Central Bank of Kenya

KENYA READY FOR TAKE OFF?

A NATIONAL CONFERENCE ON KENYA'S ECONOMIC SUCCESSES, PROSPECTS AND CHALLENGES

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KENYA'S MOBILE PHONE FINANCIAL SERVICES: A REVOLUTION IN THE FINANCIAL LANDSCAPE

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PRESENTATION OUTLINE

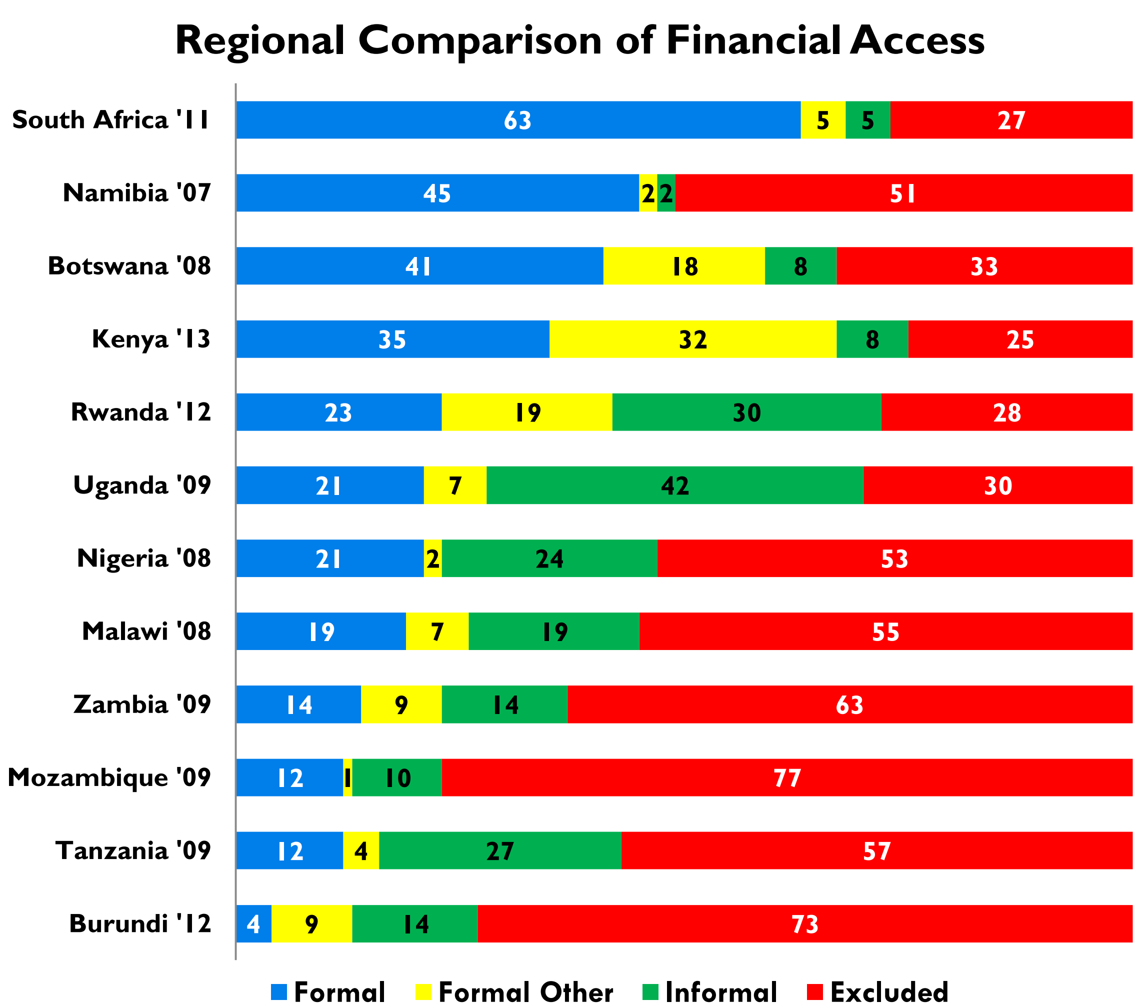
- Introduction
- Financial Inclusion Landscape
- Barriers to Inclusion
- Vision 2030 Transformation Plan: Financial Sector
- Role of CBK in Financial Inclusion for Financial Sector Development
- Financial Sector MFS and ICT Driven Reforms/Outcomes
- Beyond Access and Inclusive Growth

