Central Bank of Kenya

Kenya's Payments Journey

February 2023

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About the CBK payments journey feature articles

The articles in this Bulletin are published to provide key highlights of the journey that Kenya has made in digital payments, and in particular, mobile money services. The country has made significant progress over the last few decades in modernising and strengthening its National Payments System (NPS), under the guidance and oversight of the Central Bank of Kenya (CBK).

The NPS has undergone major changes and transformation, which include establishment of national payments infrastructure, automation and upgrades of various payment systems. These efforts have resulted in increased efficiency for large-value, retail, and cross-border payment services. Together with the introduction of mobile financial services in 2007, these modernisation efforts revolutionized the payments landscape in Kenya, and boosted financial inclusion.

The articles in this Bulletin covers different aspects of the evolution of the NPS in Kenya, and which are discussed in various ways in the National Payments Strategy 2022-2025 that was launched by the CBK in February 2022. The articles cover areas such as improvements in the retail and large-value payments infrastructure, government payments, diaspora remittances, lessons learnt in terms of payments oversight during the COVID-19 pandemic, and why customer-centricity remains an important element of CBK's approach to innovations in the payments ecosystem.

The articles were written by CBK staff, and first published in the October 2022 edition of the Central Bank Payments News (CBPN), a global magazine that is dedicated to sharing emerging payments news and information to the global central banking community.

By publishing the articles in this Bulletin, we also hope to make them available to a much wider audience (in Kenya and beyond), and in particular, to share lessons with readers in jurisdictions that have embarked on reforms that have already been implemented in Kenya.

The articles were written under the stewardship of Michael Eganza and Nita Omanga, respectively, the Director and Deputy Director in the Banking and Payment Services Department. Overall technical direction and editing was done by Gitau Mburu, Head of Payments Policy Development and Data Analysis. Contributions and support for the articles was also received from: Corazon Kamaan, Catherine Gitonga, Diana Odhiambo, Elijah Enock, Elizabeth Murigu, Evelyn Anyona, Julie Oduor, Julius Mutemi, Leonard Kipsanai, Luke Plapan, Mike Kiptepkut, Paul Kariuki, Peter Nzalu, Priscilla Keitany, Timothy Kimalel, Timothy Wafula, Stephen Wambua and Wambui Mwangi. Peer review was undertaken by Evelyne Kilonzo, John Kipkirui, Martin Gitu and Michael Owuor. Cover design and layout by Christopher Mwangi and Sylvia Anam.

While the articles were written by CBK staff, they do not necessarily represent the official position of the Bank on the topics discussed. For more information, readers can contact CBK's Digital Payments Division through *nps@centralbank.go.ke.*

Kenya’s retail payment system: Past, present, and future

By Gitau Mburu

Kenya’s payments ecosystem has undergone major developments and shifts over the last few decades. Its innovation is globally acclaimed. The Central Bank of Kenya is building on past gains to enhance the security, stability, customer-centricity, and risk mitigation aspects of Kenya’s retail and mobile money system, in line with the [National Payments Strategy 2022-2025]() that was launched in February 2022.

