CENTRAL BANK OF KENYA

INTERNATIONAL MONEY TRANSFER AND CROSS BORDER PAYMENT CONFERENCE (IMTC)
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As Prepared for Delivery

Good morning, ladies and gentlemen! It is a great pleasure for me to join you at this conference. Let me begin by thanking the conference organizers for the invitation, and for giving me the opportunity to interact with the distinguished participants. We feel particularly privileged to host this inaugural IMTC Africa Conference in Nairobi. It is equally significant for the East African region, which increasingly is viewed as an attractive destination for business and investments. This conference therefore provides an excellent opportunity to reflect on the important topics of remittances and cross-border payments, the challenges and opportunities that lie ahead.

The beginnings of our banking system is intertwined with remittances and cross border payments. The first bank in Kenya was established in 1896, to facilitate sending money home by Indian workers that were building the railway through Kenya, and also to support trade in the Europe-South Africa-India axis. A lot has changed since then. A hundred years ago, remittances depended on the movement of a written instruction over sea and land. It could take months and the transaction faced many perils. Today, transfers are virtually instantaneous and current protocols ensure certainty of the transfer. Customers' interest in a secure and inexpensive remittance channel remain unchanged.

The importance of cross border payments cannot be overemphasized. Remittance flows to developing countries amounted to US$429 billion in 2016, more than twice the amount of foreign aid that these countries received, and have become an important source of foreign exchange.[1] Similarly, remittance to Sub-Saharan Africa (SSA) amounted to US$33 billion in 2016. These remittances are a critical source of income for many households and provide a highly beneficial insurance function.

Innovations in digital financial services have been transforming the remittance industry. For Kenya, prior to 2013 when Money Remittance Regulations were issued, remittance flows were largely through informal channels as banks were deemed prohibitively expensive. Since then domestic money transfer products such as M-Pesa have evolved to become convenient and reliable platforms which with the expansion of mobile phone technology are now available to large segments of the population. For instance, Kenya has a mobile phone penetration rate of 89 percent compared to the Sub-Sahara Africa average of 43 percent, and 85 percent of all financial transactions are conducted through the mobile transfer platforms though they comprise only 9 percent of the total value. These providers are now broadening the channels of international money transfers, and the Central Bank of Kenya (CBK) has approved their partnering with various international money transfer institutions.

Nevertheless, there are some issues of concern alongside these positive developments. These need to be kept in mind and addressed in a concerted manner, and I offer some reflections on a few of them.

- ***First,*** the cost of remittances remains very high, at an estimated 7.32 percent globally and 9.42 percent for SSA, and needs to be lowered quickly.[2] These costs are charged largely by the originating institutions in countries where the traditional structures and institutions such as banks remain dominant. However, the ease and cost of remittance transfers also has a significant impact on the welfare of the many households that rely on these flows. The regionalization of money remittance services and modernization of cross border payment platforms would certainly facilitate a lowering of the cost of remittances. Nevertheless, it is imperative that innovative ways be found to further lower these cost towards the Sustainable Development Goal (SDG) target of 3 percent. Therefore the fundamental question is what will each agent along the transfer chain do so as to reduce the overall cost to the consumer and how will innovations assist in this process?

[1] World Bank Group, *Migration and Remittances: Recent Developments and Outlook*, April 2017
[2] World Bank Group, *Remittance Prices Worldwide,* June 2017

- ***Second***, the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework needs to be improved continuously. This would ensure the adoption of best practices and, *inter alia,* lead to compliance with the AML/CFT requirements and the fostering of an enabling environment for remittances. On the other hand, if progress in this area is not forthcoming, those jurisdictions would face the prospect of de-risking—a termination of their correspondent banking relationships, a withdrawal of foreign banks, or the imposition of other restrictions due to the perceived risks to money laundering and terrorism financing.

  In many ways de-risking has been attributed to the misapplication of AML/CFT measures and to address this concern the Financial Action Task Force (FATF), the international standard setter, has advocated that countries fully implement a risk-based approach to combating money laundering and terrorism financing. To this end, the CBK has adopted a Risk-Based Supervisory Framework for AML/CFT. This framework complements the existing framework on prudential supervision and legal compliance with special attention directed to anti-money laundering and combating financing of terrorism. Nevertheless, all agents have a responsibility in reducing AML/CFT risks and building a robust framework for cross-border payments.

- ***Third,*** financial sector regulators need to remain vigilant on potential risks, while safeguarding an effective processing of payments and ensuring that a consumer-focused environment is maintained. As a regulator, financial stability continues to be our primary objective, regardless of the transaction channels that are deployed. However, cyber security and data privacy continue to pose the greatest concerns in terms of the efficacy of regulatory protections, and further concerted work is called for. There is certainly a lot of room for peer learning.

These are the issues that will likely come up in your discussions, and I hope a way forward will be found. I look forward to interesting and lively interactions, but more importantly, to learning from your diverse experiences in this area.

Once again, I am grateful for this opportunity to engage with you. Thank you for your attention!