CENTRAL BANK OF KENYA

World Consumer Rights Day

Keynote Address by Dr. Patrick Njoroge
Governor, Central Bank of Kenya
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As Prepared for Delivery

Good morning! I am delighted to participate in the World Consumer Rights Day being observed globally with a theme of *Fair Digital Finance*. I appreciate the invitation from the Communications Authority of Kenya (CA) to preside over this important function. I am appraised that this day is being observed in 100 countries to highlight the opportunities and consumer protection issues arising from digital finance. Indeed the consumer is at the heart of any service. For financial services, customer centricity has become the core enabler of the success or otherwise of financial services providers.

In setting the stage for today's theme of *Fair Digital Finance*, I will highlight three broad themes in the global and national spheres.

First, globally, digital channels particularly mobile phones have became a key enabler of financial services. Digitalization has upended the traditional *brick and mortar* model of providing financial services to one where these services are available through digital devices *anywhere anytime*. Beyond financial services, digital channels have enabled the provision of other services including e-commerce, health, education and entertainment. The explosion of digital services was especially pertinent during the COVID-19 pandemic. Given the various containment measures, particularly movement restrictions and social distancing requirements, digital services became a lifeline for the global populace. This has also increased the prominence of the Bigtechs that are providing a variety of non-financial and financial services.

Globally, Microsoft, Google, Meta (formely Facebook), Amazon and Apple are the face of Bigtechs. But beyond the United States, Alibaba and Tencent in China, Mercado Libre (online market) in Latin America, ride hailing services in South East Asia (Grub and Gojek) and mobile phone financial services firms in Africa are increasingly exhibiting the characteristics of Bigtechs though on a more regional scale.

Further, the pace of technological changes and innovations has accelerated. This has led to the emergence of new payment methods including digital currencies such as electronic money, privately issued currencies such as cryptocurrency and stable coins and publicly issued, Central Bank Digital Currencies (CBDC). A CBDC is a digital currency issued by the central bank and intended to serve as legal tender.

Second, turning to Kenya, digital financial services have underpinned the transformation of access to financial services in the last 15 years. The sixth edition of the FinAcess Household Survey released by the Central Bank of Kenya (CBK), the Kenya National Bureau of Statistics (KNBS) and the Financial Sector Deepening Trust (FSD) Kenya, in December 2021, indicates that 83.7 percent of Kenya’s adult population accesses financial services. This is a three fold increase from 26.7 percent, in the baseline Survey that was conducted in 2006. This transformation has been anchored on digital financial services whose trigger was the introduction of mobile phone money transfer services in 2007. The money transfer proposition rapidly expanded over time to today’s elaborate financial services ecosystem spanning among others-credit, savings, insurance, capital markets products and pensions.

Third, whereas digital financial services have provided opportunities to expand the financial inclusion frontier, they have also posed challenges. In particular and germane to today’s event are consumer protection issues. For Kenya, the *2021 FinAcess Survey* assessed consumer protection practices focusing on customer experiences on services received and access to information from financial services providers. Various challenges were reported in the use of financial services and products. These were principally:

- Unexpected/unclear charges i.e., lack of transparency in pricing
- Loss of money
- Fraud
- Inability to access services due to system downtime or unavailability of internet.

Against this backdrop, there are three key concerns the CBK is currently addressing towards a *Fair Digital Finance* marketplace in Kenya.

First, putting in order the unregulated digital credit lenders. Kenya has seen a proliferation of credit provided through digital channels particularly mobile phones. This has been both through regulated entities such as commercial and microfinance banks but also by unregulated entities through Digital Loan Applications (Apps). The unregulated Apps saw their usage rise from 0.6 percent of the adult population in 2016 (200,000 users) to 8.3 percent in 2019 (2 million users) before slowing to 2.1 percent in 2021 (approximately 600,000 users).

Consumers have raised concerns relating to unregulated digital lenders including predatory practices, in particular, their high cost, unethical debt collection practices, and the abuse of personal information. The bait was the quick credit, then the borrower is reeled in and rendered usunder with the outrageous debt collection practices. To address these concerns, the National Assembly passed the Central Bank of Kenya (Amendment) Act 2021, became effective on December 23, 2021, following Presidential assent on December 7, 2021. The Amendment provides for the licensing and oversight of previously unregulated Digital Credit Providers (DCPs) by CBK.

On December 23, 2021, CBK issued the draft Central Bank of Kenya (Digital Credit Providers) Regulations for public comments. Following the closure of the public consultation period, we have completed the review of the public comments and incorporated them as appropriate. The Regulations will be gazetted later this month, completing the journey for licensing and oversight of the DCPs by CBK. All previously unregulated DCPs will be required to apply to CBK for a license within six months of the publication of the Regulations i.e., by **September 2022 or cease operations.** We are now in business.