Genesis and evolution

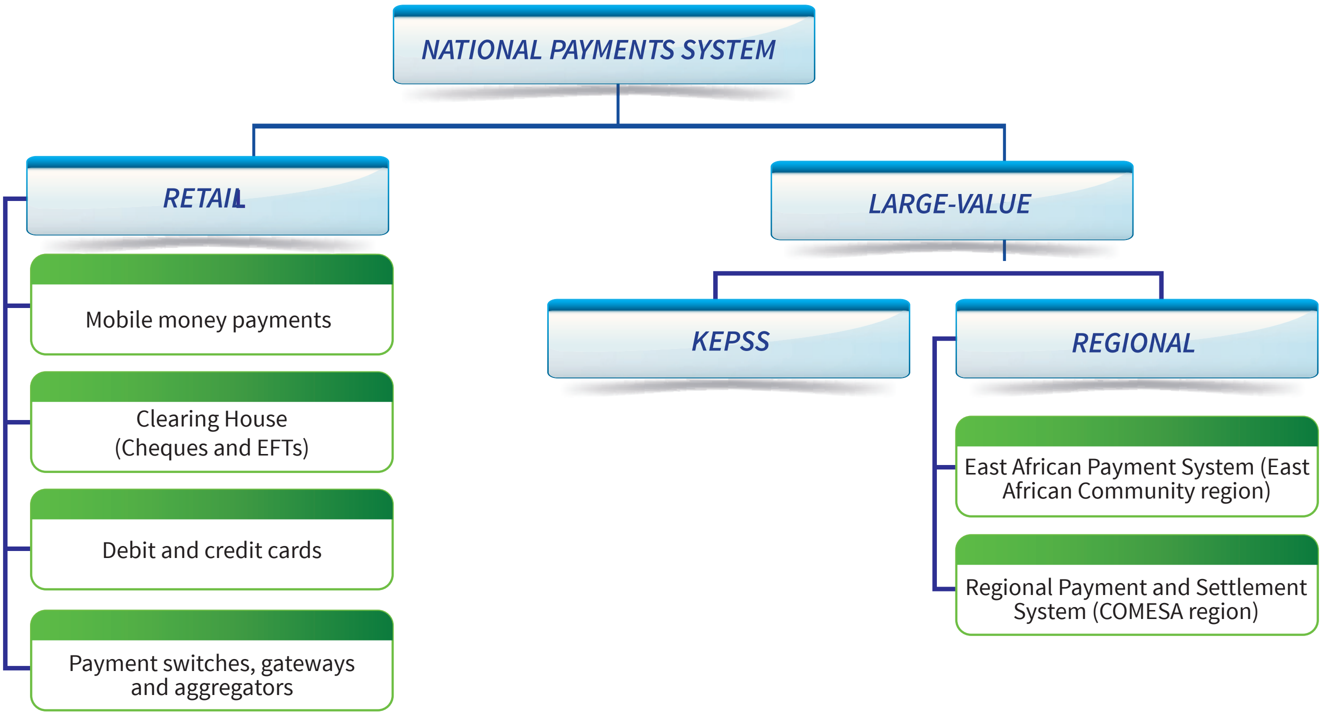
Kenya’s National Payment System (NPS) has undergone major changes and developments over the last few decades, mainly as a result of reforms implemented by the Central Bank of Kenya (CBK) in partnership with the government and industry stakeholders. Major transformation started about three decades ago, with a phase that is typically referred to as the *modernisation* and *strengthening* of Kenya’s payments system.

In 2003, the Central Bank of Kenya Act was amended to provide an explicit payments mandate, primarily driven by two factors. First, the growing pace of payments reforms in Kenya required a much firmer and explicit legal foundation. Second, was the need to align Kenya’s emerging payments developments with global standards, specifically as outlined in the Principles for Financial Markets Infrastructure (PFMI) that require payments regulators to conduct their regulation, supervision and oversight based on explicit legal provisions. Today, Kenya’s NPS comprises the following:

- ***Large-Value Payment System –*** The Kenya Electronic Payment and Settlement System (KEPSS) is the country’s Real Time Gross Settlement (RTGS) system that processes time-critical and large-value (just over $8,200 and above) payments. It currently hosts 42 participants made up of 39 commercial banks and three microfinance banks.

- ***Retail Payment System –*** This comprises Payment Service Providers (PSPs) such as electronic money (e-money) issuers, payment switches, gateways and aggregators. They process low-value but high-volume payments. As of September 2022, the CBK had authorised 17 PSPs. Banks also play in this space as they provide card, cheque and electronic funds transfer (EFTs) services.

- ***Regional Payment Systems –*** The two systems are the East African Payment System (EAPS) and Regional Payment and Settlement System (REPSS). These are cross border payment links that Kenya has established with central banks in the East African Community (EAC) and Common Market for Eastern and Southern Africa (COMESA) regions, respectively. The objectives of the two systems are to facilitate cross border payment and settlement within the EAC and COMESA regions, respectively, thereby promote regional trade and economic integration.



Developments in retail payments and advent of mobile money

This started with the automation of payments infrastructure and outlets, of which key highlights include the launch of Automated Teller Machines in 1989, automation of the Nairobi Clearing House in 1998 and establishment, in 2005, of the Kenya Electronic Payment and Settlement System (KEPSS), the country's Real Time Gross Settlement (RTGS) system.

