Njuguna Ndung'u: Money transfer services

Address by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, at the official launch of M-PESA International Money Transfer Service, Nairobi, 13 October 2009.

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Members of the Board of Safaricom Limited,
Chief Executive Officer of Safaricom Limited – Mr. Michael Joseph,
Distinguished Guests,
Ladies and Gentlemen:

It is indeed my pleasure to be with you this afternoon on this auspicious occasion of the launch of Safaricom's mobile based international money transfer service.

This service builds up on the very successful and world renowned domestic money transfer service – M-PESA – an **extremely important tool for financial inclusion**. This service has earned our nation much praise and continues to attract the attention of payments system experts the world over.

I congratulate the Board, Management and Staff of Safaricom limited for the evident commitment they have shown to the needs of the Kenyan market. M-PESA and other similar services offered by other service providers are a revolutionary concept not only in the market place of ideas, but also in the practicalities of technological platforms provided by advancement of technology. It started four years ago, at a time when the market was yearning for practical ideas to facilitate access to financial services to a large section of the un-banked population. Four years down the line, virtually everyone on the Safaricom platform has an M-PESA Account. The service is used to transfer Ksh 1.35 billion per day, a tremendous success by any measure. **The launch of the international leg of the M-PESA money transfer service is therefore a natural progression in the value chain.**

Ladies and Gentlemen, mobile phone based financial services offer a convenience that is not available in any other consumer channel. In developing countries like Kenya, the mobile handset provides the unbanked segment of the population the potential to access all types of financial services; transactional and informational. In addition, it is the preferred channel because it has so far ensured security, convenience and is cost effective, while the business is conducted in a **non threatening** environment. The growing number of the un-banked population needs a convenient, safe and affordable means in which to access financial services. At the same time, the growth of micro banking, insurance services, and mutual funds require low cost delivery channels to effectively serve their markets. The "mobile phone opportunity" is the answer.

The mobile experience also offers remarkable opportunities for frontier research on the interaction between society and technology, and how these interactions shape culture and the economy. Millions of people have been brought out of obscurity, because their cell phone gadgets have the ability to facilitate instant access not only to financial services, but also to the rest of the marketplace. It has also redefined space and time; information and funds can move from London to Lodwar in a fraction of time.

Ladies and Gentlemen, regarding the service being launched today, I would like to report that the Central Bank has been evaluating and reviewing this service since 2007 when Safaricom first requested to pilot an **International mobile based money transfer service** in partnership with its U.K. partners, specifically the **Western Union, Provident**, and other partners. The Central Bank evaluated it against the backdrop of its **payments systems and forex market oversight objectives**. In particular, the Central Bank's concerns lay in safety, soundness, and efficiency aspects of the pilot to ensure it met not only our own criteria but also internationally accepted standards for international remittances. The Central Bank studied the system's reliability and governance, system audit trail, consumer protection, settlement risk, KYC requirements, service level agreements, dispute resolution procedures, remitting model, and business continuity plans among other evaluation criteria.

I am glad to report that the above criteria, were fully met, and the Central Bank would like to assure the public that the product being launched today is not only technologically sound and secure, but has a legal framework under the Central Bank of Kenya Act. This being a **cross border remittances** service involving the movement of foreign currency, the **PERMIT** has been issued under Section 33 A of the Central Bank of Kenya Act which empowers the Central Bank to grant specific permission to any person to transact foreign exchange business subject to conditions the Central Bank may impose. Under the permission, Forex remittance inflows will be sold to authorized dealers (banks), while the domestic currency equivalent will be passed on to the final beneficiaries. Once the remitted funds are reflected on the recipients' local M-PESA accounts, they may utilize the funds in the normal manner. This service will enable **inbound** international **person to person** transfers by the Kenyan Diaspora in the United Kingdom to regularly remit money to Kenya **faster, reliably** and **possibly cheaper in the long run**. It is hoped that this service will encourage members of the Kenyan Diaspora who would normally prefer **informal remittances** channels to migrate to the use of this reliable, albeit convenient platform to send money home.

