



MOBILE-PHONE FINANCIAL SERVICES PLATFORM AND AGENCY BANKING

Presentation by

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at the

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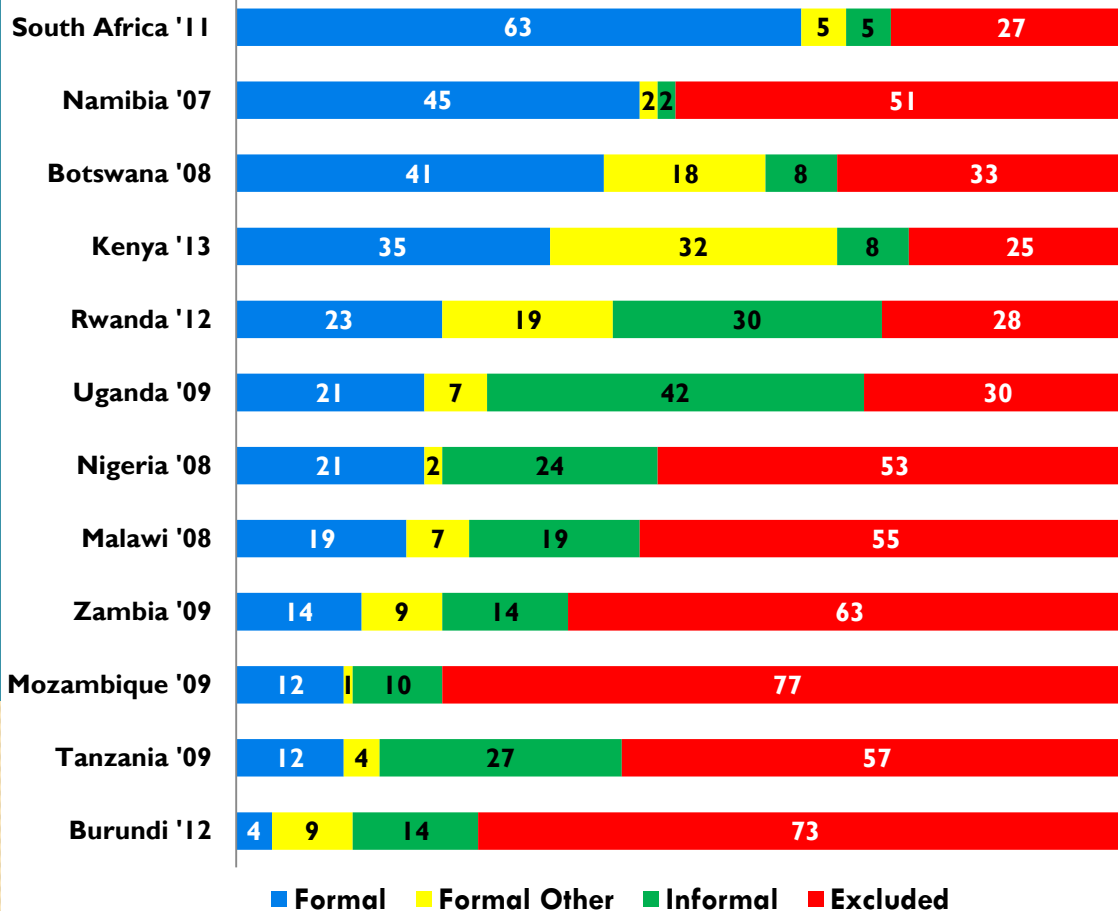
BACKGROUND

- ❖ Kenya Vision 2030 – ***“Create a globally competitive and prosperous country with a high quality of life by 2030”***
- ❖ Vision 2030 pillars - Economic, Social and Political.
- ❖ Role of Financial Services in Vision - Mobilise Funds to Implement Vision 2030 Flagship Projects.
- ❖ Financial Services 2030 Goal - Stable, Efficient and Accessible Financial Sector.
- ❖ To achieve Vision 2030 - need to leapfrog penetration of financial services.
- ❖ Success in financial inclusion since 2007, but 25% of Kenya’s bankable population excluded from access to financial services.

REGIONAL FINANCIAL INCLUSION LANDSCAPE

Source: Various FinAccess/ FinScope Survey: 2006-2013

Regional Comparison of Financial Access



□ Financial access in sub-Saharan Africa:

- Low access to formal financial services by the adult populace.
- Broadly, access to informal financial services is relatively high.
- On average, over half of the adult population in the region is excluded from any financial service.
- Access is skewed towards males; females tend to use informal financial services more.
- Exclusion levels are higher in rural areas than in urban areas.

