

# AGENT BANKING KNOWLEDGE EXCHANGE- CENTRAL BANK OF KENYA





# AGENDA

- The Policy Challenge.
- The Knowledge Exchange.
- Key Policy Insights.
- Resulting Outcomes.
- Lessons and Challenges.

# THE POLICY CHALLENGE(I)

- Low levels of financial inclusion in Kenya-32% of bankable population totally excluded from financial services.
- Vision 2030 for Kenya to be middle income country.
- Targets:-
  - Economic growth rate of 10% p.a. by 2012.
  - Raise savings and investment rate to GDP from 14% to 25% to 30%.
  - Increase bank deposits from 44% to 80% of GDP.
  - Significantly reduce the cost of capital.
- To achieve Vision 2030 targets, urgent need to rapidly and massively scale up financial inclusion.
- Reforms to increase efficiency and penetration of the financial sector imperative.

# POLICY CHALLENGE(2)

- The Financial Inclusion Challenges:-
  - Cost of financial services.
  - Barriers to entry-minimum balances.
  - Information asymmetry.
  - Last mile/distance to nearest financial services point.
- The CBK approach to addressing the challenges:-
  - Promote innovation-mobile financial services.
  - Create new institutions-Credit Reference Bureaus.
  - Address delivery channel costs-Agency banking, review branching regulations.
  - Set up Currency Centres across country-reduce cash handling costs.
  - Awareness studies/surveys:-
    - Cost of collateral.
    - Bank Charges, lending rates and customer service.
    - Cost of Credit Disclosures-APR, hidden costs.
    - Banks Delivery Channels.
    - Continuous engagement by Monetary Policy Committee.

# THE POLICY CHALLENGE(3)

- Proposals to amend Banking legislation to enable use of agents by banks tabled in Parliament in June 2009.
- Agent Banking effective 1<sup>st</sup> January 2010 and CBK had to prescribe guidelines.
- CBK needed to address:-
  - ❖ The development of the agency banking model.
  - ❖ The legal and regulatory framework for agency banking.
  - ❖ The models of agency banking.
  - ❖ The success factors in agency banking
  - ❖ The challenges associated with agency banking.



## THE KNOWLEDGE EXCHANGE(I)

- CBK considered knowledge exchange to fast track development of appropriate agency banking regulatory framework.
- Brazil and Colombia identified as champions in Agent Banking.
- Discussions with AFI commenced in June 2009 with formal request for short term grant submitted in late June 2009.
- After positive signal from AFI detailed engagements commenced in August 2009 with Banco Central de Brasil and Banca de las Oportunidades of Colombia to clearly define expectations on all sides.



## THE KNOWLEDGE EXCHANGE(2)

- Knowledge exchange of one week each to Brazil and Colombia from 19<sup>th</sup> to 30<sup>th</sup> October 2009.
- Delegation comprised of 6 representatives of Central Bank of Kenya, Kenya Bankers Association and the Ministry of Finance.
- Meetings and visits to:-
  - Ministry of Finance.
  - Central Banks and Regulatory Authorities.
  - Commercial Banks and Bankers Associations.
  - Agents in urban, peri-urban and rural areas-Discussions also held with customers using agents.
  - Payment Services Providers.



# POLICY INSIGHTS FROM KNOWLEDGE EXCHANGE

- Risk Based Approach to supervision and regulation of agents.
  - Onus placed on banks to manage risks associated with agents in Brazil and Colombia.
  - CBK has also adopted a risk based approach.
- Focus also on demand side-consumer protection and financial education.
  - Provisions for consumer protection in agent banking framework in Brazil and Colombia.
  - Provisions for consumer protection incorporated in CBK Agent Banking Guidelines.
  - Sensitization on agent banking carried out after knowledge exchange.
- Public-Private partnership.
  - Strong public-private partnerships in both Brazil and Colombia.
  - CBK followed consultative approach in developing agent banking model with various market players.



# POLICY INSIGHTS FROM KNOWLEDGE EXCHANGE (2)

- Prioritisation and co-ordination of the national financial inclusion agenda.
  - Well co-ordinated financial inclusion platform in Colombia, ongoing financial inclusion strategic project in Brazil.
  - CBK discussing long term grant with AFI on strategic financial inclusion project.
- But there are also challenges:-
  - Consumer Protection-Address explicitly in guidelines.
  - Security-Broader issue but banks need to mitigate risks.
  - Uncompetitive behaviours by banks-Encourage interoperability and non-exclusivity of agents.

# PEER TO PEER LEARNING

- Knowledge exchange was two way.
- Brazil-Seminar held on first day of exchange with presentations from both central banks.
  - Banco Central de Brasil presentation on strategic financial inclusion project.
  - CBK presentation on development of mobile financial services in Kenya.
- In Colombia, CBK made presentations on mobile financial services to Ministry of Finance, Financial Sector Regulatory Authority and the Bankers Association.
- Engagement continued with Banco Central de Brasil , the Financial Sector Superintendence of Colombia and Redeban(Payment Service Provider in Colombia) particularly when CBK was drafting the guidelines and engaging market players.



# RESULTING OUTCOMES

- Agent Banking Guidelines issued in April 2010 to take effect from 1<sup>st</sup> May 2010.
- 2 banks already authorised to roll out agent banking networks, 3 other applications being processed.
- 5,892 agents already approved-Include Telco agents, shops, hotels, supermarkets, pharmacies.
- 1 Telco approved as third party agent network manager for a commercial bank.
- Integrated Banking-Telco product riding on guidelines(M-Kesho by Equity Bank and Safaricom) launched in May 2010.
- M-Kesho account opening can be originated at Safaricom/M-Pesa Agents.
- Over 600,000 M-Kesho Accounts opened so far and over USD 5 million mobilised.

# KEY LESSONS

## **Process:-**

- Understand the AFI Grant process and expectations.
- Define and agree expectations with hosts upfront to get maximum value and ease burden.
- Advance Planning is critical-Agreeing proposal including performance indicators with AFI, logistics, language barriers.
- Diversity in knowledge exchange delegation to get buy in from all key players.
- Knowledge exchange is two way-also be prepared to share.

## **Policy:-**

- Be guided by knowledge exchange as you implement the financial inclusion initiative but keep in mind your local circumstances.
- Remember the broader vision-pushing forward financial inclusion frontiers.

# DISCUSSIONS