The evolution that pushed Kenya's NPS to new frontiers was the launch of innovative mobile money services, starting with M-PESA (m – for 'mobile'; Pesa – Swahili for 'money') in March 2007. The primary needs that mobile money services were addressing was to enable Kenyans 'send money' back home, typically from urban areas to their rural home, or amongst each other in large towns and cities. Today, various mobile money products and services have been launched, providing Kenyans with convenient and innovative ways of making payments. The growth and maturity of mobile money services has seen the integration of mobile money in nearly all aspects of the ordinary lives of Kenya. A few examples include:

- Mobile credit – to allow mobile money customers access digital credit from banks that work in partnership with Payment Service Providers (PSPs);
- Mobile savings – solutions that allow mobile money customers to save small and interest-earning amounts on mobile money wallets;
- Renewable energy – innovative mobile payment solution that supports pay-as-you-go asset financing platform that has progressed beyond solar lighting, energy efficient TVs and fridges to cash loans, smartphones, health insurance, among others;
- Investment in Government securities – mobile money-based solution that allows the public to purchase Government securities for as low as about $30 compared to the standard minimum purchase amount of about $480;

- Health care – applications developed in partnership with health institutions to integrate medical solutions and receive payments through mobile money rails;
- Public and utility services – mobile payment accounts (dubbed pay bill and till numbers) that are issued wide range of public and private institutions such as water companies, cable TV companies, schools, supermarkets, and other traders to allow collection and payment of services through mobile money rails;

The growth witnessed has made digital payments, and mobile payments in particular, a nationwide phenomenon. It is rare to find public and private services that cannot be paid for using a basic mobile phone. This ubiquity is confirmed through the data that the CBK receives. To illustrate:

- In July 2022, total mobile money transactions were in excess of 1.2 billion transactions, transacting over $23 billion in just that month alone;
- On a daily basis, this translated to about 42 million mobile money transactions, valued about $730 million per day;
- The number of active mobile money customers has risen from about one million customers at the advent of mobile money in 2007, to more than 28 million customers as of July 2022; more than half of Kenya's population of 48 million people;
- There are about 310,000 mobile money agents as at July 2022. These agents provide wide range of services such as mobile cash deposits and withdrawals which as of July 2022 was valued at just over $6 billion.

Shifts taking place

The rise in digital payments has also underpinned the significant shifts in a number of areas. Firstly, Kenya's increase in financial inclusion was mostly achieved through the adoption of innovative mobile money solutions. According to the fifth edition of *Kenya's FinAccess report* – data from national surveys on financial inclusion that are carried out every two to three years – financial inclusion has risen from 26.7 percent in 2006 to 83.7 percent in 2021, one of the highest levels of financial inclusion globally.

Secondly, there has been a shift in usage of different payment and financial solutions. The 2021 FinAccess report showed that usage of mobile money rose from 28 percent in 2009 to 81 percent in 2021. The proportion of Kenyans who use two or more financial services simultaneously has quadrupled, from just 18percent of the population in 2006 to 75 percent in 2021. These developments coincide with Kenya's mobile money revolution, a time when use and integration of innovative mobile solutions permeated through all sectors of the economy.

The third shift is in terms of how the development of mobile money has affected other parts of the financial system, notably banking. The ubiquitous use of mobile money rails has enabled banks reach regions and customers who were hitherto harder to reach or completely unbanked. In the last few years, this has also resulted in changes in the usage of traditional banking services and mobile banking—the intersection between mobile money provided by telcos and standard bank or account-based services provided by banks.

To illustrate these shifts, between 2019 and 2021, usage of traditional banking service delivery channels fell from about 30 percent to 24 percent, while use of mobile banking channels increased from 25 percent to 34 percent. More and more Kenyans are accessing banking services through mobile channels due to its convenience and reach. In turn, banks have had to fundamentally alter their service offering. A bank such as [Kenya Commercial Bank (KCB)](), the country's largest bank by gross loans, had nearly 98 percent of transactions in 2021 conducted outside "brick and mortar" branches. These shifts are only set to increase as customer's expectations and preferences for digital and personalized services continue to grow.

COVID and post-COVID

As with most other countries, the need for alternative delivery channels became clear during the COVID-19 pandemic. In this period, the CBK, in consultation with actors in the payments space, implemented a number of relief measures aimed at shifting payments to electronic channels and to keep the wheels of the economy running during lockdowns. The impact thus far showed how important mature and customer-centric payment systems can be in supporting economic resilience and livelihoods: between January 2020 and December 2022, the number of active mobile money customers increased by about 11 million Kenyans, and the volume and value of person-to-person payments rose by 236 percent and 97 percent respectively **(Table 1).**