KENYAN FINANCIAL INCLUSION LANDSCAPE

- The poor in Kenya are mainly characterized by mutually reinforcing challenges of low capital accumulation and access to markets, among other factors
- Access to financial markets would allow capital accumulation through savings and affordable credit as well as effect savings - investment cycles
- This makes financial inclusion a public policy to solve poverty problem sustainably

KENYAN FINANCIAL INCLUSION LANDSCAPE

Source: Various FinAccess/FinScope Survey: 2006-2012



- Financial access in Kenya has **improved** over time from 18.9% in 2006 to 22.6% in 2009 and 35% in 2013 accessing formal financial services

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

Key Barriers to Access:

- **Supply Barriers:** high costs; access/distance to financial markets; lack of traditional collateral; stringent requirements for opening and maintaining accounts; high transaction costs and lack of appropriate products; improper risk assessment criteria and information asymmetry
- **Demand Barriers:** Low incomes and lack of permanent income flows or employment; low education and financial literacy levels and cultural, religious and social barriers

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

BROAD BARRIERS TO ACCESS

- Broadly, financial sector growth, in terms of access (reach and depth) has not attained optimal levels due to:

  - Missing or fragmented markets that served a small number of participants-Led to large informal markets that are inefficient for resource allocation
  - High costs of financial services and products with participants having low income and irregular flow of income
  - Access challenges due to time, distance and barriers to entry

- Mobile phone financial services platform has provided an opportunity to reach scale (mass markets) efficiently and effectively-A platform to save, receive credit with ease and invest

VISION 2030: THE FINANCIAL SECTOR TRANSFORMATION

- Financial Sector Goal in Vision 2030:
  - "To create a vibrant and globally competitive financial sector, driving high levels of savings and financing Kenya's investment needs"
  - Establish Kenya as a "Regional Financial Services Hub"

- Financial Sector Objectives:
  - Increased efficiency, broadening and deepening
  - Increased mobilization of deposits from 44% to 80% of GDP
  - Enhanced channeling of savings into investment from 14% to 30%
  - Enhanced financial sector stability through better oversight

- Banking Sector Initiatives in Vision 2030:-
  - Transformation towards stronger large-scale banks
  - Credit Referencing; for information capital
  - Deeper penetration of banking services

- Vision 2030 Microfinance Initiatives:-
  - Formalizing Microfinance Institutions (MFIs)
  - Expanding reach of MFIs

ROLE OF CENTRAL BANK OF KENYA (CBK) 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
  - 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 Islamic financial services (including Shariah compliant banking products)
  - **Appropriate support infrastructure** - Credit Reference Bureaus, Financial Education, Deposit Protection, Consumer Protection

MOBILE PHONE FINANCIAL SERVICES…

- Leveraging on technology for cost effective financial services to increase the level of financial inclusion through the use of mobile telephones

  *Prevalence of mobile telephones has been recorded to be three times the number of bank account holders
- Initially the service started as a cash in/cash out money transfer payments service, with e-value backed by funds in bank accounts
- Increased competition as innovative electronic payment systems are introduced (M-Pesa, Airtel Money, Yu Cash, Orange Money, MobiKash, M-Kesho, Mshwari)
- Pioneered in March, 2007 and it now has six players
  - **Interfaces**, linkages and integration of mobile payment platforms with financial institutions to dispense financial services
  - Such interfaces render financial services provision more accessible for clients and cost efficient for financial institutions

Examples of interfaces to integrate the mobile phone payment platform with the banking sector.: M-Shwari, M-Kesho, Pesa-Pap, KCB Mtaani, Co-op kwa Jirani, Faulu Popote, ATMs-mobile linkages