□ Kenya has moved its proportion of the population excluded from 38.4% in 2006 to 32.7% in 2009 and to 25% in 2013 survey.

Potential for growth in financial services remains high given the significant proportion of population excluded and in (accessing) informal finance.

BROAD BARRIERS TO FINANCIAL INCLUSION

Supply Barriers:

- ✓ Infrastructural challenges – ‘last mile’
- ✓ high costs (entry requirements, maintaining accounts);
- ✓ lack of traditional collateral; stringent requirements for opening and maintaining accounts;
- ✓ lack of appropriate products for each market segment;
- ✓ information asymmetry problems.

Demand Barriers:

- ✓ Poverty levels
- ✓ low incomes and lack of permanent income flows or employment;
- ✓ physical distance to the access points;
- ✓ low education and financial literacy levels;
- ✓ cultural, religious and social barriers.



ROLE OF CENTRAL BANK OF KENYA IN FINANCIAL SECTOR DEVELOPMENT

Central Bank of Kenya plays a proactive role in financial sector development by:

- ❑ **Policy:** Enhancing policy profile – financial inclusion and market development/reforms.
- ❑ **Products:** Encouraging different products that are cost effective, serve different market segments and lower barriers to entry.
- ❑ **Regulation:** Strengthening regulatory capacity and capabilities to provide appropriate and adequate oversight:-
 - Know the market – strong banks will serve better and weather shocks.
 - Agent of market development.
- ❑ Supporting the development of traditional and alternative financial infrastructure.
- ❑ Developing partnerships with diverse market players.
- ❑ Promoting competition and diversity.

This has been done through:

- **Innovative delivery channels** beyond traditional brick and mortar models – Mobile Phone Financial Services (MFS), Deposit Taking MFIs, Technology-led agency model and Sharia Compliant/Participatory financial services.
- **Appropriate support infrastructure** - Credit Reference Bureaus, Financial Education, Deposit Protection, Consumer Protection.

LEGAL AND REGULATORY REFORMS

- The amendment of the Central Bank of Kenya Act in 2003 to incorporate oversight of efficient and effective payment, clearing and settlement systems.
- The enactment of the National Payments System Act in 2011 giving Central Bank of Kenya specific powers over payment systems in Kenya
- The gazettelement of the National Payments System Regulations in August 2014 initiating the operationalization of the Act.
- The NPS Act and NPS Regulations provide for authorization, designation and revocation of designated payment systems or payment instruments.

LEGAL AND REGULATORY REFORMS...

