



MOBILE PAYMENTS REGULATORY FRAMEWORK PERSPECTIVES IN KENYA

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Mobile Payments Services Regulatory Financial Dissemination Workshop, Lagos, 25th January, 2010



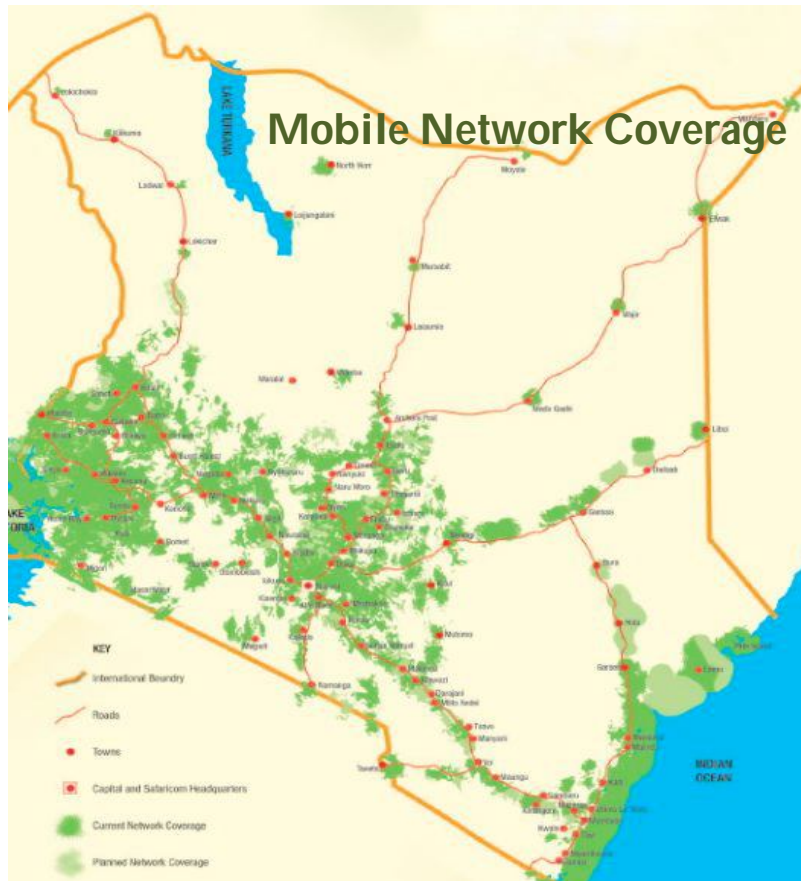
Agenda

1. **Context of mobile money in Kenya**
2. How does M-pesa work?
3. How has mobile money evolved?
4. Regulatory questions
5. Conclusions: learning from Kenya

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MOBILE PAYMENTS REGULATORY FRAMEWORK

Kenya: Relevant Statistics 2008



- Mobile Phone Penetration: 55%
- Bank Account Penetration: 21%
- Population: 39,002,772
- GDP per capita: \$1,600
- Rural Population: 78%