Table 1: Mobile payments performance over the COVID period

	Mobile money agents	30-day active customers, Mn	Person to person (P2P) transfers		Pay bill payments*		Till number payments*		Transfers from bank accounts to mobile wallets		Transfers from mobile wallets to bank accounts	
			Volume, Mn	Value, Ksh. Bn	Volume, Mn	Value, Ksh. Bn	Volume, Mn	Value, Ksh. Bn	Volume, Mn	Value, Ksh. Bn	Volume, Mn	Value, Ksh. Bn
Jan-20	231,292	22.1	141	221	100	106	32	58	13	102	4	39
Dec-22	317,983	33.0	474	436	371	623	187	166	61	389	66	507
Growth	**86,691**	**11**	**333**	**215**	**270**	**517**	**155**	**108**	**48**	**287**	**62**	**468**
%	**37%**	**49%**	**236%**	**97%**	**269%**	**486%**	**491%**	**185%**	**384%**	**282%**	**1640%**	**1213%**

Source: Central Bank of Kenya

** Pay bills are remote payments where a customer can transfer while being far from the merchant or organisation receiving the funds e.g., paying school fees remotely. Till numbers are proximate payment where a customer has to be next to the seller e.g. paying for supermarket shopping.*

Additionally, women are transacting more than men, indicating that payment systems can also have strong gender impacts, when measures are properly targeted and implemented.

The journey ahead and CBK's approach

The recent performance of Kenya's mobile money services confirms that integration of digital payment rails with Kenya's economy is firmly in place. Innovative digital payment solutions are now embedded in all aspects of Kenya's social fabric. That said, and even though Kenya's regional and global leadership on digital payments is widely acknowledged, it would be premature or misplaced to declare victory.

A lot remains to be done.

The work that the CBK is now undertaking is broadly aimed at consolidating the gains made in the journey of modernising and strengthening Kenya's payment systems, infrastructure and oversight framework. CBK's foundational approach will remain rooted on leveraging on the benefits of technological innovation to solve real customer needs, while mitigating current and future risks.

Our focus over the coming years is on enhancing the customer-centricity, safety and security of payment systems and services. The CBK is also increasing the efficiency of the RTGS, and exploring how its availability can be increase, to leverage the world-class capabilities of a new RTGS platform that was implemented in June 2020. A self-assessment of the KEPSS against the PFMIs has identified areas that will further strengthen the oversight and performance of the RTGS system, in line with international standards and growth in large-value and time-critical payments.

The CBK is also enhancing automation of its core banking systems to improve the efficiency of the services that CBK offers to Government ministries and other public institutions. Regionally, the CBK is improving how regional payments operate to continue boosting cross-border remittances and support the continent's trade and investments programmes.

The CBK is cognizant that the next-generation payment systems need to be resilient and aligned to global standards and emerging best practice. In this regard, the CBK is working with institutions in the NPS to domesticate key standards such as ISO20022. The CBK is working with players in the payments ecosystem to continuously invest in mitigating, detecting, and reporting risks such as cybersecurity threats, fraud and online scams that are likely to grow in sophistication and scale as payments shift to digital channels.

To provide the over-arching framework for these and other changes, the CBK launched the *National Payments Strategy 2022-2025* in February 2022, anchored on the vision "*a secure, fast, efficient and collaborative payments system that supports financial inclusion and innovations that benefit Kenyans*." Implementation will be based on five core principles—trust, security, usefulness, choice, and innovation. Already, commendable progress has been made. For example, to remedy the disjointed nature of how different mobile money services were being offered, CBK has worked with PSPs to *launch full mobile money interoperability*, which was completed in July 2022.

Ultimately, our ambition is to build a payments ecosystem that works for and with customers (large and retail), support the Government's agenda on growth and utilize innovation payment services to enable our people realise their business and livelihood aspirations.

Improvements to Kenya's large-value payments infrastructure

By Stephen Wambua

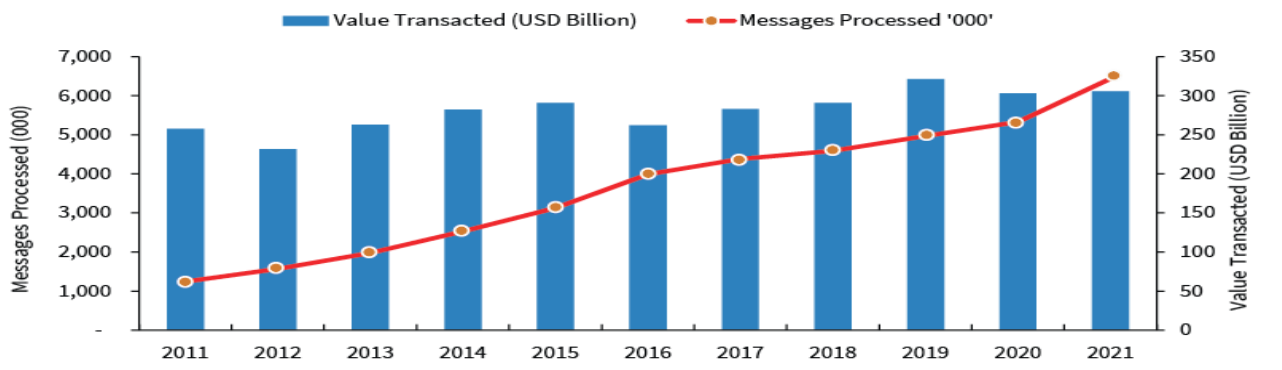
Kenya's Real Time Gross Settlement system remains the backbone for large-value and time-critical payments. Planned rollout of new RTGS platform enhancements, and adoption of the ISO20022 standard will enable CBK keep the wheels of the economy running, in line with the Bank's vision of being A World *Class Modern Central Bank.*