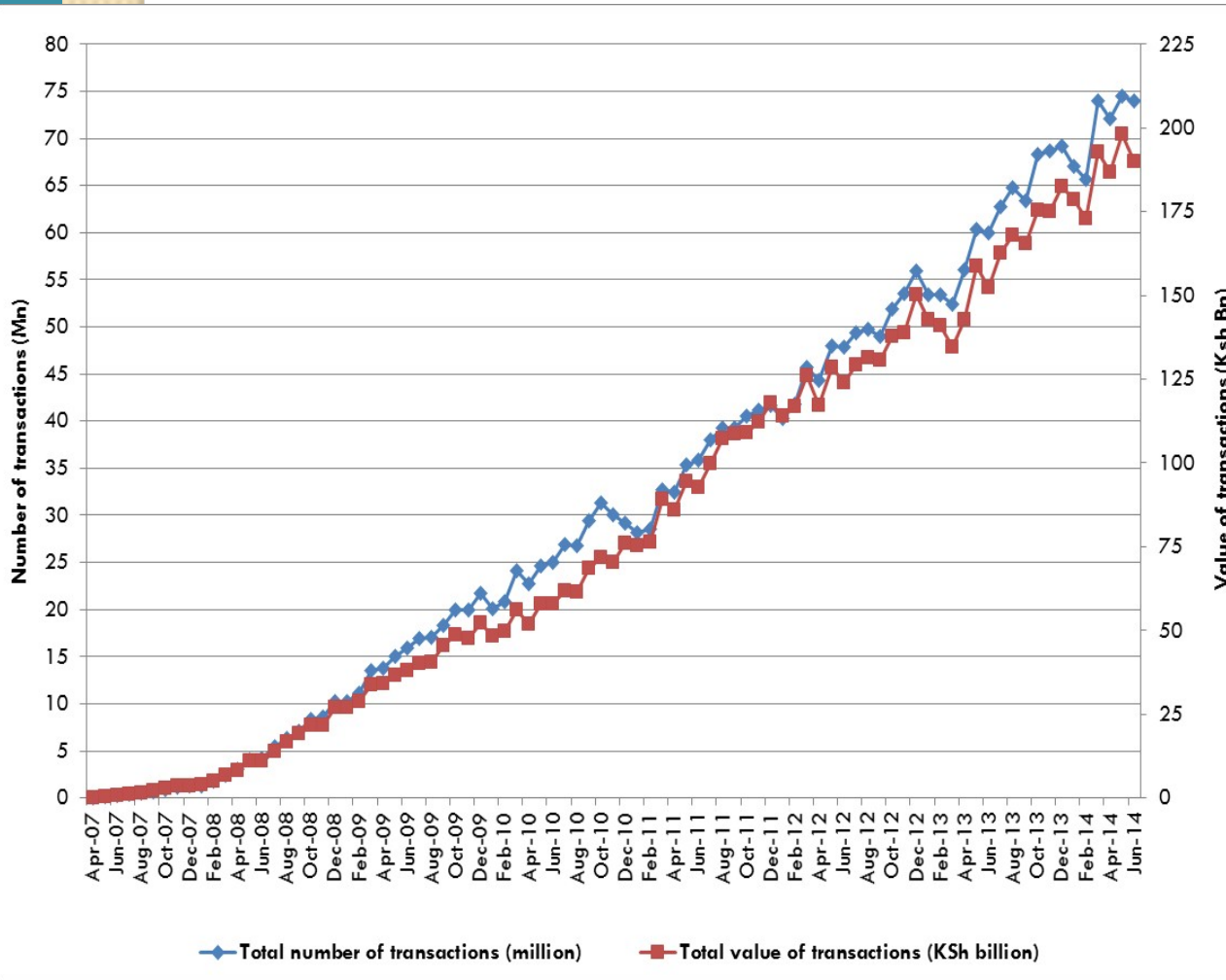
- The amendment of the Banking Act in 2009 to permit use of third party agents by banks.
- The amendment of the Microfinance Act in 2011 to allow Microfinance Banks to contract third party agents.
- Since rollout of agency banking in May 2010:-
 - Fifteen commercial banks and three microfinance banks have engaged 29,776 agents spread across the country.
 - These agents have moved more than 115.6 million transactions worth Ksh.625.03 billion (USD7.1 billion) over the same period.

MOBILE PHONE FINANCIAL SERVICES

- ✓ The facilitation of mobile phone based funds transfer payments system beginning 2007,
 - ✓ Has enhanced financial inclusion,
 - ✓ Contributed to financial services deepening and
 - ✓ Led to integration between traditional banking services platforms and emerging retail payment systems.
- ✓ As at June 2014, the MFS had over 120,000 agents handling over 25.9 million customers and approximately 74 million transactions valued at Ksh.89.9 billion (USD2.2 billion) monthly.