Source: CIA Fact book, FSD Kenya

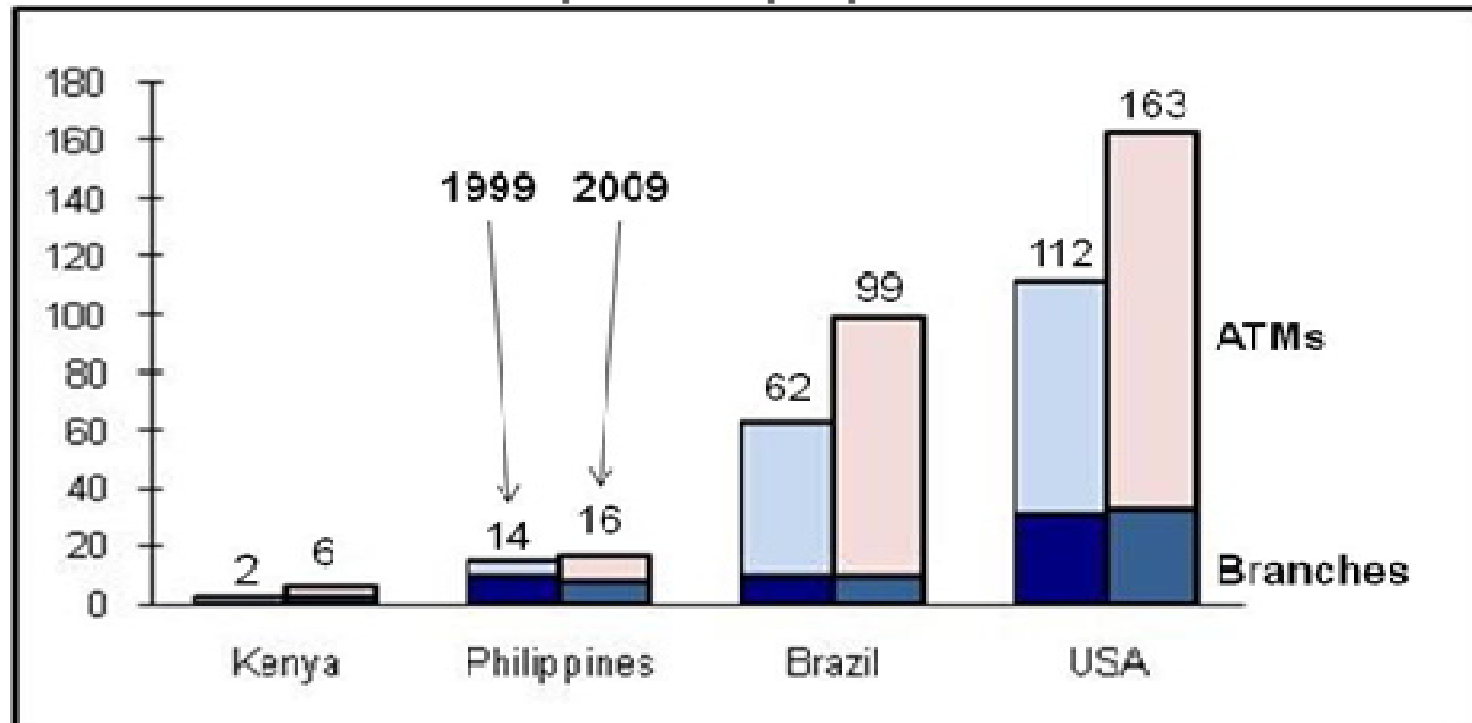
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The Kenyan banking system has a low conventional channel reach...