Most central banks around the world are upgrading their Real Time Gross Settlement (RTGS) systems to enhance their efficiency and strengthen the robustness and stability aspects of national payments infrastructure. Kenya's RTGS – the Kenya Electronic Payment and Settlement System (KEPSS) – was established in July 2005 to provide a safe and efficient settlement system for large-value and time-critical payments for the economy. KEPSS settles Kenya Shillings, United States Dollars, Euros and British Pound Sterling transactions. In addition, all the regional payment systems in the East African Community (EAC) and Common Market for Eastern and Southern Africa (COMESA) regions are linked to KEPSS to facilitate settlement. Use of KEPSS has overtime guaranteed speed, security, and reliability, thus promoting public confidence in the country's overall payments infrastructure.

Performance

The KEPSS is the backbone of critical payments that keep the wheels of the economy running. It currently has 42 participants comprising banks and microfinance banks. Its robust performance can be demonstrated by the growing number and value of payments that are processed through the platform. After inception in August 2005, the platform processed just 0.05 million transactions valued at just over $39 billion to December of that year. In the year 2021, KEPSS processed 6.4 million transactions, valued at $305 billion **(Diagram 1).**

Diagram 1: KEPPS transaction flow



Source: Central Bank of Kenya

KEPSS improvements going forward

The KEPSS platform underwent a major upgrade in June 2020. The main objective was to adopt recent technological advancements and in line with CBK's vision of being *A World Class Modern Central Bank*. The new RTGS platform has added important features and benefits to the payments sector and financial system. The upgraded system has the capacity to process more than one million transactions per day and support a 24/7 clearing and settlement payment cycle. This is backed by an improved and flexible system operating timetable mechanism that can be run either automatically (scheduled) or manually. To support extended working hours and huge transactional volumes, participants can optimize the available settlement funds through enhanced liquidity management features. Additionally, the upgraded KEPSS can be accessed using the most widely used client browsers. The system users have benefitted from advanced functional alerts to monitor payments processing and system performance.

The current system rules and procedures are being amended to accommodate these new KEPSS features. In line with the current developments, the upgraded KEPSS is ISO20022 compliant and able to process data rich payment instructions. This migration to the new SWIFT ISO20022 messaging standards will be useful when activating the new AML/ CFT screening tool embedded in the system, and more broadly enhance connectivity and efficiency of payments in line similar migrations taking place globally.

Adoption of the ISO 0022 standard is also being undertaken to enable Kenya deliver safe, secure and interoperable payments. CBK is currently collaborating with the banking industry and preparing for the adoption of ISO20022 standards for both domestic and cross-border payments market infrastructure before the 2025 deadline as set by SWIFT.

Once the ISO 20022 migration is completed, this will lead to improved customer experience through simplified and transparent international and cross-border payments. Participants will be able to conduct end-to-end straight through processing and reconciliation thus reducing the risk of error in processing payments. The migration will further enable service providers to unlock solutions for business automation due better payments data. This will also lead to realization of other benefits such as standardization of financial messages, boost remittance information included with payment transactions, transparency, and global interoperability.

Lessons from the pandemic in enhancing payments supervision and oversight

By Timothy Wafula

Key lessons from COVID-19 measures and oversight activities are now enabling the CBK increase the standard – and regulatory expectations that PSPs ought to meet – in order to improve payment availability, reliability and resilience, key features that proved necessary during the pandemic period, and will be, going forward.

The first case of COVID-19 (Coronavirus) was confirmed in Kenya on March 12, 2020. Thankfully, a degree of contingency and crisis planning had been initiated across key sectors. However, the scale and magnitude of how the virus spread required institutions to respond swiftly and proactively in order to mitigate the impact of the virus that was evolving rapidly at the time.