Ladies and Gentlemen, in view of the important role of the remittances in our economy, an overriding policy objective for the Central Bank is to lower costs through competition facilitated by the entry of **international money transfer services providers**. This will enhance service delivery and enable users of such services obtain competitive remittances rates at substantially reduced unit costs. In this regard, Central Bank has issued and continues to issue PERMITS to all applicants seeking to enter the International Money transfer services market under the legal framework spelt out in the CBK Act Section 33 A, subject to meeting the set conditions. The Safaricom Mobile Based International Money Transfer service has been granted with a **permit** pursuant to this policy objective.

At this juncture, I would like to reiterate that while the Central Bank welcomes innovative products, it evaluates all such products to ensure safety and efficiency concerns are adequately addressed. The Central Bank has the necessary capacity to properly evaluate and appraise technology driven financial services to ensure they meet international standards. Services that involve partnerships with commercial banks have to adhere to the existing prudential and statutory banking sector requirements. We will work closely with commercial banks and other service providers to increase awareness and enlarge the frontier of services.

The Central Bank is also cognizant of the fact that international remittances platforms could be used as money laundering channels. Part of our evaluation therefore involves subjecting applicants to a through scrutiny of their AML Compliances programmes not only in Kenya, but also in the sending jurisdictions. In this regard Record keeping and "KYC" requirements must be adhered to as part of the approval conditionality.

Ladies and Gentlemen, the subject of migrant worker remittances and their socio economic significance both for the sending and receiving countries has become a popular topic for governments, payment systems experts and other public policy makers. International remittances bring with them substantial welfare gains to the receiving countries and have huge developmental potential. The World Bank estimates that recorded remittances by some 200 million migrants from developing countries reached US$ 283 billion in 2008, up from US$ 265 billion in 2007, while unrecorded flows through informal channels could even be higher. As a share of GDP, remittances constitute about 2% of GDP. These numbers are almost equivalent to the foreign direct investment (FDI) flows, and may in fact outstrip official development aid (ODA) to the entire developing world. For Kenya, Diaspora remits an average of US$ 50 billion each month through the formal channels such us commercial banks and authorized international money transfer entities.

Against this backdrop, the Government has initiated a process to develop a policy framework for mainstreaming the Kenya Diaspora community in the development agenda. The role of the Central Bank of Kenya under this initiative is to:

- Collect data on remittance flows through formal channels
- Analyze the cost of remitting funds
- Monitor the use of modern technology in money transfer and its effects in remittances and data collection
- Disseminate information on remittances to stakeholders for policy formulation
- Develop legal and regulatory frameworks for regulating money remittances services.

In addition and together with stakeholders, Central Bank will continue to develop remittance platforms and recipient projects like Diaspora bonds.

In this regard, Central Bank continues to collect, collate and publish data on inward remittances on the CBK website. The data is an important source of information for users and we continue to engage with banks and other remittance service providers on ways to improve our data capturing methodology. Regarding costs, our view is that the entry of many service providers will enhance efficiency for the benefit of the remitters. Informal remittances however remain a challenge and part of the reasons we support mobile based platforms is that it will encourage a migration to formal channels, if costs and safety are major considerations.

Finally, the Central Bank will strive to provide an enabling legal and regulatory framework to encourage innovations by all payment service providers to enhance access to payment services and to modernize the national payment systems. We continue to work with other players to put in place an enabling legal and regulatory environment to catalyze mobile banking. Specific initiatives in this regard include:

- The National Payments System Bill that will strengthen the oversight mandate of the Central Bank over the payments, clearing and settlement system. We anticipate that this will be tabled and thereafter speedily enacted by Parliament.
- The Proceeds of Crime and Anti Money Laundering Bill, 2009 that will strengthen the anti-money laundering legal and regulatory framework. The bill underwent the first and second reading and we hope that when parliament resumes, it will be passed and enacted.
- Amendment of the Banking Act to enable banks use non bank agents to extend their outreach. Such agents could leverage on mobile technologies to cost effectively provide services on behalf of the banks.

With these remarks, Ladies and Gentlemen, it is now my pleasant duty to officially launch the **M-PESA INTERNATIONAL MONEY TRANSFER SERVICE**, one more product that will improve the landscape of money transfer and financial services beyond our borders.

Thank you.