

Njuguna Ndung'u: Agent banking

Remarks by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, at the official opening of the workshop on Agent Banking, Nairobi, 14 January 2010.

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***Chief Executives of Commercial Banks here present;
Distinguished Guests;
Colleagues;
Ladies and Gentlemen:***

Allow me at the outset to thank you for accepting our invitation to attend this workshop. It is indeed important that this morning we are addressing the issue of Agent Banking, a concept we are keen to see take root innovatively in Kenya. The Central Bank has convened this workshop for three critical objectives:

- The first objective is to demystify this new banking model and show how it works;
- Secondly, to showcase how it has worked successfully in other countries as a platform for financial reach, inclusion and financial deepening;
- Finally, to build consensus amongst market players on how Agent Banking can work in Kenya supported by regulatory framework.

As you are aware, the Finance Act, 2009 that became operational at the beginning of this month has amended the Banking Act to enable use of third party agents by banks. Banks will therefore be able to leverage on additional cost effective distribution channels to offer financial services. This initiative is informed by the need to leapfrog access to financial services in Kenya. The National Financial Access Survey of 2009 shows that 32% of Kenya's bankable population remains totally outside the orbit of financial services and many more being served by the informal financial system.

Ladies and Gentlemen: Vision 2030 is premised on a safe, efficient and inclusive financial system where savings and investment rates will more than double. The financial sector is expected to play a pivotal role in mobilizing the substantial resources required to finance the envisaged flagship projects. We must therefore explore and implement innovative models that will deepen Kenya's financial sector to support savings and investment growth.

The Central Bank of Kenya continues to support innovations that will broaden financial inclusion for the majority of Kenyans. In doing so, we will need to focus on safeguards to ensure that the integrity and safety of the financial sector is not threatened. But above all, the cost of financial services should decline to encourage financial inclusion and reach at all corners of the country.

It is appropriate at this stage to highlight the key steps that the Central Bank has undertaken up to now with regard to Agent Banking:

- Initially, extensive reviews of the knowledge base in this area were undertaken to enhance our understanding of this model.
- Secondly, a study was commissioned to review practices in other countries in Latin America, Asia and Africa. Bankable Frontier Associates, an international consultancy firm that undertook the study will be presenting their findings shortly.
- Third, to uncover some practical insights on the model, a team from the Central Bank, the Ministry of Finance and the Kenya Bankers Association undertook a knowledge exchange tour of Brazil and Colombia. These two countries have to a large extent successfully implemented Agent Banking.

My colleagues will be sharing their insights from this knowledge exchange later today. Let me thank the Alliance for Financial Inclusion and the Bill and Melinda Gates Foundation for supporting this exchange that we believe will transform the platform of financial services in Kenya, and to a large extent the lives of Kenyans.

Ladies and Gentlemen: We have therefore so far gained invaluable insights on the Agent Banking model. These insights will contribute to the development of a robust regulatory framework for Agent Banking services in Kenya. Today's forum offers an invaluable platform to also get feedback from industry practitioners as we develop implementation plans for Agent Banking. It is only through forums such as this that epitomize private public partnerships that we are able to achieve the aspirations of Vision 2030.

Ladies and Gentlemen: I also want to address fears that the Agent Banking model in Kenya is inappropriate – that it will kill Microfinance Institutions and SACCOs. On the contrary, it will speed up their activities. Vision 2030 envisages an inclusive financial system with space for different players to serve the majority of Kenyans. They will develop their market niches in line with their relative comparative advantages and strengths. In this scenario, the Agent Banking framework will play a complementary role for all players in the market. So these fears are misplaced. But this forum will also serve to expound this line further.

Ladies and Gentlemen: As I draw to a close, it is important to underscore that the Central Bank will continue to be guided in its financial sector policy initiatives by the following tenets:

- First, in conjunction with the Government, the creation of an enabling environment for financial sector players.
- Second, public private partnerships will continue to be at the core of our initiatives. In the case of Agent Banking, today is just but the beginning of our dialogue. As we implement the model, we will continue to engage market players to ensure it works for the benefit of Kenyans.
- Third, for many years, the banking sector could not reach all the corners of the country – it was expensive to erect branches – now, with this new innovation, they do not have to – they only need to look out for the appropriate agent.
- Finally, we will continue to promote innovations while ensuring that there are adequate safeguards to foster financial sector safety and soundness.

I am sure this workshop will expound on these important dimensions and provide the Central Bank with the richness of policy interpretation.

It is now my distinct pleasure to declare this workshop officially open.

Thank you.