The Central Bank of Kenya (CBK) played a pivotal role in curbing the spread of COVID-19, by encouraging the increase in use of digital payment rails. This meant that certain measures had to be taken to drive the adoption of digital and electronic payment channels. In consultation with the industry, the CBK announced and implemented from March 16, 2020, a range of support measures in the payments ecosystem, namely:

- Removal of charges for mobile money transactions up to $9.
- The transaction limit for a mobile money transaction was increased from $675 to $1,446.
- The daily limit for mobile money transactions was increased to from $1,350 to $2,892.
- The mobile money wallet limit was increased from $1,350 to $2,892.
- The monthly total limit for mobile money transactions was removed.
- The tariff for mobile money transactions that applied for the hitherto $675 limit was to apply for transactions up to $1,446.
- PSPs and commercial banks were mandated to eliminate charges for transfers between mobile money wallets and bank accounts.

Further, Payment Service Providers (PSPs) and banks were urged to continue applying anti-money laundering and countering financing of terrorism (AML/CFT). Some of these measures have since been gradually withdrawn. CBK's data confirms that the measures were both effective and timely, in terms of providing wider access and availability of payments channels, particularly during lockdowns. To illustrate, between January 2020 and July

2022, the number of Kenyans using mobile money services increased by over 6 million (27 percent increase); over the same period, the volume and value of personal mobile money transfers between Kenyans increased by 254 million transactions, and $1.3 billion, respectively. Over the same period, the volume and value of money that Kenyans transferred from their mobile wallets to bank accounts increased by 38 million transactions valued at $3.6 billion.

In order to enhance the supervisory aspect of the CBK, PSPs were required to submit weekly reports to the CBK for surveillance purposes, in addition to the statutory monthly reports. Enhanced reporting assisted the CBK to monitor the effectiveness of the COVID-19 measures taken.

The outcomes and lessons from this period are assisting the CBK enhance its risk-based supervision of PSPs and to steer PSPs in providing affordable, customer-centric and innovative services. CBK is also maintaining vigilance to ensure that compliance by the PSPs is enhanced to mitigate against fraud and scams that increased during the pandemic and taking a proactive role in curbing the use of regulated payment rails by unlicensed entities.

The CBK has also worked with PSPs to upgrade their platforms to make them more available, reliable and resilient, as these were key features that proved necessary during the pandemic period, but also going forward. Additionally, investments in cyber defenses and AML/CFT compliance is being prioritized. Consumer protection and existence of robust recourse mechanisms has also been a major focus for PSPs, having experienced an increase in new customers.

Going forward, targeted on-site inspections will enable the CBK zoom in on particular areas of potential vulnerability, in areas such as cybersecurity, AML/CFT, IT platforms and BCP. A robust on-boarding framework has also been developed for newly licensed entities, to ensure that a culture and posture of effective compliance is set right from the beginning and the right tone is set from the top of PSP governance bodies.

CBK's role in promoting efficiency in Government payments

By Evelyn Anyona

Improvements in Government payment platforms have enabled the Central Bank of Kenya discharge its roles to the Government efficiently and effectively. Further automation will drive the CBK closer to offering best-in-class services to Government institutions, in line with the Bank's vision of being A World Class Modern Central Bank.

The Central Bank of Kenya (CBK) is mandated to discharges various roles, which including being the banker, fiscal agent and adviser for the Government. As banker, the CBK opens and maintains accounts for Government ministries and other public institutions, both at National and County Government levels. As a fiscal agent, the CBK conducts, on behalf of the Government, fiscal operations such as sale and management of government securities, including public debt operations. Finally, as an advisor, the Bank's advice and provides input on wide range of financial and economic issues to support the Government implement its national development agenda.

Reforms and gains thus far

To enhance the efficiency of Government payment services and platforms, the CBK, starting in September 2009, discontinued the use of cheques for all government payments and introduced electronic payments via the RTGS system. This followed the introduction, in October 2009, of value capping of cheques which mandated that only payments of just below $13,000 would be processed through the clearing house. This was a key milestone enabling Government payments to be processed efficiently and in real time, thereby eliminating risks associated with cheques which included forgery, cheque substitution, as well as improving overall government cash management.

Following the promulgation of Kenya's new Constitution in August 2010 and the subsequent creation of County Governments in 2013, the CBK also introduced electronic payments for all Counties. (Counties are Kenya's devolved government units; currently, there are *47 Counties in Kenya*.) From 2014 to date, CBK introduced Online Banking to National and County Governments, further consolidating the gains on use of electronic payments to enhance the efficiency, safety, resilience, ease of use and improved customer experience.