OTHER MFS/ICT RELATED REFORMS …

- **Agent Banking** – Turning non-bank outlets into financial services providers, using technology to enable third parties to offer limited financial services-Introduced in 2010 and it now has over 19,000 agents

- **Credit Reference Bureaus** – Reducing cost of doing business through technology - build information capital, reduce information search costs; and extend credit based on financial identity. This will change the collateral technology in use and reduce the costs of contracting loans and of lending rates

OUTCOMES OF REFORMS …

- As a result of these reforms, in the last 5 or so years, we have seen:-
  - Significantly enhanced risk management and supervisory standards and practices
  - Significant decline of barriers to entry to the financial sector
  - Significant decline in cost of maintaining accounts and thus increased number of deposit and loan accounts
  - The introduction of innovative financial service instruments and delivery channels
  - Ultimately, notable increase in the reach and depth of financial services-We have witnessed financial development

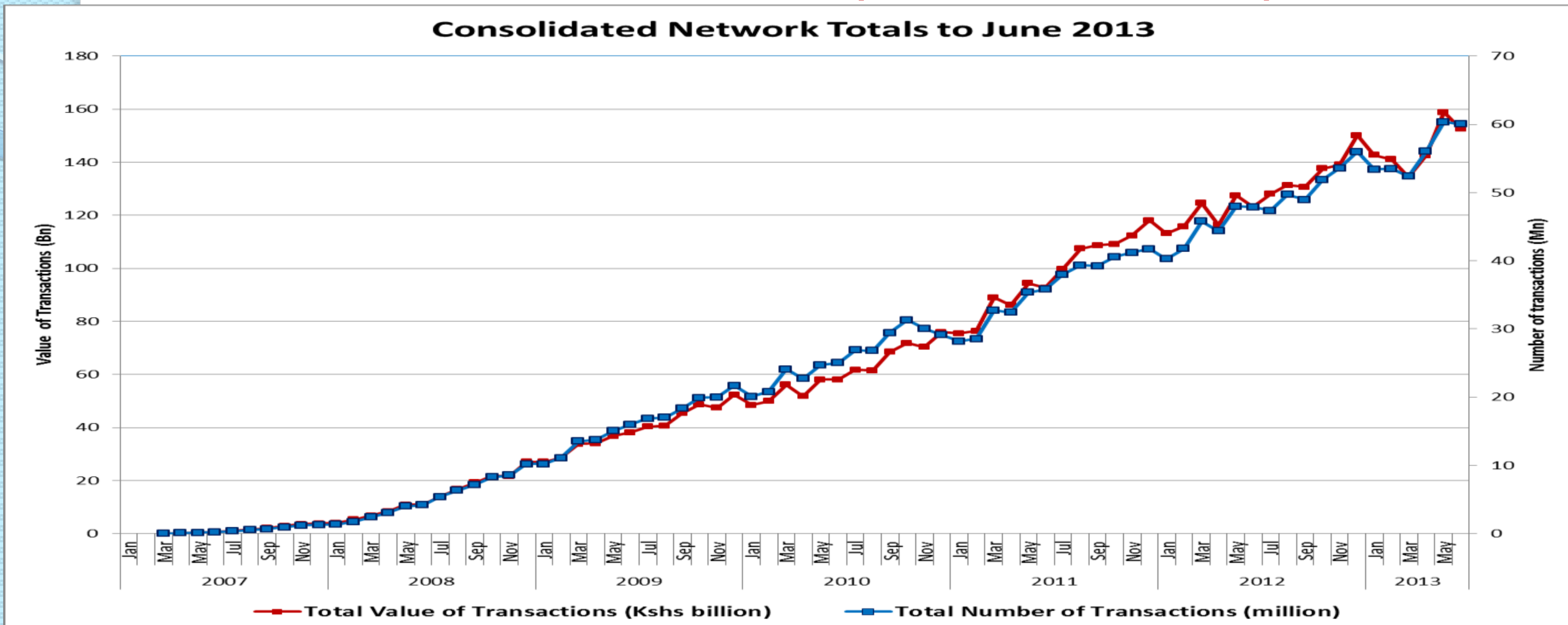
OUTCOMES: INCREASING FINANCIAL INCLUSION

