

**CENTRAL BANK OF KENYA**



Remarks by

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**at**

**THE AFRICAN FINANCIAL INCLUSION POLICY FORUM:  
SCALING UP FINANCIAL SERVICES THROUGH MOBILE TECHNOLOGY**

**Co-Hosted by the Bank of Tanzania (BoT), Alliance For  
Financial Inclusion (AFI) and Central Bank of Kenya (CBK)**

***Diamonds Dream, Zanzibar  
March 1-2, 2012***

**Professor Benno Ndulu, Governor, Bank of Tanzania;**

**Dr. Alfred Hannig, Executive Director, Alliance for Financial Inclusion;**

**Professor Mwangi Kimenyi, Director, African Growth Initiative, Brookings Institution;**

**Fellow Governors and Deputy Governors;**

**Distinguished Guests and Colleagues;**

**Ladies and Gentlemen;**

The Central Bank of Kenya is privileged to co-host and participate in this important event, 'African Financial Inclusion Policy Forum: Scaling up Financial Services through Mobile Phone Technology'. May I take this early opportunity to thank our co-hosts, Bank of Tanzania (BOT) and the Alliance for Financial Inclusion (AFI) for organizing this Forum. In particular, let me thank the Bank of Tanzania for hosting us in this historic and pristine island of Zanzibar. I am sure that we shall all enjoy the diversity of this beautiful island.

**Ladies and Gentlemen,** this Forum is a follow up to a high level 'Mobile Financial Services and Financial Inclusion' Forum at Brookings Institution in Washington D.C in May 2011, also organised by the Central Bank of Kenya, in collaboration with AFI and the Africa Growth Initiative (AGI) of Brookings Institution. The key objective of the Brookings Forum was to address the policy and regulatory challenges to scale up mobile financial services (MFS) and fully realise its potential in enhancing financial access to the vast poor and unbanked adult population across Africa and to millions of micro and small-scale enterprises (MSEs).

This follow-up meeting is aimed at reviewing progress made in the expansion of MFS in African countries following the Brookings Forum. It is expected to create an opportunity for us as key players in the MFS 'movement' to address the strategic challenges that still persist in scaling up MFS in the African continent; and in particular, the critical role of the private sector in expanding MFS.

### **Importance of MFS in enhancing Financial Inclusion**

**Ladies and Gentlemen,** the role and potential of MFS in enhancing financial inclusion cannot be under estimated. While over half of the adults worldwide (2.5 billion) lack access to basic and affordable formal financial services because of the limitations of accessing formal banks<sup>1</sup>, the global penetration of mobile phones has proliferated tremendously to cover over half of the world's population (at 4 billion)<sup>2</sup>. In Africa,

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<sup>1</sup> Alexandre C. Mas, I and Radcliffe D. (2010). Regulating New Banking Models that can Bring Financial Services to All. Bill & Melinda Gates Foundation

particularly, it is estimated that the number of people with mobile phones has doubled those with bank accounts<sup>3</sup>.

The mass proliferation of mobile phones can, therefore, provide an effective delivery channel for sustainable and affordable basic financial services to individuals and businesses that were un-served by the traditional banking system. In Africa, and particularly in Kenya, we have greatly tapped into this potential. MFS has enabled large populations spread across vast and difficult terrain to be served cost-effectively with financial services beyond the limits of traditional delivery channels.

**Ladies and Gentlemen**, in recognition of the critical role of MFS, the Central Bank of Kenya has taken a proactive stance to boost financial inclusion through MFS. In particular, the Bank has supported the roll out of innovative technology led initiatives through a 'test and see' approach that allows innovations to take place while ensuring that the necessary safeguards are in place to mitigate risk and that prudence is observed.

This approach has allowed CBK to partner with both financial service and telecommunication providers as they seek to introduce innovative solutions into the market that are reliant on technology. The partnership has seen:

- (a) **Increase in mobile payments:** Over 18 million people served by over 40,000 agents handling USD 41 million worth of MFS transactions per day in Kenya. All these, with the stability and integrity of the financial system remaining intact.
- (b) **Introduction of Agent Banking** to push forward financial inclusion frontiers in un-served areas. This has led to close to 10,000 approved bank agents' facilitating over 7 million transactions valued at over KSh 35 billion (USD 411m), leveraging on mobile phone technology.
- (c) **Other initiatives** in Kenya include the use of mobile technology for pension remittances and soon we look forward to more exciting initiatives for example, using information capital (credit history) built within mobile phones to aid users build a credit history based on their purchase of airtime and use of other financial services.

**Ladies and Gentlemen**, CBK has learnt a great deal from key players within the country as well as from other countries across the globe through various knowledge exchanges. For instance, the Bank learnt more about the agency model from a study

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<sup>2</sup> <http://www.afi-global.org/policy-solutions/mobile-financial-services> accessed on 31<sup>st</sup> October 2011

<sup>3</sup> Mas (2011). E-finance & Payments Law & Policy accessed at <http://ssrn.com/abstract=1858377> on 2<sup>nd</sup> November 2011

tour held in Brazil and Columbia in 2009. Most recently, early this year, we hosted the Central Bank of Guinea and the Reserve Bank of Malawi to share experiences on mobile banking and agency banking, respectively. We have learnt that knowledge sharing is a very enriching experience and is the way to go in learning from one another given that we share similar peculiarities in our MFS landscapes. We are grateful to AFI for championing and supporting these knowledge exchanges.

In addition, we have witnessed increased competition and diversity in the MFS space with more mobile phone operators launching mobile money products and commercial banks increasingly partnering with telecommunication companies to offer financial services. The emergent competition has and continues to ensure cost-effective and efficient service delivery for the benefit of the majority poor and MSEs previously experiencing a dearth of financial services.

**Ladies and Gentlemen,** lessons we have learnt show that regulators must think beyond the conventional brick and mortar delivery channels to enhance financial inclusion. It is critical to embrace technological innovations and provide a supportive policy environment to nurture the growth of MFS but also ensure safety. Careful assessment of risks through the “test and see” approach along with the creation of products and systems that lower the risk profile of such services will allow regulators enhance access through innovation while maintaining systemic stability.

The potential to expand financial inclusion is huge and will require dynamic mobile technologies and supportive policies in order to bring the unbanked into the formal banking sector. To propel MFS to the next level, our goal as AFI network is to continue to develop enabling policies to scale up financial services and increase market uptake through second generation MFS, and provide a full suite of financial services, including savings, credit, insurance and pensions; and translate savings into profitable investments.

**Ladies and Gentlemen,** you will recall that during the Global Policy Forum (GPF) held in Riviera Maya, Mexico in September 2011 seventeen of us AFI member countries made commitments to push forward the financial inclusion frontiers as part of the Maya Declaration. Many of these commitments were hinged on enabling innovation through MFS. This Forum provides us an opportune moment, first to take stock and follow-up on the Brookings Forum by documenting what has changed. Second to reflect as AFI members where we are with regards to our commitments at the halfway mark to the next GPF meeting to be held in Cape Town, South Africa later this year.

**Ladies and Gentlemen,** as policy makers we must strive to understand and embrace innovations like MFS and mitigate risks inherent from the innovations without stifling them. Market players, on the other hand, should continue innovating but work with us in ensuring financial system soundness and stability.

It is my expectation that this conference in this idyllic setting will stimulate the formulation of smart and strategic policies for scaling up financial inclusion. Scaling up financial inclusion via mobile financial services has important attributes of creating financial market access for the poor and will greatly support financial development in our countries. I look forward to the engaging, stimulating and thought provoking interactions over the next two days.

Thank you.