Current and future focus

In line with CBK's Vision, and the recently launched *National Payments Strategy 2022-2025,* CBK is gearing up to upgrade its Core Banking System in order to leverage on realizing the benefits of digitization of government payments. These will include features such as:

- Use of biometrics for client authentication for secure access to the government payments platform.

- Improving the efficiency and transparency in the government payment process, real time monitoring and reporting for timely decision making.
- Enhanced system security features to ensure safety and mitigation against cyber security threats.
- Introduction of capabilities for transaction monitoring and reporting to support AML/CFT.
- Use of mobile technology to enhance customer communication and payments.
- Leveraging capabilities to support government payments processing on a 24/7 basis in support of a 24-hour economy.
- On government revenue collection, use of a payment gateway by County Governments will lead to timely and cost-effective revenue realization, with enhanced standard reporting for increased transparency and accountability.

These modernisation initiatives will ultimately boost government revenue collection and overall performance while minimizing collections costs, for enhanced service delivery to businesses and citizens.

Growing role in diaspora remittances

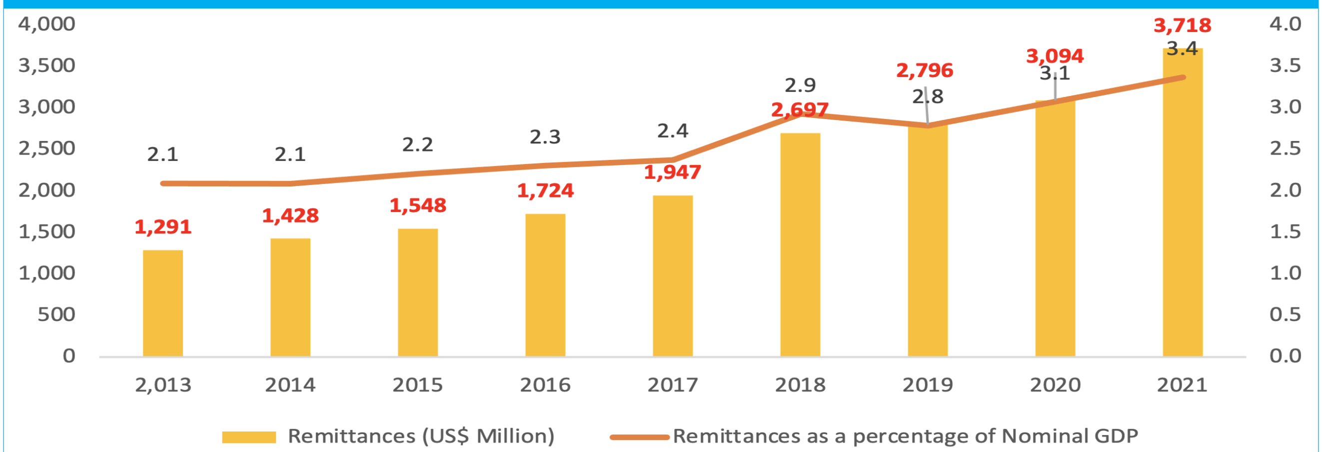
By Peter Nzalu and Julius Mutemi

Remittance flows to Kenya have recorded a steady growth over the last few years, thanks to increased opportunities among diaspora population, attachment to their domestic social networks, and a thriving mobile money ecosystem that has facilitated steady flows even during the pandemic period.

The Central Bank of Kenya (CBK) collects data on [remittance inflows], to assess the trends and performance of remittance flows through formal channels such as PSPs, banks and other money remittance providers. The reported amount excludes remittances through informal channels and in-kind remittances. In December 2020, CBK has also published results from a survey that was assessing the levels and patterns of remittances among [Kenya's diaspora populations.]

Overall, remittances to Kenya maintained a steady and positive trend,indicating the important role that remittances play not only as a source of foreign exchange, but in the livelihoods of domestic recipients. Kenya's remittances grew from US$ 1,291 million in 2013 to US$ 3,718 million in 2021. This represents an annual average growth of 14.5 percent since 2013. The remittances in the year 2021 were 3.4 percent of Kenya's nominal GDP having risen from 2.1 percent in the year 2021. Moreover, despite the COVID-19 pandemic, remittance inflows increased by 20.2 percent from US$ 3,094 Million in 2020 to US$ 3,718 Million in 2021.