- Kenya Financial Inclusion Data from the 2006 FinAccess Survey to 2013

Year	Formal (Banked)	Formal Other	Informal	Excluded
2006	18.6	7.5	35.2	38.4
2009	22.6	17.9	26.8	32.7
2013	35.0	32.0	7.8	25.4

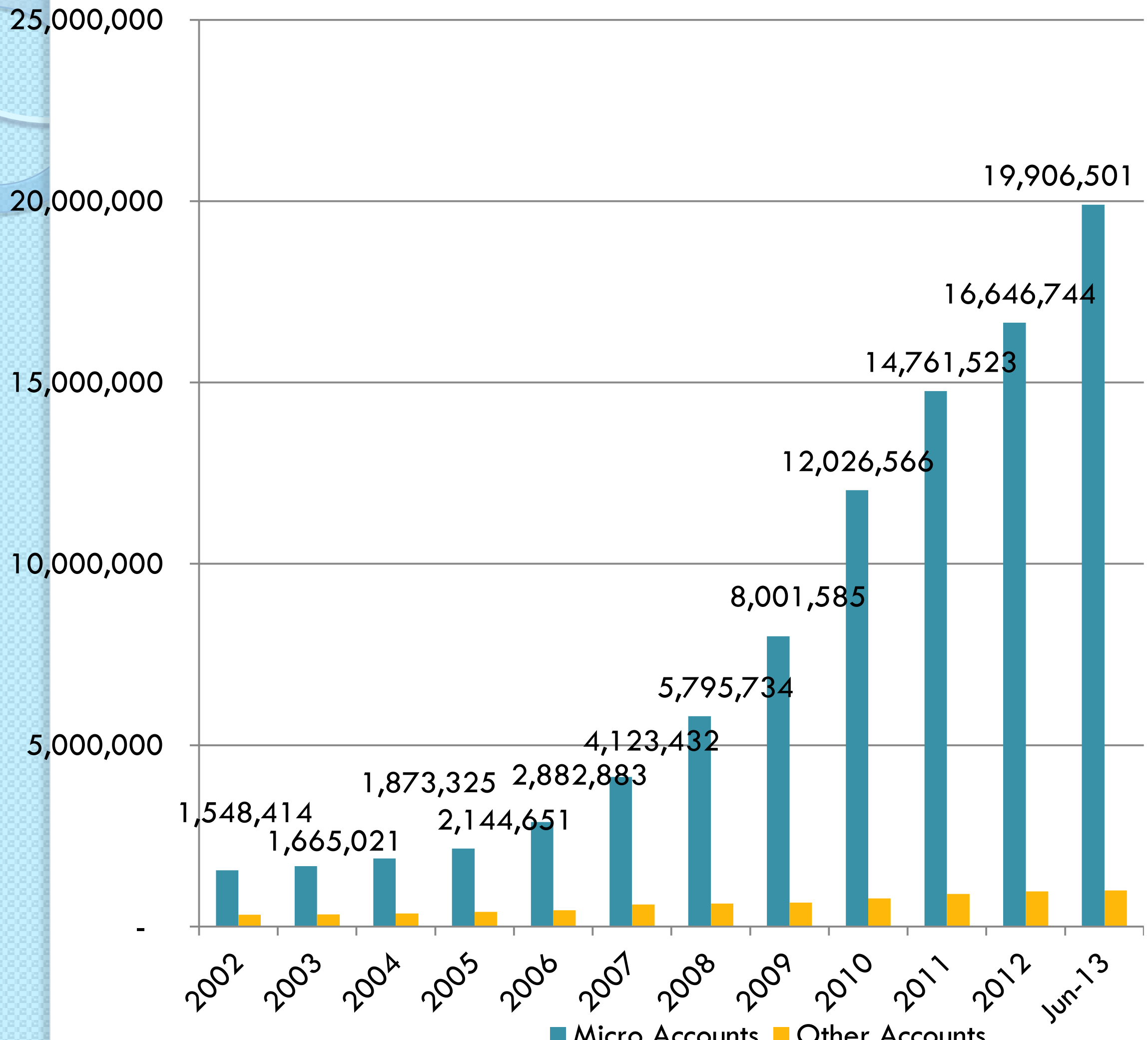
OUTCOMES:
INCREASING MFS TRANSACTIONS …

Aggregate Performance : M-Pesa, Airtel Money, YuCash, Orange Money, Tangaza &



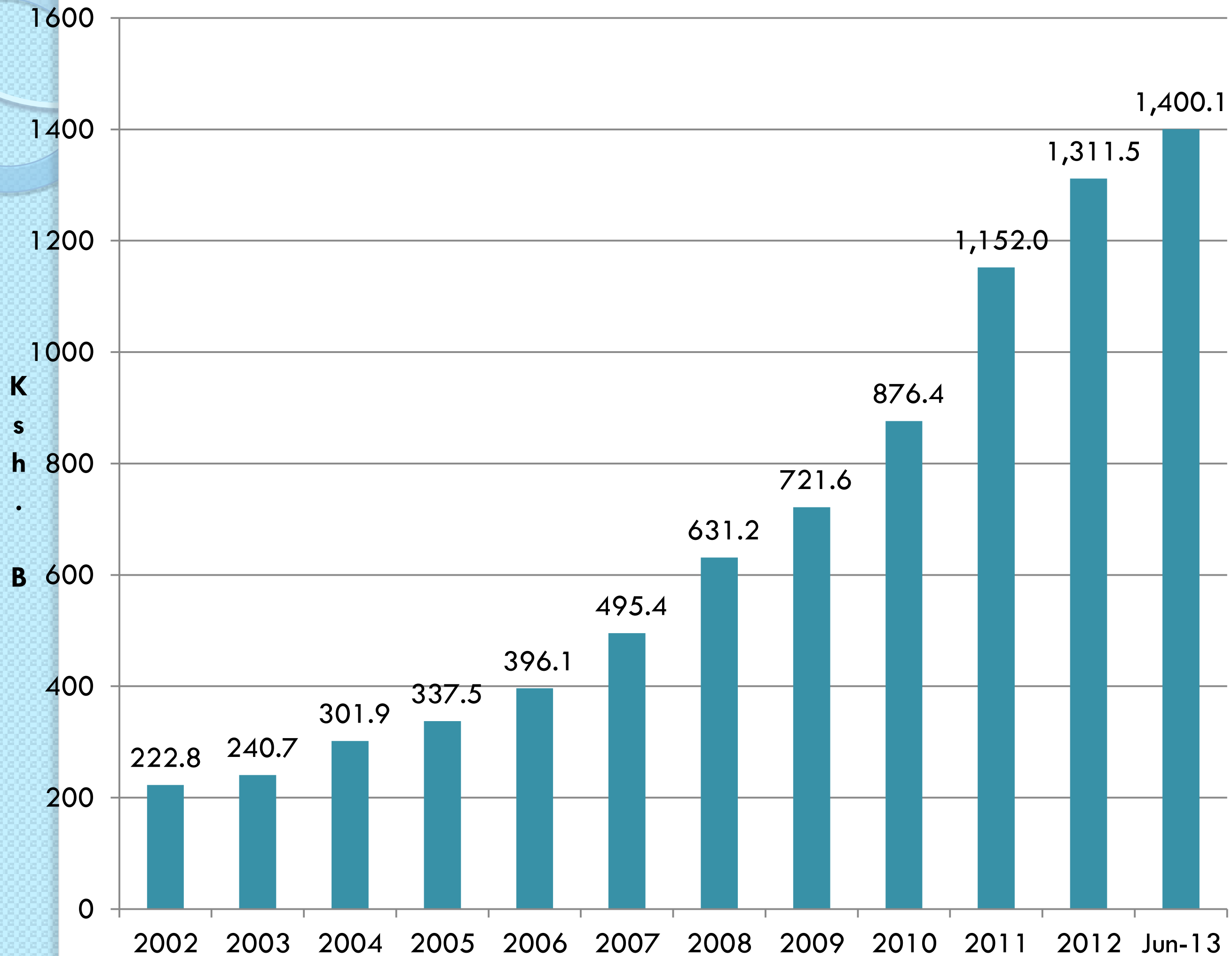
- Mobile Phone Network operations commenced in March 2007. In June 2013 they provided over 60 million transactions valued at about USD1.75 Billion (Ksh.153 billion)
- Total mobile phone transactions per day now average USD 58.4 million (Ksh.5.1billion)
- The average size of the transactions per customer has been increasing (from USD45.5 (Ksh.3,067) in March 2007 to USD78.6 (Ksh.6,421) in June 2013) since corporates have encouraged the use of the facility in new and diverse ways of making payments

