CENTRAL BANK OF KENYA

Address by

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GOVERNOR
CENTRAL BANK OF KENYA

at the

MOBILE POLICY FORUM IN AFRICA

Windsor Golf & Country Club

Wednesday, December 1, 2010

Mr. Jim Wolfensohn, Senior Advisor, Citigroup;

Mr. Jay Collins, Public Sector Head-Citigroup;

Mr. Jean-Claude Massangu-Mulongo, Governor of the Central Bank of the Democratic Republic of Congo;

Mr. Ade Ayeyemi, Outgoing Chief Executive, Citibank, Kenya;

Mr. Daniel Connelly, Incoming Chief Executive, Citibank, Kenya;

Distinguished Guests;

Ladies and Gentlemen:

1. It is my pleasure to be here today at this mobile phone policy forum to offer my thoughts on this recent development in Kenya and Africa. Let me at the outset thank the United States Department of State, the GSMA and Citibank for organizing this mobile policy forum in Nairobi.

2. **Ladies and Gentlemen**, I am informed that the objective of this forum is to act as a catalyst to expedite mobile commerce implementation in Africa as well as to share best practices and experience. The choice of hosting this forum in Kenya is indeed appropriate as mobile phones have had a profound impact on Kenyan households in transferring money and providing the link to bank accounts. This is where our drive to financial inclusion has succeeded.

3. As you may be aware, more than 80 percent of households in Africa do not have access to financial services and expanding basic financial services has the potential to lift the majority of the population out of poverty and build better lives. I am sure, we all agree that one of the primary impediments to providing financial services to the poor through commercial bank branches is the high cost inherent in these traditional banking methods, but critically also banks have been left behind stuck with high entry barriers of minimum balances and ledger fees, until the MFI models came along. But further developments in the emerging technologies such as mobile phones have further enabled financial services to be provided on a timely basis and at an affordable price so as to reach the financially excluded households; this has solved the cost problem as well as the physical distance constraints.

4. **Ladies and Gentlemen**, In Kenya, the commitment to the financial inclusion agenda is reflected by the following policy initiatives that the Central Bank of Kenya has undertaken:-

   (a) The pilot test and launch of the first mobile phone product in March 2007. To the market amazement, it was simple and effective.

   (b) The product's origin was a pilot test in 2004/5 for repayments of loans for borrowers of a microfinance institution using mobile phones and the network of mobile airtime agents. The success of the pilot demonstrated how the mobile phone could be used to reduce barriers to entry that deter financial inclusion.

   (c) Second, the framework for supervision and regulation of deposit taking microfinance became operational in 2008 to enable the provision of safe and reliable microfinance services. The Central Bank has so far licensed three Deposit Taking Microfinance institutions with over 30 branches to serve low income segments in rural and peri urban areas.

   (d) Third, the Central Bank has recently amended the Bank's delivery channels regulatory framework to ensure widespread access to financial services by allowing for agent banking. The rollout of the agent banking model seeks to address the challenges of high transaction costs arising from the lack of proximity of financial services and rolling out brick and mortar branches where they may not be economic to do so. So far over 8,000 agents of commercial banks have been approved by the Bank.

   (e) Fourth, the Central Bank has also continued to facilitate an environment that allows for a diverse range of financial services providers to thrive and compete. In this regard, it has provided space for innovation by mobile financial services that have resulted in over 15 million subscribers being integrated to the financial system. The increased usage of mobile phone banking services has increased the access of financial services in remote areas.

   (f) Finally, the Central Bank has supported the development of the financial infrastructure to facilitate the operations of commercial banks. A hurdle to accessing finance in Kenya has been the lack of credit history. The information asymmetry problem provides us with a difficult and cumbersome collateral process. In this regard, the rollout of the credit information sharing mechanism in July, 2010 seeks to build information capital and reduce information asymmetry thus promoting access to credit. So far, commercial banks have accessed over 150,000 credit reports from the licensed credit reference bureau. We do hope that it is now possible to change the collateral technology now in use.

5. **Ladies and Gentlemen,** The Central Bank's objective of supporting the development of mobile money in Kenya is guided by its mandate to promote and oversee the development of a safe, sound and efficient payment system. In this regard, the Bank has drafted a National Payment System Bill that provides for designation of payment instruments. The Bill provides for the issuance of specific directives regarding payment systems and also empowers the Central Bank to undertake oversight and intervene in the interest of the public. The Bill is expected to enter the parliamentary process and be enacted in 2011.

6. The Central Bank of Kenya has so far focused on better regulation, knowing the legal hundles when we transcend between banking regulations and payment regulations. Without such widespread use of agents, it is unlikely that mobile payments would be as pervasive as they are today. The agents play two essential functions which are to open e-money accounts and exchange e-money for cash and vice versa. Currently, no regulation applies to the operation of these agents as opposed to the guidelines allowing banks to appoint agents for deposit taking. Going forward, the key consideration to reviewing the current regulatory framework will be based on understanding of the relative risks that the different agents pose so as to ensure a level playing field and foster financial inclusion.

   For CBK, better regulation as opposed to move regulation means creating space for innovation but also being ready and with adequate instruments to deal with the systems vulnerabilities.

7. The Central Bank's policy therefore for the oversight of payment systems will be to follow internationally agreed good practices and standards. However, I must be quick to point out that there are presently few recognised practices and standards in regulating mobile phone payment services. The Central Bank has so far followed a test and learn approach with respect to mobile phone payments. However, in the face of the ongoing dynamic change and innovations, the Central Bank will consult widely with stakeholders in the development of new regulations and guidelines to oversee the payment system and instruments once the Bill is passed in Parliament.

8. **Ladies and Gentlemen,** let me conclude my remarks by recognising the importance of the contribution of human capital development to the financial services industry which is dynamic, complex and characterised by rapid product innovation to gain and maintain market niches. To excel and produce results in this challenging environment, the key actors in the financial services arena will have to build and factor best practices and ensure that new technologies do not create opportunities for abuse. I wish to therefore specifically recognise the efforts of the organisers of this forum in taking a proactive role to facilitate knowledge sharing so as to enhance the development of mobile money transfer in Africa.

Thank you.