ATMs and branches per 100K people in selected countries



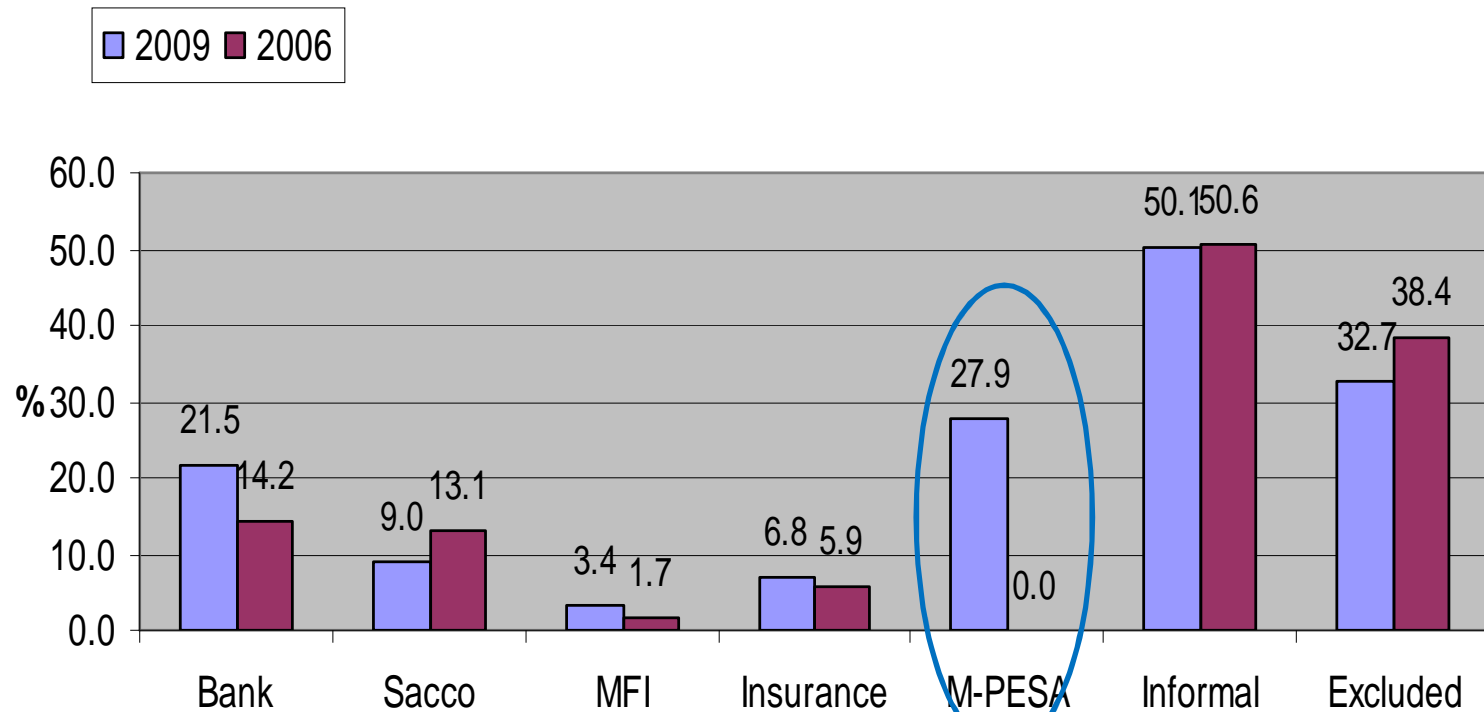
Source: BFA for CGAP/DFID 2009

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MOBILE PAYMENTS REGULATORY FRAMEWORK

...and a changing institutional landscape



FSD (2009) "The state of financial service delivery in Kenya today"

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MOBILE PAYMENTS REGULATORY FRAMEWORK


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- 2. How does M-Pesa Work?**
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MOBILE PAYMENTS REGULATORY FRAMEWORK

Launch Proposition



m-PESA Send pesa by phone

M-PESA is the new, easy and affordable way to send money home.
* Please see following advertisement for a list of Authorised M-PESA Agents.

Register FREE
at any Authorised
M-PESA Agent*

Safaricom
the better option
www.safaricom.co.ke
Terms & Conditions Apply

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MOBILE PAYMENTS REGULATORY FRAMEWORK

Registering for M-PESA

How to register...

Go to any local Agent to register:

Step 1: Ensure you have a “new generation” SIM card*

Step 2: Register your account

Step 3: Send M-PESA an SMS

Step 4: M-Pesa will send you a confirmation
with a new ‘M-Pesa’ menu



M-PESA menu

** All SIMs since October are new generation*

Source: Lonie S (2007) A brief introduction to MPesa

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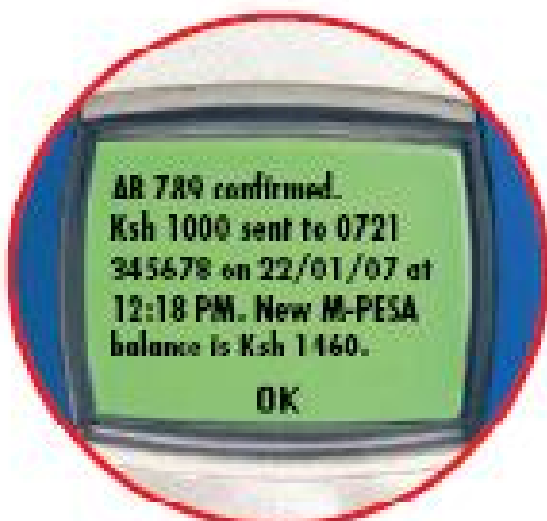


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How to send money

In your M-PESA menu pick “send money” & enter:

- Recipient phone number -
- How much you want to send -
- Your secret PIN -



You both receive SMS confirmation of the transfer

Source: Lonie S (2007) A brief introduction to MPesa

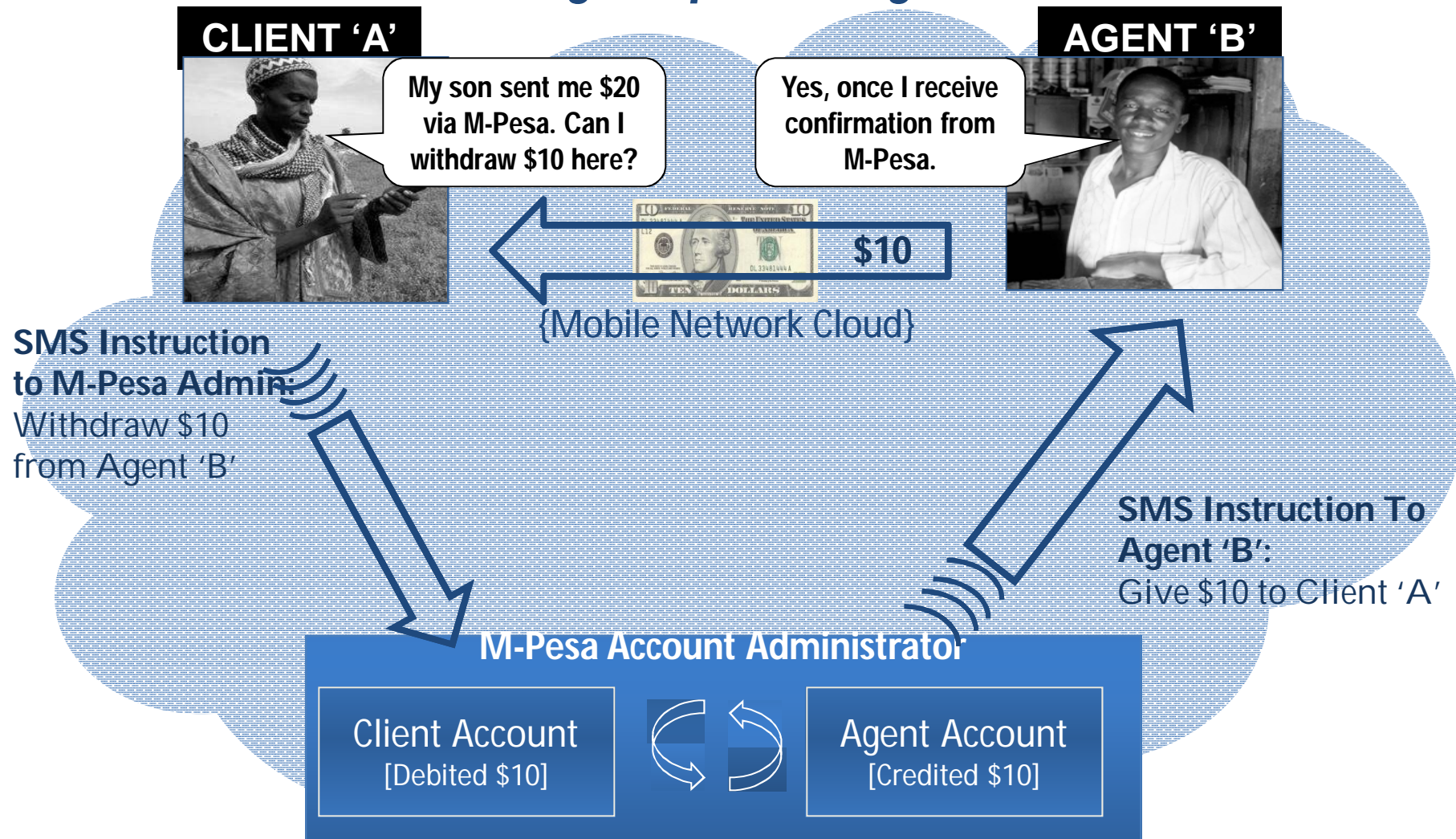
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Withdrawing Cash

Putting the pieces together...



