenges facing not only Kenya, but also other African countries.

It is now my pleasant and honorable duty to welcome Honorable Uhuru Kenyatta, the Deputy Prime Minister and Minister for Finance to officially open the Conference.

**Honorable Minister, you have the floor.**