Second, the cost of mobile money transactions has been a cause of concern to consumers. Further, some of the charges are not easily understood by an average customer. In 2018, in a bid to address these concerns, CBK worked with the mobile money Payment Service Providers (PSPs) to facilitate interoperability across their different networks and reduce the related costs. More broadly, at the onset of the COVID-19 pandemic, CBK, PSPs and commercial banks agreed on a set of emergency measures to facilitate the use of digital channels in light of the pandemic containment measures put in place. These measures included waiver of transaction fees for low value transactions below Ksh.1,000, increase of mobile money transaction and wallet limits and waivers of charges for transfers between bank and mobile wallets.

Most of the emergency measures expired in December 2020. A significant increase of mobile money usage was noted over the period the measures were in place, demonstrating that they were timely and effective. For instance, the monthly volume of person-to-person transactions increased by 87 percent between February and October 2020. Over this period the volume of transactions below Ksh.1,000 increased by 114 percent, while 2.8 million additional customers are using mobile money. Business-related transactions also recorded significant growth over the same period.

To sustainably address the costs of mobile money transactions, CBK in the National Payments Strategy, 2022-2025 (the *Strategy*) has rolled out *pricing principles (the principles)* to be adopted by PSPs. The *Strategy* seeks to realise a vision of *A secure, fast, efficient and collaborative payments system that supports financial inclusion and innovations that benefit Kenyans.* The vision will be anchored on core principles of *trust, security, usefulness, choice and innovation*.

In the *Strategy*, CBK will continue to roll out the *Principles* in order to enhance customer focus in pricing of digital services. The primary aim will be to ensure that tariffs and pricing policies and practices are underpinned by principles such as *transparency, disclosure, cost effectiveness and customer-centricity*. In addition, focus will be on appropriate pricing that is consistent with the current state of the market including efficiency considerations and safeguarding against excessive pricing or customer abuse due to undisclosed fees and charges.

Additionally, CBK will guide and facilitate the efforts to achieve full-scale interoperability across the payments ecosystem. Building on the gains from *Person to Person (P2P)* interoperability rolled out in 2018, CBK will facilitate players in the industry to achieve seamless and customer-centric interoperability. The overall aim is to provide customers with a seamless, secure and affordable functionality to send and receive money from any financial institution across the payments ecosystem. I expect that consumers will see further steps towards greater interoperability in the near term.

Third, is the increased risk of cybersecurity and more broadly data governance as the use of digital financial services deepens in Kenya. This is as a result of the increased shift of financial services operations to digital platforms. At the consumer level, increased incidents of identity theft, social engineering/phishing have arisen. This has seen some consumers lose their funds to fraudsters.

To addess these emerging issues, CBK issued Guidance Notes on Cybersecurity to banks and PSPs in 2017 and 2019 respectively. The Guidance Notes require the banks and PSPs to put in place comprehensive cybersecurity risk management frameworks. Among the controls that have been implemented include:

- Comprehensive reviews of service level agreements and contracts with third parties to ensure that they have cybersecurity frameworks that meet the resilience requirements of the banks and PSPs.
- Ramping up of ICT staff skillset/competencies through continuous overall staff education and consumer awareness campaigns on cybersecurity.
- Banks and PSPs should regularly share their internal and external ICT audit reports for CBK's assessment on their response to issues raised.
- Banks and PSPs should report to CBK of any cyber incidents that occur and how they responded to resolve the events.

More broadly, CBK continues to work with other agencies, nationally, regionally and internationally in a *circle of trust* to share pertinent information and co-ordinate appropriate responses to the cybersecurity threat.

On data governance, particularly data privacy, Kenya has made significant steps with the enactment of the Data Protection Act, 2019. This was operationalized by the establishment of the Office of the Data Protection Commissioner (ODPC) that is well represented here today. CBK is committed to working with the ODPC and other pertinent agencies in ensuring that the insitutions under its ambit including banks and PSPs have robust data governance frameworks to protect consumers data.

As I draw to a close, the participation of consumers in key decisions impacting their finances is paramount. It is in this spirit that CBK issued a Discussion Paper on Central Bank Digital Currency in February 2022. The *Paper* seeks to assess the potential applicability of a CBDC in Kenya highlighting the risks and opportunities. Given the wide ranging implications of CBDC to the wider economy, any eventual decision to introduce a CBDC would involve the government, regulators, private sector and most importantly the public. Any currency rises and falls on public trust and CBK welcomes comments from the public on the *Paper* by May 20, 2022.

I am sure that the most pertinent question, that we must seek to answer today is whether we have a fair digital finance marketplace in Kenya. The answer, though, tells us where we are in the journey towards realizing the vision that centers around the benefits to consumers. I look forward to the deliberations on what we at CBK consider to be the important journey we are on, but whose pace must be increased so that digital finance ultimately *works with and for all Kenyans*.

Thank You!