

Njuguna Ndung’u: Kenya’s financial markets and payment systems developments

Remarks by Professor Njuguna Ndung’u, Governor of the Central Bank of Kenya, at the launch of the Funds Settlement System for Equities and Corporate Bonds through KEPSS, Nairobi, 27 January 2015.

* * *

Ms. Rose Mambo, Chief Executive, Central Depository & Settlement Corporation;

Mr. Paul Muthaura, Ag. Chief Executive, Capital Markets Authority;

Mr. Andrew Wachira, Acting Chief Executive, Nairobi Securities Exchange;

Chief Executives of the Central Depository Agents;

Chief Executive, Kenya Bankers Association;

CEOs of Commercial Banks here present;

Chief Executive, Kenya Association of Stockbrokers & Investment Banks;

Distinguished Participants;

Ladies and Gentlemen:

I am pleased to join you today on this auspicious occasion to launch the Settlement System for Equities and Corporate Bonds through the Real Time Gross Settlement platform of the Central Bank of Kenya, commonly referred to as **KEPSS**. At the outset, I congratulate the technical teams from the CDSC, CMA and CBK that ensured the success of this process.

Ladies and Gentlemen: We are gathered here today to celebrate another milestone in the development of Kenya’s financial markets and the developments in the payment systems. As you are all aware, the financial landscape has changed considerably in Kenya and the countries in the region. For the region to attract foreign investors and deepen its markets, there is need to enhance our financial markets systems and processes to meet international standards. In this regard, I wish to recognize the East African Community (EAC) Financial Sector Development Regionalization Project (FSDRP), for spearheading an assessment of EAC Partner States’ compliance to the International Organization of Securities Commissions (IOSCO) objectives and principles of securities regulation, particularly Principle 38 on clearing and settlement.

The project assessed the levels of development of the securities markets payments and settlement system as well as existing capacity to comply with principle 38, and developed action plans for compliance with the principle of **Delivery Versus Payment** (DvP) that formed the basis for the current developments.

Ladies and Gentlemen: Kenya’s development blueprint, Vision 2030, envisages a financial sector that is vibrant and globally competitive in driving high levels of savings and financing the country’s investment needs. To achieve this goal, the Clearing and Settlement systems should be subject to regulatory and supervisory requirements that are designed to ensure that they are fair, effective and efficient while reducing credit, settlement and the possibility of systemic risk. This partnership between CDSC, CMA and CBK is not only an opportunity for CDSC to meet the needs of its customers but also contributes in addressing systemic risks in the settlement of securities. But it is also important that the payment and settlement system and the infrastructure that accompanies it is the driving force in financial markets today.

Ladies and Gentlemen: We implemented a Real Time Gross Settlement System in 2005, a development that significantly enhanced efficiency in the settlement of payments to “Real Time” basis. In addition, one of the greatest payments innovations of our time is the mobile

phone money revolution; Kenya was the first country in Africa to introduce Mobile Money Financial Services. We later introduced the Cheque Truncation System in the clearing of cheques, reducing the clearing cycle from T+7 to T+1. Today we witness yet another momentous milestone where equities and corporate bonds traded at the Nairobi Securities Exchange (NSE) will henceforth be settled through KEPSS at the Central Bank. This landmark accomplishment is one that is fraught with immediate and future benefits that I shall allude to shortly.

Ladies and Gentlemen: KEPSS is a systemically important payment and settlement system drawing participation from 41 local commercial banks. The modernization of KEPSS has incorporated regional payment systems – the East African Payment System (EAPS) for EAC and the Regional Electronic Payment and Settlement System (REPSS) for COMESA countries. Indeed, it is a very secure payment system that delivers financial settlements in real time using SWIFT as the message carrier. During the year 2014, KEPSS successfully settled 2.5 million transactions valued at Ksh.25.6 trillion; which is to say it clears more than 10,000 transactions worth over Ksh.100 billion on a daily basis. These figures in themselves tell the story of success and so more enhancement will provide the platform for more success.

Ladies and Gentlemen: The Central Bank has expended substantial amounts of time and energy developing the building blocks and enabling environment for clearing and settlement of transactions to flow freely. The KEPSS platform will allow local, intra-regional and inter-regional trade to progress efficiently and cost effectively. I am happy to note that CDSC will be joining this settlement community, a development that presents an opportunity for expanding the scope and reach of KEPSS. Let me reiterate that KEPSS simplifies payment processes as well as enabling cross border payment and transfer of value within the region in an easier, safer and more efficient way.

Ladies and Gentlemen: In a new system and a new way of doing business, better is always resisted – we went through the same motion with the cheque truncation system. I challenge the Central Depository Agents to impress upon their clients the immense benefits accruing from the use of the KEPSS for settlement of NSE transactions. These benefits include:

- Enhanced efficiency in the settlement process and risk control mechanisms;
- Enhanced safety through use of the SWIFT infrastructure;
- Increased accessibility through commercial banks;
- Improved investor confidence leading to increased activities at the NSE;
- An efficient audit trail.

Today's launch therefore marks another milestone in revolutionising the payments ecosystem in Kenya and in particular in the Securities Exchange market. The system successfully went live on 15th January with the settlement of transactions concluded at the Nairobi Securities Exchange (NSE) being executed through the Central Bank's KEPSS system. Therefore, as we celebrate with the CDSC, CMA, NSE and indeed the entire capital markets fraternity, we are also affirming the potential for more innovativeness and enhancement of safety and efficiency through collaborations and innovation in payment and settlement systems. In doing so, we shall play our role in enabling the attainment of the national economic goals envisaged under Vision 2030.

Distinguished Guests, Ladies and Gentlemen: Let me conclude my remarks by emphasising the important role that an efficient settlements system plays in enhancing the deepening of capital markets. As Kenya aspires to become a regional and international financial centre, the centrality of efficient payments and settlements system cannot be gainsaid. The model we are about to launch is one more step towards achieving that goal.

Thank you