

Njuguna Ndung'u: Development of efficient and cost effective payment systems in Kenya

Address by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, at the "Emerging Payment Systems Technical Capacity Building Workshop 2012", Kenya School of Monetary Studies, Nairobi, 14 November 2012.

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Dr. Eliawony Kisanga; Executive Secretary; ESAAMLG;

Ms. Maria C. Stephens; Senior Technical Adviser; USAID;

Representatives of USAID and US Treasury;

Representatives of Central Banks present;

Distinguished Guests and Participants;

Ladies and Gentlemen:

Let me begin by extending a very warm welcome to all the workshop participants. To the participants who are drawn from beyond our borders, it is my sincere hope that your stay with us shall be enjoyable and that you will carry with you pleasant memories of Kenya when you return to your respective countries.

Ladies and Gentlemen: This workshop is about the development of efficient and cost effective payment systems. The workshop will offer the pertinent issues of financial integrity which completes the architecture of financial inclusion. The importance of financial inclusion is now critically clear. Indeed, there has been mounting evidence that access to financial services is a tool to fight poverty sustainably. Access to affordable and sustainable financial services enables the poor to save and accumulate capital for investment. This is important for generating self-employment opportunities, smooth consumption, reduce vulnerability to economic shocks, raise productivity, obtain higher returns on investments and ultimately improve the quality of their lives.

However, approximately 2.5 billion adults globally, representing over half of the world's adult population, have no access to formal financial services to increase their incomes and improve their lives. Among them, 1.1 billion live on less than one dollar a day. These numbers are a representation of the great demand and need for increased access to income generating activities and to appropriate financial services for the large un-banked populace across the globe. This is particularly true of developing economies in Africa, Asia and Latin America where nearly 90% of the world's unbanked adults reside. The expansion of financial inclusion has thus become a critical topic in development agendas for policy makers and regulators globally, with considerable energy and resources having been devoted towards its enhancement. The testament to this is the G20 Global Partnership for Financial Inclusion (GPII) where non-G20 members participate. The Central Bank of Kenya, and indeed Kenya has been represented by the Governor. At this point therefore, allow me to underscore the importance of emerging payment systems to promoting financial inclusion agenda.

Ladies and Gentlemen: The rapid growth of the mobile phone-based money transfer service in Kenya beginning with M-Pesa, in 2007 has been seen by many as having produced a tectonic shift in Kenya's financial landscape with a great impact on financial inclusion. Indeed, the rapid adoption and use of mobile money transfer services by some 70% of the adult population has suggested that there is huge potential for the development of inclusive formal financial services through mobile phones. Equally complementing this was banks integration with it and also payments of goods functionality raising in acceptance and reception. Notably, the development of innovative and easy-to-use payment systems by financial institutions and other businesses such as mobile phone operators has helped to

support rapid growth in e-commerce, in many cases providing consumers with more effective, convenient, and secure ways to purchase an expanding variety of products.

Ladies and Gentlemen: We all know that in the business world, the customer is King. In this regard, I wish to highlight at this point key issues that policy makers may need to address to strengthen consumer confidence in new and emerging payment systems and which may be categorized into five broad areas including: clarity, transparency and completeness in information disclosure; variability in regulatory and protection regimes; fraudulent, misleading and deceptive commercial practices; dispute resolution and redress and security and interoperability.

Ladies and Gentlemen: Any success in financial inclusion has to go hand in hand with financial integrity. In this regard, the Central Bank of Kenya has continuously sought to enhance the regulation and supervision of the financial system in order to improve its integrity. Indeed, as part of our efforts in ensuring appropriate and effective oversight, we first issued AML Guidelines in 2000. These Guidelines were later revised in 2006 and are currently in the process of being reviewed to reflect the prevailing international best practice and to align them with the Proceeds of Crime and Anti-Money Laundering Act, 2009 (POCAMLA) as amended and **the new Act on combating terrorism financing**.

It is true that over the last 2 years, the Central Bank has issued regular AML/CFT guidelines to financial institutions to further support and enhance the implementation of the Proceeds of Crime and Anti-Money Laundering Act (POCAMLA), 2009. The guidelines have covered the operationalization of the AML Act, Suspicious Transactions Reporting, and measures to be adopted by financial institutions to combat the financing of terrorism. The Central Bank has also revised the Forex Bureau Guidelines so as to align them with the AML Act and is currently sharing with stakeholders the Hawala guidelines.

Ladies and Gentlemen: The creation of the Financial Reporting Centre early in the year and the passing of the Anti-Terrorism Law is a clear signal of the Kenya Government's commitment in protecting the integrity of our country's financial system. In fact I wish to inform you that following the creation of the FRC, all financial institutions in Kenya including banks, forex bureaus and mobile phone financial service providers will be required to report all suspicious transactions to the Financial Reporting Centre. I have expounded on these issues and updates whenever I represent Kenya in FATF evaluation meetings. That is why in the current standing, FATF has commended Kenya for its tremendous effort in AML/CFT Laws enactment and how we are on implementation.

Ladies and Gentlemen: In conclusion, it is my hope, that this workshop will help enhance our technical capacity on emerging payment systems as we share our own country experiences on these systems. Let me also once again take this opportunity to assure all of you of the Central Bank's continued commitment, collaboration and partnership in the development of robust and secure payment systems. But this is where capacity is urgently needed and support by USAID and the US Treasury arising from their experience is most welcome.

Finally, it is a pleasure and honour to now declare the **Emerging Payment Systems Technical Capacity Building Workshop** officially open and wish you fruitful deliberations.

Thank you.