OUTCOMES

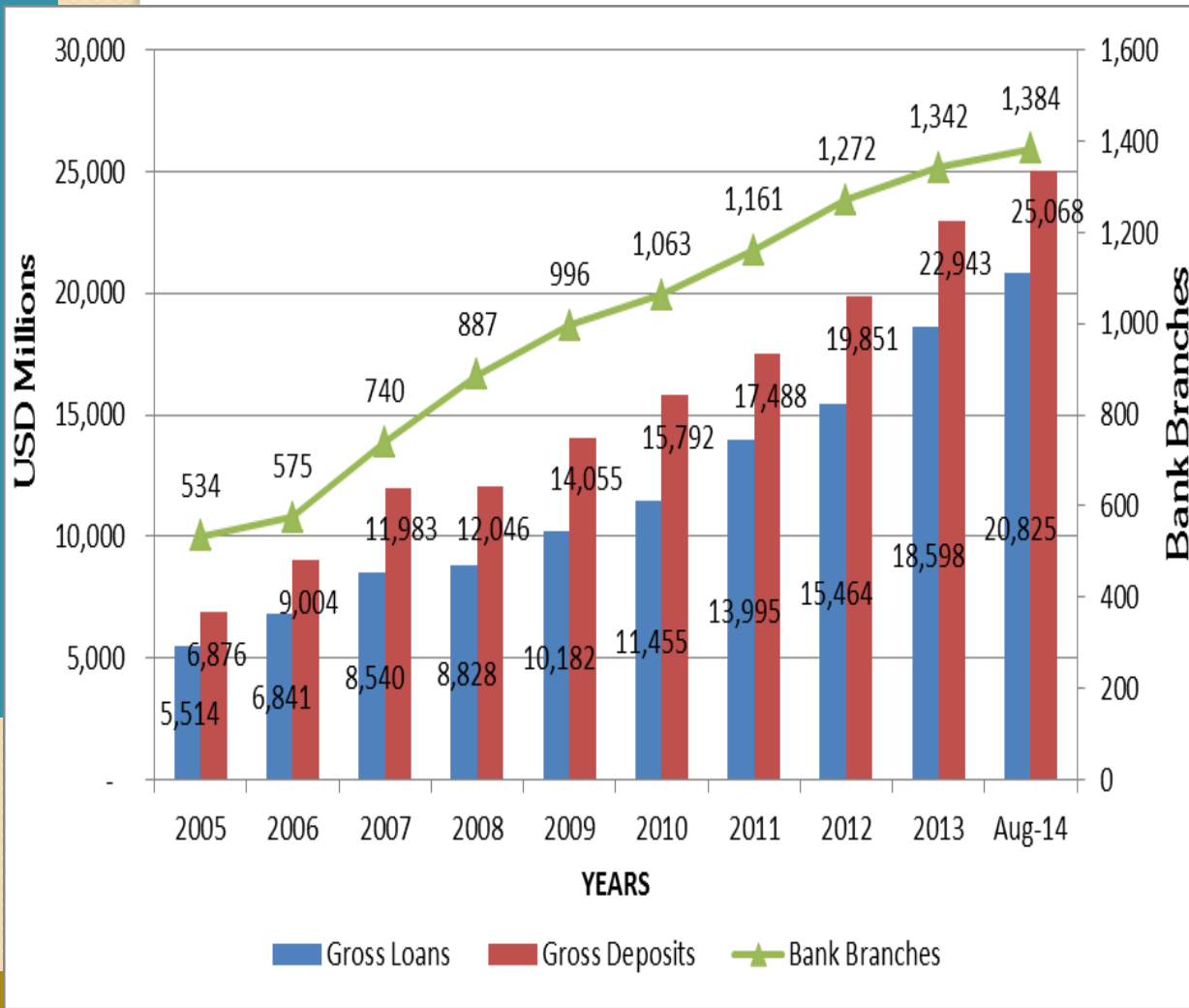
GROWTH IN MOBILE-PHONE FINANCIAL SERVICES



- ✓ Mobile phone money transactions were valued at an average of Ksh.6.3 billion per day (4.6 percent of annual GDP) in June 2014 compared with Ksh.0.22billion (0.01 percent of GDP) in April 2007.
- ✓ The number of mobile phone money customers increased from 0.05 million in April 2007 to 25.9 million by June 2014.
- ✓ 74million transactions valued at Ksh.189.9 billion (USD2.2billion) monthly.

OUTCOMES...

