



VALUE CAPPING: THE ISSUES

The modernization of our payments system began with the Automation of the Nairobi Clearing House in 1998 with the aim of enhancing the clearing of cheques between banks using Magnetic Ink Character Recognition (MICR) technology and Electronic Funds Transfer (EFT) payments. The result of this policy shift was the reduction of clearing time from a high of fourteen (14) days to three (3) days currently.

The second and third milestones in this modernization process were the successful launches of: Kenya National Payments System Framework and Strategy Document in September 2004 and the Kenya Electronic Payments and Settlement System (KEPSS) in July 2005. KEPSS implementation helped phase out the previous paper-based inter-bank settlement system and completely transformed the management of liquidity in the banking industry. Statistics available for the Kenya shilling leg indicate that the system moved Ksh8,563 billion with 142,445 payment messages in 2006; Ksh9,599 billion with 180,312 payment messages in 2007; and Ksh17,269 billion with 273,941 payment messages in 2008.

During the year 2008, the Bank in conjunction with Kenya Bankers Association initiated other modernization programs which are ongoing and are expected to be realised this year. These include; Cheque Truncation, Value Capping, Failure to Settle Mechanism, and the G-Pay Project. All of these are aimed at mitigating various risks and enhancing the efficiency and effectiveness of our payments system.

Although the introduction of the Real Time Gross Settlement System was expected to reduce the systemic importance of the Automated Clearing House (ACH) and increase the stability and soundness of the payment systems, available information reveals that there has been no significant change in the volumes and values of payment instruments going through the ACH. Therefore the ACH still remains a Systemically Important Payment System (SIPS) as opposed to being a low risk retail payment system. It is in this context that it has been seen necessary to introduce Value Capping in order to reduce risk of settlement, increase KEPSS usage and facilitate the implementation of failure to settle mechanism in the Clearing House.

The Central Bank of Kenya wishes to assure members of the public of its commitment to continuously develop a world-class payments system in the country. The Bank also wishes to thank the Government and Kenya Bankers Association in their efforts to modernize the national payment systems.

CENTRAL BANK OF KENYA

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