

Patrick Njoroge: Financial inclusion in Sub-Saharan Africa

Keynote address by Dr Patrick Njoroge, Governor of the Central Bank of Kenya, at the TICAD VI/Alliance Forum Foundation & Comesa, Nairobi, 26 August 2016.

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Good Afternoon!

It is my pleasure to be here today, to speak to such a distinguished group about financial inclusion in Sub-Saharan Africa.

History teaches us that every nation in every epoch faces many challenges but also opportunities. Africa faces many challenges, including realizing sustainable growth to reduce poverty and provide meaningful employment to its young population. At the same time, there are opportunities that are provided by two significant trends – globalization and the IT revolution. As we see it, in the financial sphere, financial inclusion combines these two trends to provide great promise in dealing with the present-day challenges.

Financial inclusion holds the promise of harnessing collaboration between financial service providers and technology service providers to achieve social ends such as inclusive economic growth, sustainable development and poverty alleviation.

This forum provides an excellent occasion to reflect on the achievements made, the challenges that remain, and the opportunities that lie ahead in actualizing this promise. My focus today will be to highlight the role that innovation and related policies play in establishing financially inclusive ecosystems that do not marginalize people on the basis of income or geographical location.

As is well recognized, Kenya has leveraged mobile phone technology and made remarkable strides in financial inclusion. There are currently 38.3 million mobile phone subscribers in Kenya. This has allowed access to formal financial services to grow from 26 percent in 2006 to over 75 percent currently. Similarly, other countries in the region have increased financial inclusion; recently reported numbers are Mauritius at 88 percent, South Africa at 83 percent, Tanzania at 57 percent, and Nigeria at 48 percent.

While efforts need to be sustained to further increase inclusion and access, the focus has now turned to the products and services that are available. The question at hand is how to expand the digital financial services ecosystem beyond basic money transfer, savings, and micro-credit. Innovative solutions are needed to provide a range of digital financial services, from simple money transfer platforms to payment solutions, savings, micro-insurance, financial planning and access to capital markets securities. What framework would ensure that the benefit of financial inclusion are sustained?

Let me turn to a few considerations to help set a framework for the path ahead.

First, there is the perennial question of the cost of such services. Developing sustainable digital services that are affordable by low-income households and vulnerable groups is imperative. While prices of phone sets continue to fall, the transition by financial service providers from Unstructured Supplementary Service Data (USSD)-based SMS services to proprietary apps is not without concerns. Consumers should also benefit from reduced marginal cost of additional digital financial services, as provided by the underlying technologies.

However, it is also true that the reliability of the services provided is crucial for consumers. For instance, recent studies on enhancing access to clean water in informal settlements in Kenya (Mathare and Kibera) indicate that low-income households are disposed to pay twice as much to water vendors for reliable water services. This may therefore be an opportune time to start a discussion of the cost of these digital financial services.

Secondly, we are seeing increased standardization of processes, structures, and rules, across technological platforms. But do common standards have an impact on innovation? Are they synonymous with interoperability?

Technological standards support the production process and market penetration of products, and therefore have a significant collective effect on innovation, productivity, and market structure. However, the existing market dynamics with dominant leaders, coupled with standardization, are bound to have a considerable impact on switching costs and network effects. These would run counter to the long-term objective of enhancing market access with evolving technology.

I believe that it is safe to say that the more an industry depends on interoperability, the more the standards will be evidenced. My fear is that standardization has the potential of creating an over reliance on certain technologies, thereby limiting the adoption of new and more efficient technologies. Open digital platforms can improve interoperability and widen consumer choice by expanding the network of available access points for consumers and service providers.

Thirdly, the growing adoption of digital financial services also raises a number of consumer protection concerns. These include: a lack of safeguards for funds held by institutions outside the financial regulatory perimeter; limited disclosure of fees, terms and conditions; insufficient agent liquidity; irresponsible lending through digital channels, and agent fraud; system downtime that prevents access to funds; and unclear or limited recourse systems.

What is clear is that a sound consumer and data protection framework is essential, especially for vulnerable consumers with limited resources to absorb losses. Questions of data privacy amidst the explosion of cybercrime are of particular concern. Questions about ownership and control of the vast data that is generated through the digital financial services also need urgent attention.

Building a sound framework with evolving capabilities will require sound governance and practices at all levels and by all actors in this sector. A pilot *“test-and-learn”* approach may also be adopted for innovations, through which the necessary safeguards are applied to mitigate the potential risks.

Before I conclude, I want to underscore that a great deal of innovation and innovative thinking is needed to ensure that the benefits from greater financial inclusion are fully realized. This forum facilitates progress in this direction.

I look forward to interesting and lively interactions and discussions this afternoon.

Thank you for your attention.