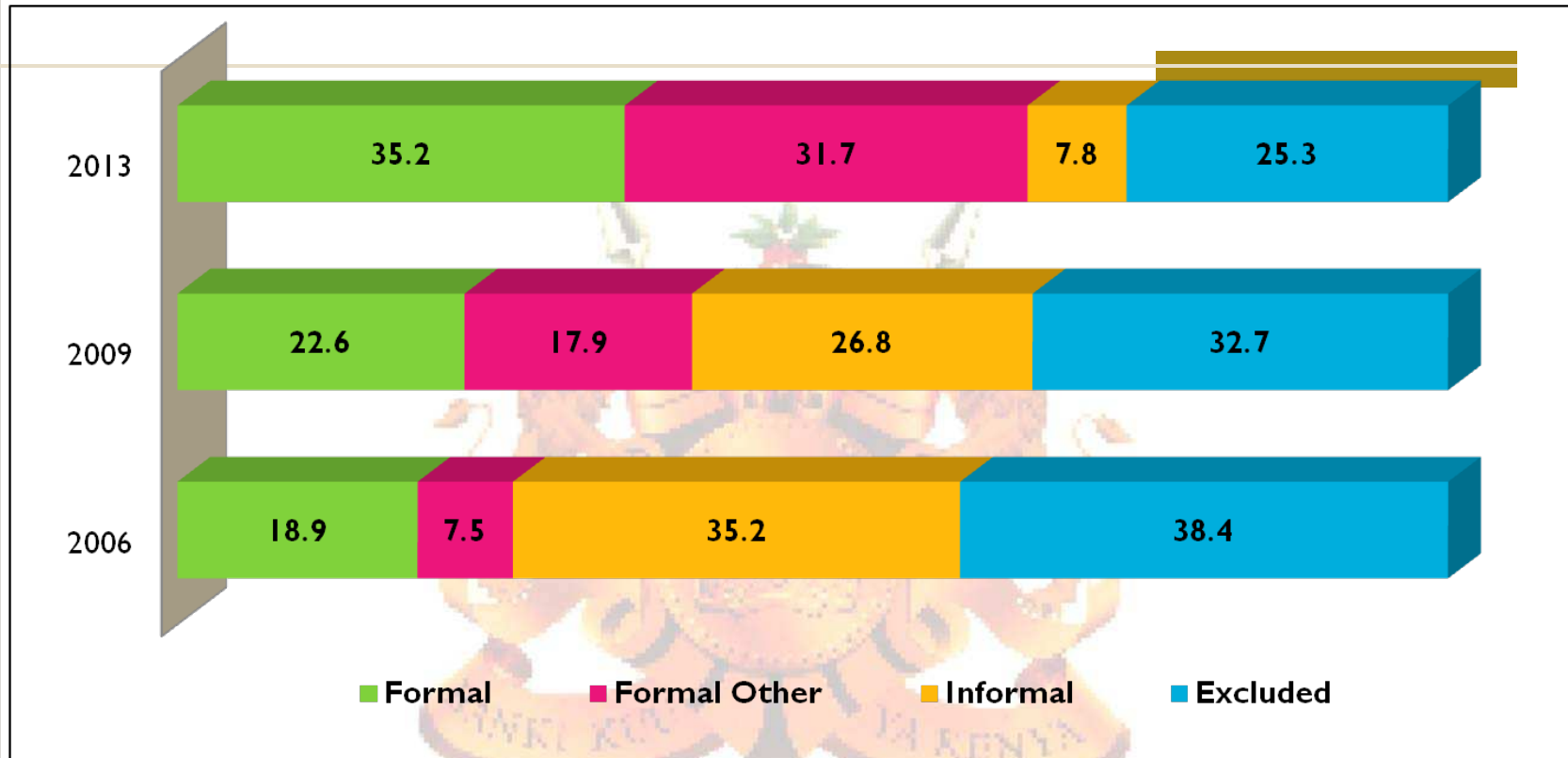
BANKING SECTOR GROWTH



- Gross deposit base increased from Ksh.498 billion (USD6,876 million) in 2005 to Ksh.2.22 trillion (USD25,068 million) in August 2014.
- Gross loans increased from Ksh.399 billion (USD5,514 million) in 2005 to Ksh.1.84 trillion (USD20,825 million) in August 2014.
- The increased deposit base and loan book was enabled by the expanded bank branch network from 534 branches in 2005 to 1,384 branches in 2014.

OUTCOMES...

FINANCIAL INCLUSION DEVELOPMENTS SINCE 2006



Source: Financial Access Surveys: 2006, 2009 & 2013

- ✓ 67 percent of Kenyans can access financial services
- ✓ Only about 7.8 percent are served by informal financial services
- ✓ 25 percent of the population are still excluded

OUTCOMES...

