

# CENTRAL BANK OF KENYA



*Remarks*

*by*

PROF. NJUGUNA NDUNG’U  
GOVERNOR  
CENTRAL BANK OF KENYA

*at the*

LAUNCH OF THE POSTBANK – RIA INTERNATIONAL MONEY  
TRANSFER PARTNERSHIP

*Intercontinental Hotel, Nairobi  
Thursday, 31<sup>st</sup> July 2014*

*Hon. Fred Kapondi, Chairman, Postbank Board of Directors;  
Mrs. Anne Karanja, Acting Managing Director, Postbank Kenya;  
Members of the Board of Postbank Kenya;  
Representatives of RIA Money Transfer;  
Distinguished Guests;  
Ladies and Gentlemen:*

*I am pleased to join you today on this auspicious launch of the Postbank-RIA International Money Transfer Partnership. I thank the Board and Management of Postbank Kenya for inviting me to this occasion. At the outset, I congratulate Mrs. Karanja on her appointment as Acting Managing Director. I also pay glowing tribute to Mrs. Karanja's predecessor, Dr. Nyambura Koigi, for her commendable stewardship of Postbank Kenya during her just ended tenure. I wish her all the best in her future endeavours.*

*Ladies and Gentlemen: We are gathered here today to celebrate another milestone in the deepening of Kenya's financial sector. The partnership between Postbank Kenya and RIA Money Transfer is not only an opportunity for Postbank Kenya to satisfy the needs of its customers but also contributes in enhancing the quality of financial inclusion. I commend the Board, Management and Staff of Postbank Kenya and the representatives of RIA Money Transfer for their decision to operationalize this partnership.*

With RIA Money Transfer being the third-largest money transfer company Worldwide, we in Kenya consider ourselves privileged to have you as a participant in our market. Your partnership with Postbank will not only benefit Postbank but will also expand RIA's network through Postbank's countrywide network of outlets.

*Ladies and Gentlemen:* There has been tremendous growth in international remittances in recent years, a trend that is expected to continue as the World becomes increasingly interlinked. The World Bank estimated remittance flows to developing countries in 2013 to have amounted to USD414 billion, and projections to USD540 billion by 2016.

In Kenya, the annual remittance inflows from Kenyans in Diaspora, officially recorded from banks' returns, rose from USD338 million in 2004 to USD1.3 billion in 2013. This is a commendable growth of more than 285%. These remittances, that are playing a vital role in supporting both consumption and investment needs of the recipients, have also become an important source of foreign exchange to the country.

*Ladies and Gentlemen:* The Kenya Government recognizes the importance of remittances in boosting economic development, and has taken initiatives aimed at developing the market. The Government's development blue print, Vision 2030, seeks to harness

international remittances as a key source of capital inflows. In this regard the Central Bank of Kenya developed and operationalized the **Money Remittance Regulations 2013**. The aim of these regulations is to introduce stand-alone money remittance providers in Kenya. Previously all international remittances were made through commercial banks platforms. The regulations are also aimed at formalizing the money remittance sub-sector.

The other policy considerations that informed Central Bank of Kenya's introduction of **Money Remittance Regulations** include:

- The need to remove entry barriers so as to promote competition in the sector, encourage innovation, lower transaction costs, and increase affordability.
- Adoption of international best practices on money remittances by developing world class payment systems infrastructure in order to meet the higher standards of efficiency, safety, transparency, reliability and cost-effectiveness in remittance services.
- Harness alternative access channels such as mobile phone financial services as a strategy towards reducing the cost of services and expanding financial inclusion.
- Manage risks to integrity by subjecting money remittance operators to enhanced oversight.

Since April 2013 when the Money Remittance Regulations were operationalised, CBK has so far licensed seven stand-alone Money Remittance Providers. During the first half of 2014, the stand-alone Money Remittance Providers have transferred USD27 million outside Kenya and received USD20.2 million. In addition, CBK has approved several partnerships between local financial institutions and international money transfer operators, the latest being the one between Postbank Kenya and RIA Money Transfer.

*Ladies and Gentlemen:* Despite the significant progress made in making remittance services accessible and efficient in Kenya, as in the rest of the developing world, there are still some challenges that we need to address. Among these are the high transaction costs, integrity of the services and need for effective competition.

*Ladies and Gentlemen:* The costs of remittances to, within and from Sub-Saharan Africa are higher relative to other regions of the World. The World Bank's *Remittance Prices Worldwide* database estimates that the cost of remittances to and from Sub-Saharan Africa as at the end of June 2014 stood at 11.55% compared to Latin America at 5.57% and South Asia at 6.45%. This means that the cost of remittance transactions to and from Sub Saharan Africa are not only above global average levels, but are also significantly

above the 5% target set by the G8 countries on costs of remittances. The situation is attributed to the high service fees and foreign exchange conversion fees charged by money transfer operators, giving rise to the so-called 'remittance super tax' on African countries. This situation is not tenable and the players should join hands with the Government to streamline the charges hence reduce costs of money transfers to Kenya. With money remittance providers being licensed in Kenya, we expect resultant competition to lead to lower money transfer charges.

Lastly, Ladies and Gentlemen, as we enjoy the benefits of expanding money remittance business, let us not lose sight of the ever increasing threats to the integrity of financial systems. The risk of channels of financial services such as the Postbank-RIA partnership being used for ulterior purposes is real and constant vigilance needs to be exercised. In this regard, the Government of Kenya has put in place a robust legal and regulatory framework for Anti-Money Laundering and Combating the Financing of Terrorism. That is the reason why Kenya was upgraded from the Financial Action Task Force (FATF) Group Dark Grey list in June 2014. What now remains is for all players in the financial sector to play their role in ensuring compliance with the AML/CFT legal and regulatory frameworks. This AML/CFT Regime upgrade has

lowered the country risk that we should take advantage of in reducing costs of money transfers.

In conclusion, the Central Bank of Kenya remains committed to continued partnership with the money remittance players in developing policies that create an enabling environment for the sub-sector's growth. With these remarks, Ladies and Gentlemen, it is now my distinct honour to declare the Postbank-RIA International Money Transfer Partnership officially launched.

Thank You