“How The Regulatory Framework Should Be Adapted To Deal With Fin Techs”

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Outline – Mobile Money in Kenya

1. The Impact
   • Penetration
   • Volume
   • Accessibility & Financial Deepening

2. Risk, Regulation and Oversight

3. Lessons Learnt
1.1 Penetration

- Kenya is on the global stage for financial innovation and inclusion.

- Kenya has one of the fastest mobile phone service adoption rates in Africa-88%, as at 31st December 2015. (Source: Communications Authority of Kenya Quarterly Sector Statistics Report).

- This has increased access to formal financial services from lows of 26 per cent in 2006 to over 75 per cent in 2016. (Source: 2016 FinAccess Household Survey)
1.2 Volumes

Mobile Financial Services (MFS) have continued to grow since inception in 2007 and have revolutionized the Kenyan economy.

- Partnerships have been formed in all industries with mobile payment service providers ranging from Banking to Public Transport sectors.

- Kenya (Adult population of 26.1 million) has over 25.4 million mobile money transfer accounts and over 150,000 mobile money agents:
  - over 3 million transactions per day;
  - 73% within 3 kilometres of a financial services touch point;
  - an average of USD 2.35 Billion per month.
1.3 MFS Growth in Kenya

- Overall access: formally included has risen to 75.3% in 2016 from 26.7% in 2006

### 1.3.1 MFS Growth in Kenya

<table>
<thead>
<tr>
<th>Year</th>
<th>Formal Prudential</th>
<th>Formal Non-Prudential</th>
<th>Formal Registered</th>
<th>Informal</th>
<th>Excluded</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>15</td>
<td>4</td>
<td>7.7</td>
<td>32.1</td>
<td>41.3</td>
</tr>
<tr>
<td>2009</td>
<td>21.6</td>
<td>14.7</td>
<td>4.1</td>
<td>26.8</td>
<td>32.7</td>
</tr>
<tr>
<td>2013</td>
<td>32.7</td>
<td>33.2</td>
<td>0.1</td>
<td>7.2</td>
<td>25.4</td>
</tr>
<tr>
<td>2016</td>
<td>42.2</td>
<td>32.7</td>
<td>0.4</td>
<td>7.2</td>
<td>17.4</td>
</tr>
</tbody>
</table>

Source: 2016 FinAccess Household Survey
### 1.4 Regional Comparison

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Mauritius</td>
<td>88</td>
<td>83</td>
<td>75</td>
</tr>
<tr>
<td>South Africa</td>
<td>10</td>
<td>13</td>
<td>17</td>
</tr>
<tr>
<td>Kenya</td>
<td>2</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>Tanzania</td>
<td>27</td>
<td>27</td>
<td>16</td>
</tr>
<tr>
<td>Uganda</td>
<td>15</td>
<td>15</td>
<td>31</td>
</tr>
<tr>
<td>Nigeria</td>
<td>40</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Rwanda</td>
<td>28</td>
<td>28</td>
<td>28</td>
</tr>
</tbody>
</table>

**Source:** 2016 FinAccess Household Survey

Kenya has climbed the financial inclusion ladder in the region coming in 3rd position after Mauritius and South Africa.
1.5 Financial Access Touch Points

- Kenya ahead of peers in financial inclusion as at 2013

Source: Country Geospatial Surveys, 2013
1.6 Accessibility and Financial Deepening

• Kenya’s MFS ecosystem is beyond a money-transfer platform.

• Examples of linkages with the banking industry include with CBA (e.g. M-Shwari) and Equity Bank (e.g. Equitel).
1.7 MFS as a Credit and Savings Platform

- CBA Bank Limited-M-SHWARI.
- KCB Bank Limited-KCB-MPESA.
- Equity Bank Limited-Equitel.

- The Gross Loans through the mobile phone platforms as at February 2016 is as per the table below:

<table>
<thead>
<tr>
<th></th>
<th>February 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Kshs. Billions</td>
</tr>
<tr>
<td>Gross Loans</td>
<td>2,367.08 (USD 23.5 billion)</td>
</tr>
<tr>
<td>Loans extended via Mobile Phone platforms</td>
<td>11.15 (USD 110.8 million)</td>
</tr>
<tr>
<td>Loans extended via Mobile Phone Platform as a %age of Gross Loans</td>
<td>0.47%</td>
</tr>
</tbody>
</table>

- 55.7% of the number of loan accounts are attributed to loans through mobile phones whereas 0.47% of the outstanding loan book is attributed to loans through mobile phones and room for growth.

- Average loan size - $27 approximately Ksh. 2,700.
2.0 Risk: Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT)

- As the size and systematic relevance of MFS increases, it becomes a viable conduit to channel proceeds of crime and terror.

- This poses a risk to the financial soundness and confidence of the financial system it is seen to be laundering criminal proceeds.

- Mitigations include:
  - AML / CFT Compliance and enhancing domestic oversight
  - Current mitigation is the low transaction value
  - Access to the Integrated Population Registration System (IPRS) to confirm identities against the national database
2.1 Risk: Fraud

• What makes digital financial services easy to use also makes them susceptible to cybercrime related risks.

• **Concern:** The social engineering activities being witnessed include:
  - acquisition of private information like passwords and usernames for malicious purposes through “infected” emails and links.
  - The use of “infected” hardware drives which interrupt operations and gather sensitive data.

• Such fraud related vulnerabilities have the potential to not only reduce loss of trust in digital financial services but can also hinder further innovation.

• Mitigation is that current significant MFS are sophisticated and use International best practice in management of their processes/software (KCB, CBA, Safaricom, Equity).
2.2 Risk: Consumer Protection

- Although digital financial technologies have enabled the provision of financial services to the excluded and underserved.

- **Concern:** The major consumer protection issues revolve around disclosure and recourse.

- **Over-Indebtedness** has also been brought about by the increased access to credit and calls for consumers’ financial education.

Mitigation include:-

- ✓ Kenya National Payment System (NPS) Act 2011 which ensures non-banking payment service providers channel their offerings through Banks and limit the level of indebtedness

- ✓ Credit Information sharing (CIS) Mechanisms enhances the credit appraisal mechanism for financial institutions and mitigates the risk of indebtedness
2.3 Regulation and Oversight

Consumer Protection framework:

- Is in the early stages of development.
- Efforts are underway to develop the Consumer protection framework particularly for the financial sector.
3.0 Lessons Learnt

- The importance of the test and learn approach.

- Significance of dialogue between the regulators and the private sector.

- Regulators have to be flexible and supportive in providing safe and stable financial systems for financial inclusion to thrive through:
  
  - Developing an enabling legal & regulatory framework.
  - Guiding market development with safety, credibility and stability.
  - Dynamic collaborative relationship between the regulators and the market players.
  - A hands on approach to innovation.
3.1 Lessons Learnt

- Better regulation as opposed to more regulation characterized by a regulatory framework with ability to:
  - readily identify weaknesses and emerging vulnerabilities;
  - analyse and price risks;
  - provide appropriate incentives (and penalties) to induce prudent behaviour in the market place; and
  - encourage innovations and develop strong institutions of the regulators and the regulated.

- Regulation and supervision must continuously evolve to keep pace with innovation.
Thank you