EXPANDING FINANCIAL ACCESS TOUCH POINTS

Figure 1: Percentage of population within 5 km

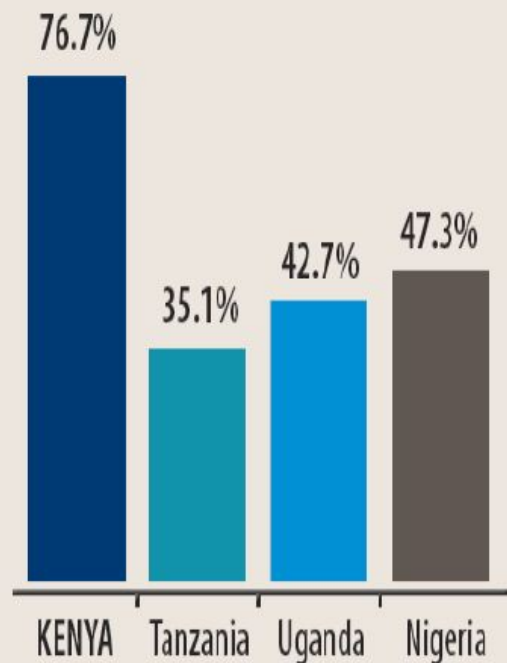


Figure 2: Number of financial access points

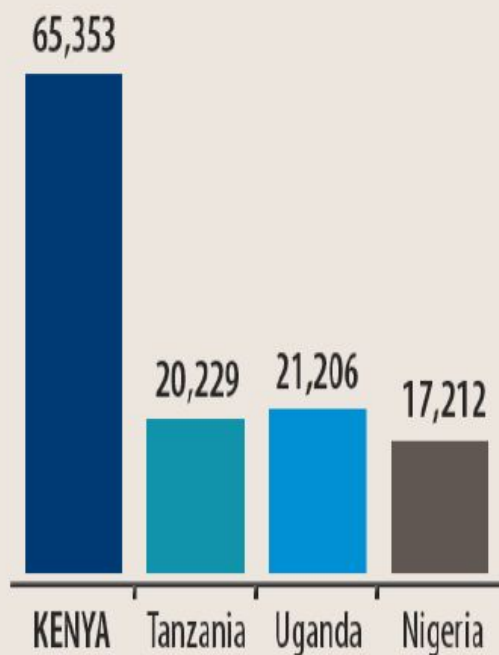