OUTCOMES: GROWTH OF KENYAN BANKING SECTOR - DEPOSIT ACCOUNTS...



- Number of deposit accounts has increased from 1.9 million in 2002 to over 20.9 million in June 2013
- Number of micro accounts has increased by over 900% from about 1.55 million accounts in 2002 to about 19.91 million accounts in June 2013 Micro-accounts (balances are up to Ksh.100,000 and are fully covered by the Deposit Protection Fund)
- Growth attributable to reduced costs of maintaining micro accounts and financial market access
- But also increased branch outlets that solved the physical distance
- Barriers to entry have been significantly reduced

OUTCOMES: INCREASING NET LOANS AND ADVANCES (KSH. BILLION) …



- Number of loans accounts increased from 1.22 million as at December 2007 to 3.81 million as at June 2013
- Net loans have increased from Ksh. 222.8 billion in 2002 to Ksh.1,400.1 billion in June 2013
- Growth is largely accredited to the financial Inclusion reforms and initiatives, innovations especially technological led innovations and financial awareness initiatives

OUTCOMES OF OTHER RELATED BANKING SECTOR INITIATIVES …

Agency Model: Outreach Indicator	Values as at June 2013
Total banks granted agency network approvals	13
Total DTMs granted agency network approvals	1
Total number of specific agents appointed	19,649
Number of transactions by agents since May 2010	58.65 million
Value of transactions by agents since May 2010	Ksh.310.54 billion (USD3.54 billion)

Credit Reference Bureaus: Close to 3 million reports requested by banks as at June 2013

LESSONS LEARNT SO FAR

- Financial innovation to increase financial inclusion is a sure way of sustainable poverty reduction
- Regulation and supervision has continuously evolved to keep pace with innovations in the market
- Dialogue between private sector and regulators to foster an enabling environment for the growth of the economy through MFS
- Interoperability will increase efficiency and lower unit costs, but imposing the specific designs of interoperability without safeguards may reduce the private sector's incentive to invest in MFS
  - Market development and consensus should be the basis for considering the specific designs for interoperability
  - Regulators may engage in consultative dialogue with the market players to seek readiness for implementing interoperability

NEXT LEVEL: TAKE OFF INITIATIVES

- Beyond Access: Focus on Consumer Protection and Financial Education to increase uptake and quality of services
- Moving to cash-lite economy to increase cost savings, efficiency and security
- Increased access to credit – use of mobile phone technology to build information capital and reduce costs of accessing services
- MFS in Kenya is now a platform: But will be efficient once the market agrees on areas and levels of interoperability that will support investments and levels of proprietary rights
- MFS for other financial services within the financial sector - credit, savings, pensions, capital markets and insurance
- Cross border joint MFS Initiatives – i.e. African Mobile-phone Financial Services Initiative(AMPI) – peer learning platform to establish effective policy solutions to advance Mobile Phone Financial Services (MFS) in Africa
- We have brought participants to the financial market-the banks and MFIs must make them stay
- But cost of doing business must come down and lending rates must decline to support businesses

THANK YOU