

CENTRAL BANK OF KENYA



Remarks by

**PROF. NJUGUNA NDUNG’U
GOVERNOR
CENTRAL BANK OF KENYA**

AT THE

**LAUNCH OF THE DRAFT ELECTRONIC RETAIL TRANSFERS AND
DRAFT ELECTRONIC MONEY ISSUERS REGULATIONS**

*Kenya School of Monetary Studies, Nairobi
Thursday, February 03, 2011*

The Communications Secretary, Ministry of Information and Communication;

The Chief Executive Officers of Mobile Phone Companies;

Officials from the Communications Commission of Kenya;

Officials from the Financial and Legal Sector Technical Assistance Project;

The Consultants, Bankable Frontiers Associates;

Heads of Department, Central Bank of Kenya;

Distinguished Guests;

Ladies and Gentlemen:

It gives me great pleasure to join you all at this important moment in the calendar of our financial sector to mark yet another milestone in our National Payments System reform and modernization process. Central Bank of Kenya continues to receive requests to authorise innovative electronic payment services. These requests which benefit the public, and for that reason, the economy requires Central Bank to ensure adequate risk mitigation. In this regard, the formulation and implementation of regulatory and oversight policies that govern this fast expanding sphere of mobile phone and mobile banking services is therefore highly desirable.

Further, and as you may be aware, in the area of retail payments, Central Bank of Kenya has deliberately taken a “test and learn” approach, as is referred today by the G20 in the *Principles for Innovative Financial Inclusion* issued in 2010. While this is true, we have engaged widely and monitored closely the progress of payment service providers with a view to enhancing good practices in the Kenyan market and to understand trends in the regulation of payment providers internationally as a way of benchmarking our efforts.

Ladies and Gentlemen: Effective regulation requires prudential guidelines in policy and oversight activities of relevant payment system operators and regulators. In this regard, I am glad to inform you that the Bank has drafted regulations for the retail payments sub-sector of our National Payments System. These regulations, which are the subject of this workshop, will go a long way in ensuring that E-Money Issuers and Payment Service Providers

conduct their businesses prudently and in accordance with the provisions of the Central Bank of Kenya Act.

The development of these regulations has required extensive consultations including the workshop which some of you attended on September 1, 2010 at the Serena Hotel. As a result of these consultations, the Bank came up with two sets of regulations; electronic retail transfers and e-money issuers regulations. The purpose of these two sets of regulations will be;

- a). To define retail transfers and provide for the delivery of retail transfers by banks and financial institutions as well as persons who are not licensed as banks or financial institutions;
- b). To facilitate the provision of electronic payment services without compromising the safety and efficiency of the National Payment System;
- c). To provide minimum standards for consumer protection and risk management to be adhered to by all providers of retail transfers;
- d). To provide for the authorization of e-money issuers and the conduct of the business of e-money issuing;
- e). To provide for the appointment of agents by e-money issuers and the registration of such agents as well as rules of engagement; and,
- f). To provide for the appropriate measures to protect the interest of the clients of e-money issuers.

Ladies and Gentlemen: The mobile phone money transfer technology has in a few years of its existence demonstrated how financial services can be provided to a large number with least cost using appropriate technological platforms. This is how our financial inclusion efforts have borne some fruits. In only four years of the existence of mobile phone money transfer services, four mobile phone operators have launched the services and have enrolled over 15.4 million customers and recruited 39,449 agents. Total transactions have now reached Ksh.2.45 billion a day and Ksh.76 billion a month using December figures. This has created many opportunities for Kenyans including employment, access to financial services, and an effective tool for channelling currency to the banking system.

But when a sector is booming, rules are forgotten or misinterpreted. We have to safeguard the rules and the business.

Ladies and Gentlemen: The phenomenal success of mobile phone money transfers has put Kenya at the centre stage globally in matters of financial inclusion and innovation. But sustaining success has its challenges. We have to be ready to modify our businesses to cope and rules to contain the main actors and new entrants to the business.

In this regard, I would like on behalf of the Central Bank of Kenya, to thank the Government through the Financial and Legal Sector Technical Assistance Project (FLSTAP) and all other stakeholders for the support they have accorded the Bank in the Payment Systems reform and modernization process. In particular, I wish to commend the Government for supporting the Bank in drafting regulations which we are about to launch today. I wish further, to assure the industry that Central Bank will continue to play its role in promoting a stable and conducive environment for financial innovation to thrive.

Importantly, I wish at this point to inform you that the Central Bank has, together with the Government, developed the National Payments System Bill which when enacted will enhance further the regulation and supervision of payment systems and payment service providers. These regulations are therefore meant for use by the industry and to streamline activities while the National Payments System Bill will come in to reinforce them. This will enable Kenya's payment system to comply with the Bank for International Settlements (BIS) Core Principles and Central Bank responsibilities while at the same time giving CBK specific and enhanced powers over payment systems in Kenya.

Finally, I would like to most sincerely thank all the stakeholders and especially Bankable Frontiers Associates for successfully working with the Bank to draft these important policy documents which we believe will guide our activities in

coming years. With these remarks, I wish to officially launch the draft electronic retail transfers and draft electronic money issuers regulations.

THANK YOU