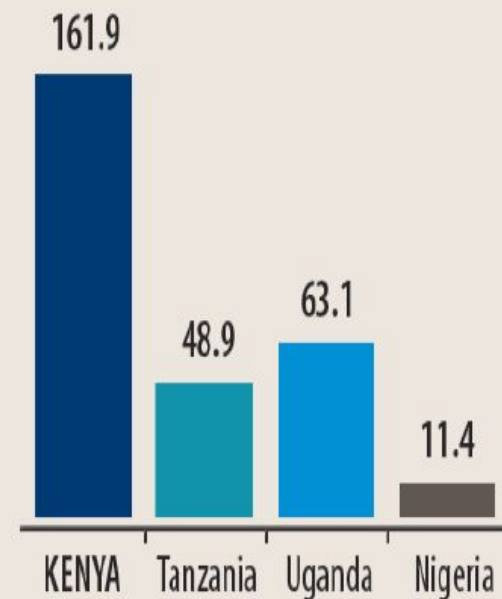


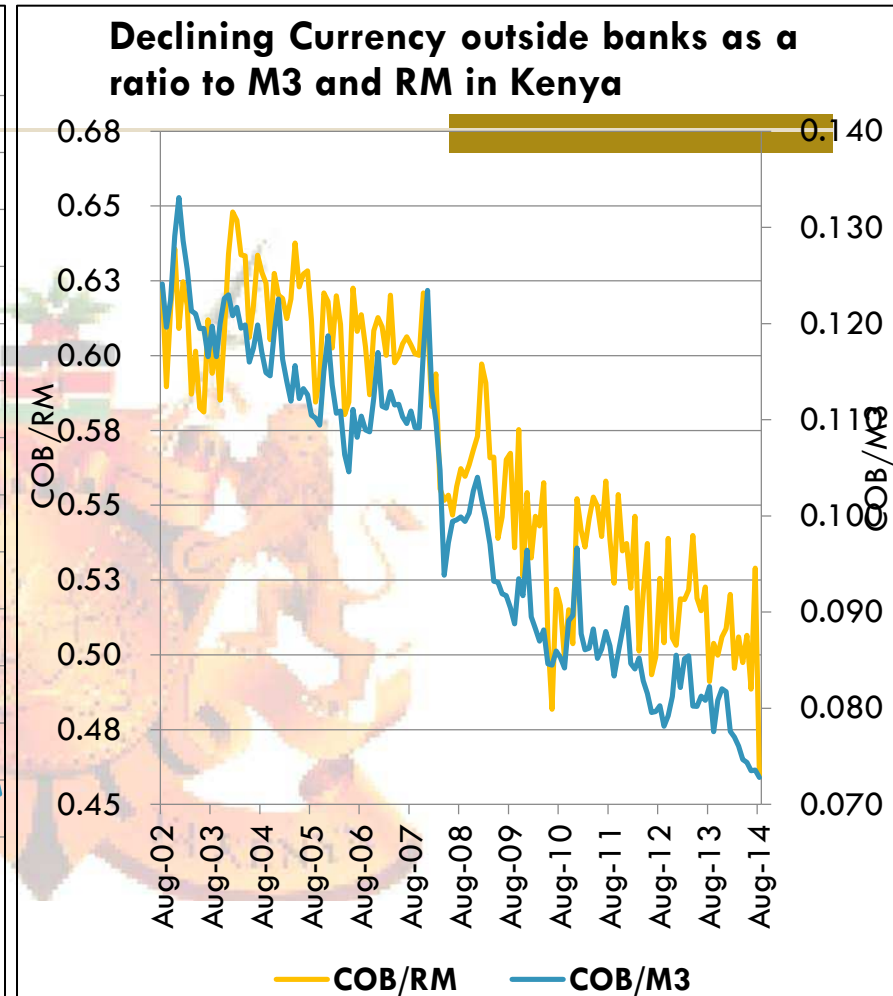
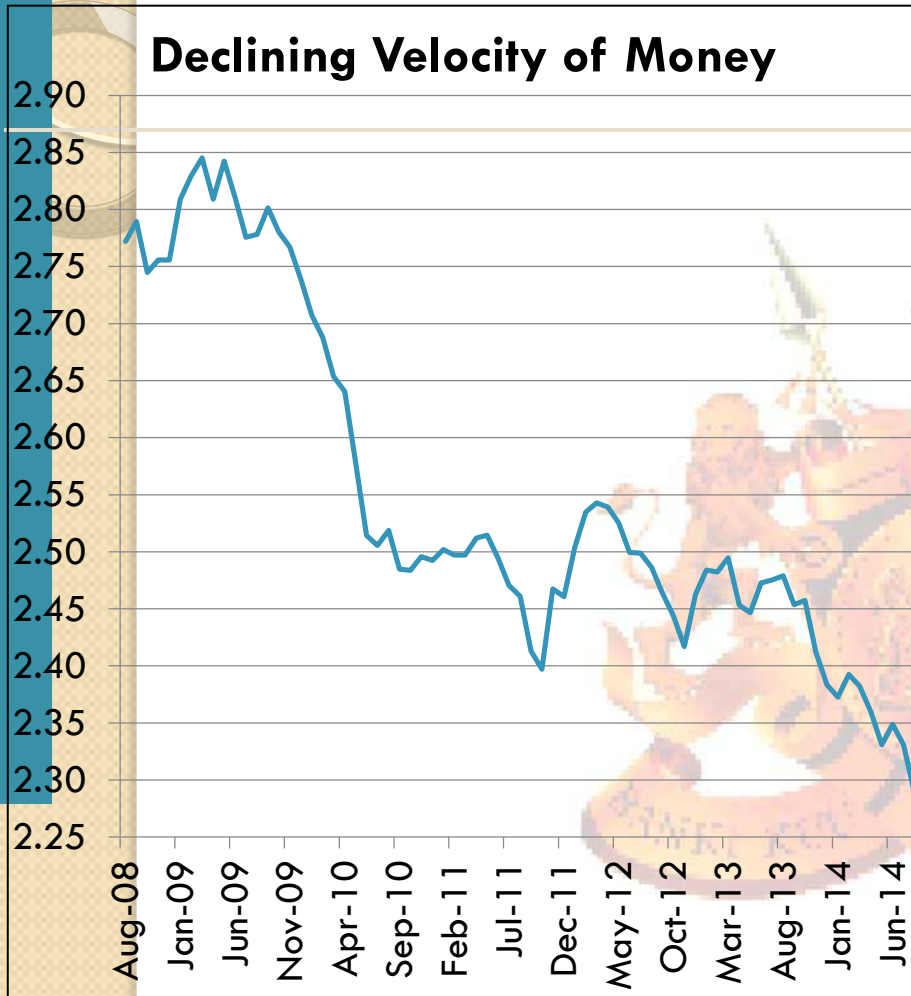
Figure 3: Financial access points per 100,000 people