Diagram 2: Remmitances (US$ Million)



Source: Central Bank of Kenya

This growth points to the importance of remittances as a source of foreign exchange to Kenya and many other developing countries. Diaspora remittances also play a role in supporting long term investments in Kenya. Apart from opportunities such as investment in government securities including infrastructure bonds, diaspora populations can participate in direct investment in home countries. Several factors account for the steady rise in remittance flows into Kenya, which include:

- Increased use of technology and competition in termination of remittances to Kenya's robust and thriving mobile money ecosystem.
- Increased use of internet-based channels of remittance in addition to traditional channels such as Western Union and MoneyGram.
- Conducive laws and regulations such as CBK's licensing of indigenous money remittance providers.

This explains why even in times of crisis such as the COVID-19 pandemic, remittances have maintained a steady and resilient flow. Whereas a few decades ago, someone would have to accumulate savings before sending a few hundred dollars at a go because of the expense and other constraints of sending remittances. People are now sending as little as fifteen or twenty dollars much more frequently, resulting in the increased flows.

However, more work is required to continue reducing the total cost of remittance in line with *Sustainable Development Goal global target of 3 percent*, increase speed and transparency of remittance payments, and diversification of sources of remittance flows to mitigate the risk of sharp declines when source markets are hit by economic shocks or declining growth.

Placing customer needs at the heart of payment services

By Gitau Mburu

Payment services are rapidly changing due to technological developments, domestically and globally. However, one thing remains constant: the need to place the customer at the heart of product design and delivery. The Central Bank of Kenya continues to support—and challenge—PSPs and banks to place customer needs at the heart of their governance, operations and innovation.

The design and delivery of payment services continues to change rapidly, driven by changes in technology, consumer behavior patterns and regulation. These changes were accelerated by the COVID-19 pandemic, with more consumers adopting digital modes of payments over cash, and regulators encouraging the use of digital payments.

According to the *2021 FinAccess Household Survey*, now in its sixth edition, the proportion of adult Kenyans using mobile money services increased nearly three-fold, from 26.7 percent in 2006 to 83.7 percent in 2021. For the first time in the history of the FinAccess Survey, customers using mobile banking now exceed those using traditional banking channels, 34 percent and 24 percent, respectively. Indeed, the proportion of customers using two or more types of financial services has quadrupled between 2006 and 2021.

These shifts indicate that consumer needs are changing. With this change, Payment Services Providers (PSPs) and financial institutions more generally must also adapt to emerging consumer needs. In short, providing services that work for, and with customers.

The Central Bank of Kenya (CBK) has laid the foundation for the emergence of a customer-centric financial system. To highlight a few key elements, firstly, in 2019, the CBK, in consultation with the banking sector, developed the *Kenya Banking Sector Charter*. The Charter set framework to benchmark the degree to which banking institutions are providing customer-centric services, undertaking risk-based pricing, becoming more transparent and entrenching an ethical culture in banks—in essence, doing the right thing.

Secondly, in 2020, the CBK working together with PSPs also launched, a set of *Pricing Principles* to ensure that pricing of financial services is undertaken in a way in which the customer and public interest are adequately protected.

The CBK is now implementing enhanced oversight over digital credit, an area that had hitherto grown rapidly without any form of oversight, increasing risks such as predatory and harmful lending practices. The oversight of digital credit providers is now taking place following enactment of an amendment to the

Central Bank of Kenya Act in December 2021 and the recent announcement that the six months transition period under the Central Bank of Kenya (Digital Credit Providers) Regulations, 2022, has ended.

When reviewing product applications, the CBK has taken a customer centric approach, with a focus on among other aspects, the value addition of the proposed services, degree to which they are meeting real needs of customers, pricing, consumer and data protection, among other customer-focused elements.

The CBK continues to challenge Boards of licensed Payment Service Providers and banks to challenge their Management teams to always put the customer interest at the heart of governance systems, business operations and product design. In this journey, collaboration remains core due to how the payments ecosystem in Kenya is both dynamic and diversified. CBK is facilitating the use of technology, while mitigating its current and future risks.

Finally, we are also emphasizing on the need for seamless and simple payment experiences with a focus on ease and convenience of product use. This is essential, as new and unsophisticated customers enter the payments space.

About the Central Bank of Kenya

The Central Bank of Kenya (CBK) is created under Article 231 of the Constitution of Kenya. It is responsible for formulating and implementing monetary policy, promoting price stability, issuing currency, and other functions conferred to it by Acts of Parliament. In addition, the CBK also acts as banker, adviser to, and fiscal agent of the Government. For more information, please visit: *www.centralbank.go.ke*

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