Source: Country Geospatial Surveys, 2013

OUTCOMES ...

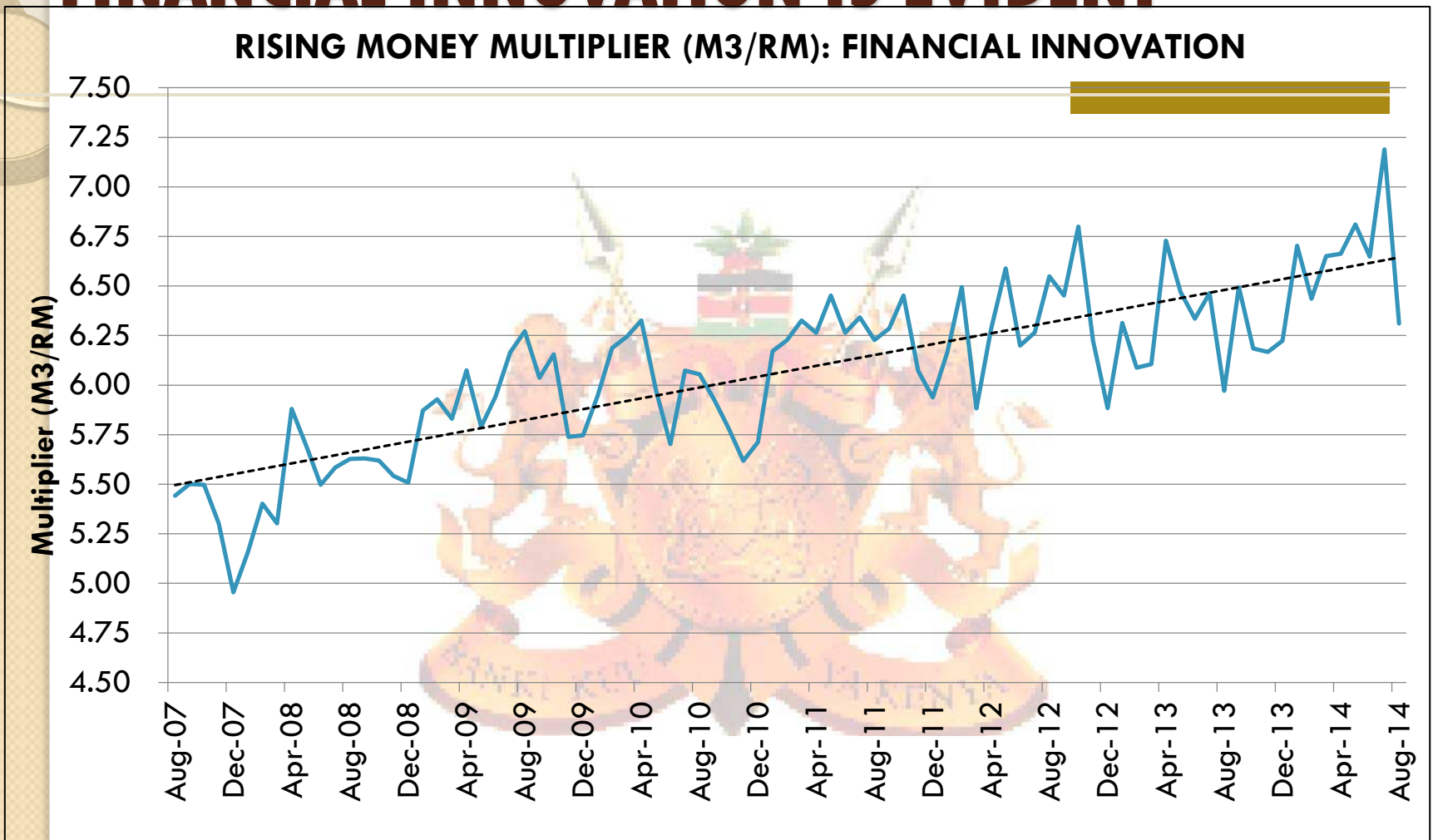
IMPACT OF FINANCIAL DEEPENING IN KENYA



- Velocity of circulation of money and proportion of currency outside banks have declined significantly. Indication of financial deepening and increased financial innovation.
- People are keeping less and less money outside of banks.

OUTCOMES ...

FINANCIAL INNOVATION IS EVIDENT



- Financial deepening and financial innovation imply the need for a new framework for monetary policy different from that which obtained before 2008.

LESSONS LEARNT

1. Regulators should:
 - take a lead in the development of the financial sector beyond the traditional mandate of price and financial stability.
 - embrace innovation in a safe and sound manner.
 - embrace **BETTER** Regulation rather than **MORE** Regulation – proportionate and appropriate.
2. Financial sector development is enhanced by collaboration with market players.
3. Developed financial systems that enhance financial inclusion are important - to reduce poverty sustainably through savings and affordable credit to accumulate capital.
4. Deep and accessible financial markets are good for effective monetary policy.

NEXT STEPS

Moving Towards a 'Cash Lite' Vision For Kenya

Rationale

- ✓ Dramatic reduction in transaction costs across the economy through low-cost electronic payments – supported by NPS Act 2012 and Regulations, 2014.
- ✓ Enhanced domestic and international trade.
- ✓ Increased security through reduction in the role of cash.
- ✓ Reduced direct costs to Government associated with producing and handling cash.
- ✓ Improved transparency and accountability across the economy.
- ✓ Platform for achieving full financial inclusion.

NEXT STEPS...

- ✓ Implementation of the National Payment Systems Act, 2012 and Regulations, 2014.
- ✓ Introduction of sub agents and network managers for banks.
- ✓ Cashless payment of public transport fares – Enhance customer convenience and reduce revenue leakages.
- ✓ Digitization of Government payments - increase efficiency, accountability and safety.
- ✓ Encourage new players to enhance competition.
- ✓ Consumer protection and financial education to enhance safety, efficiency and quality of usage.

NEXT STEPS...

Market Driven Interoperability

- ✓ Kenya National Switch proposed by Kenya Bankers Association to provide a single switch for the retail payments sector including payment cards and mobile money transfers.
 - To reduce transaction costs by promoting market driven interoperability.
- ✓ Mobile Virtual Network Operators
 - To enhance competition, reduce costs and improve customer experience/convenience.