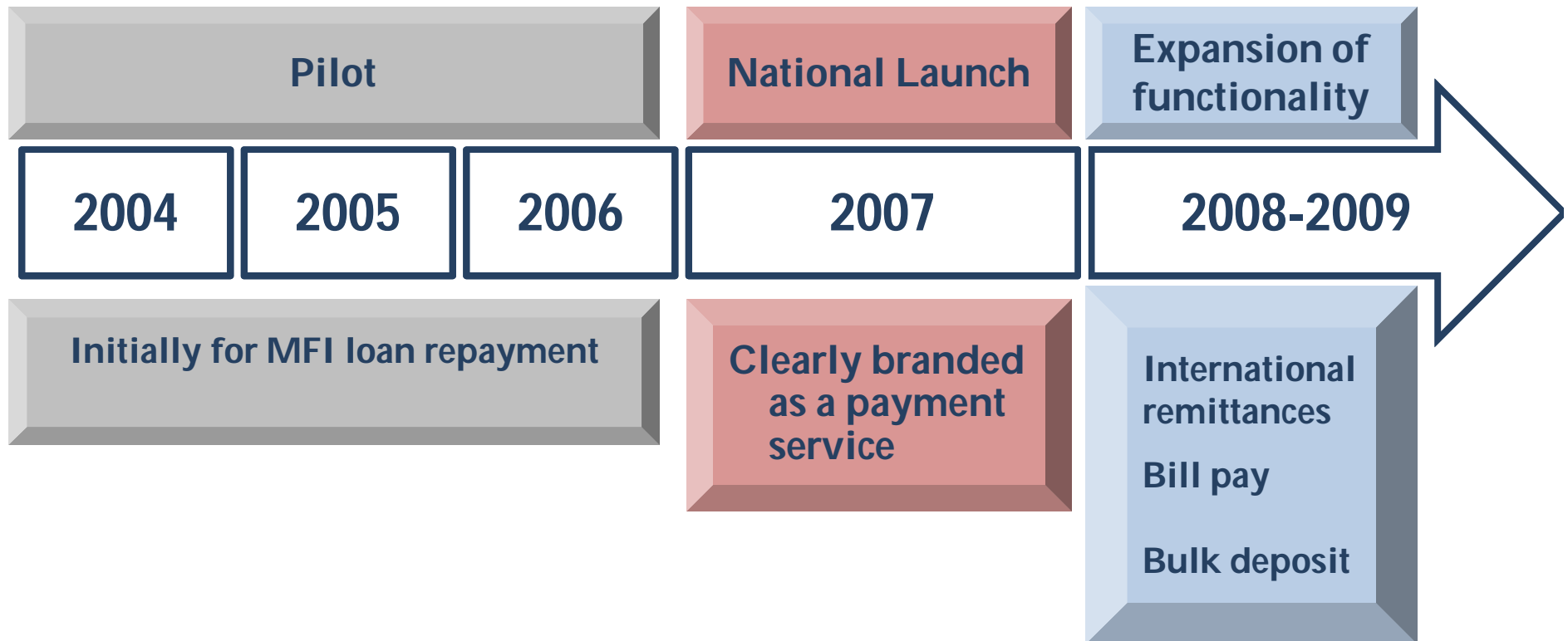


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Evolution of M-Pesa



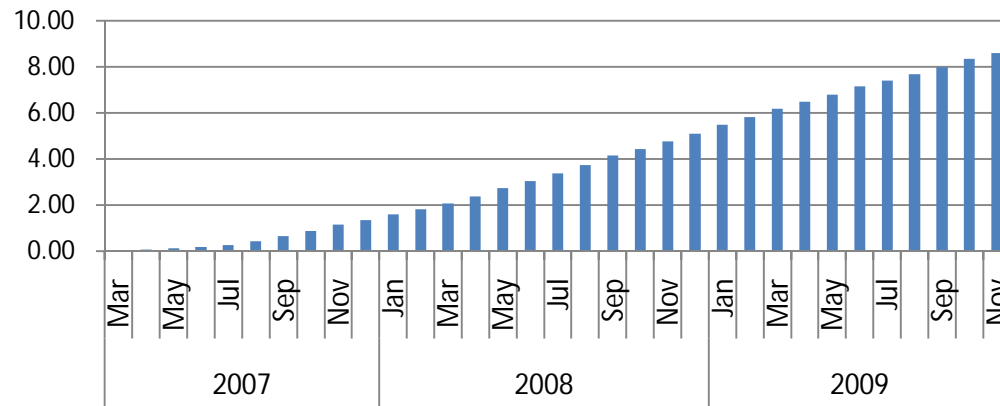
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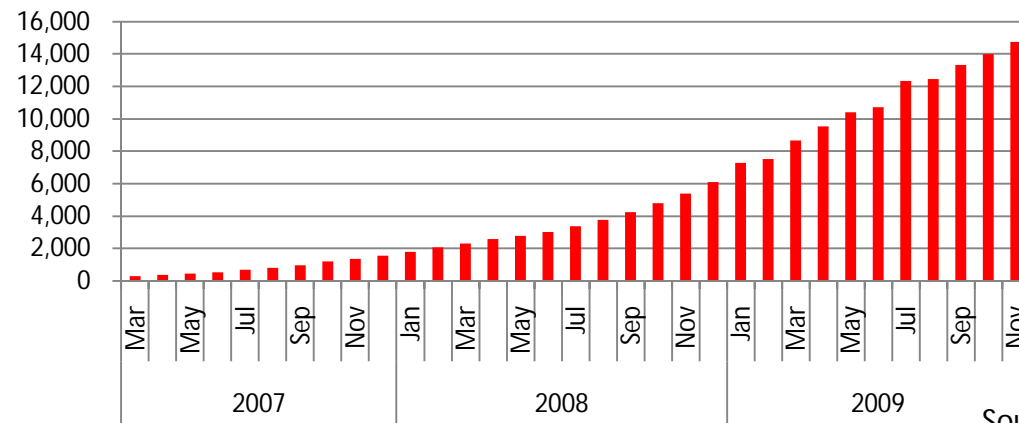
M-PESA: Explosive growth in 33 months...

Growth of M-Pesa
USERS
(millions)



11/2009:
More than 8.5
million
registered
M-Pesa Users

Growth of M-Pesa
AGENTS
(thousands)



11/2009:
Over 14,500
M-Pesa Agents

Source: Mpesa, 2009

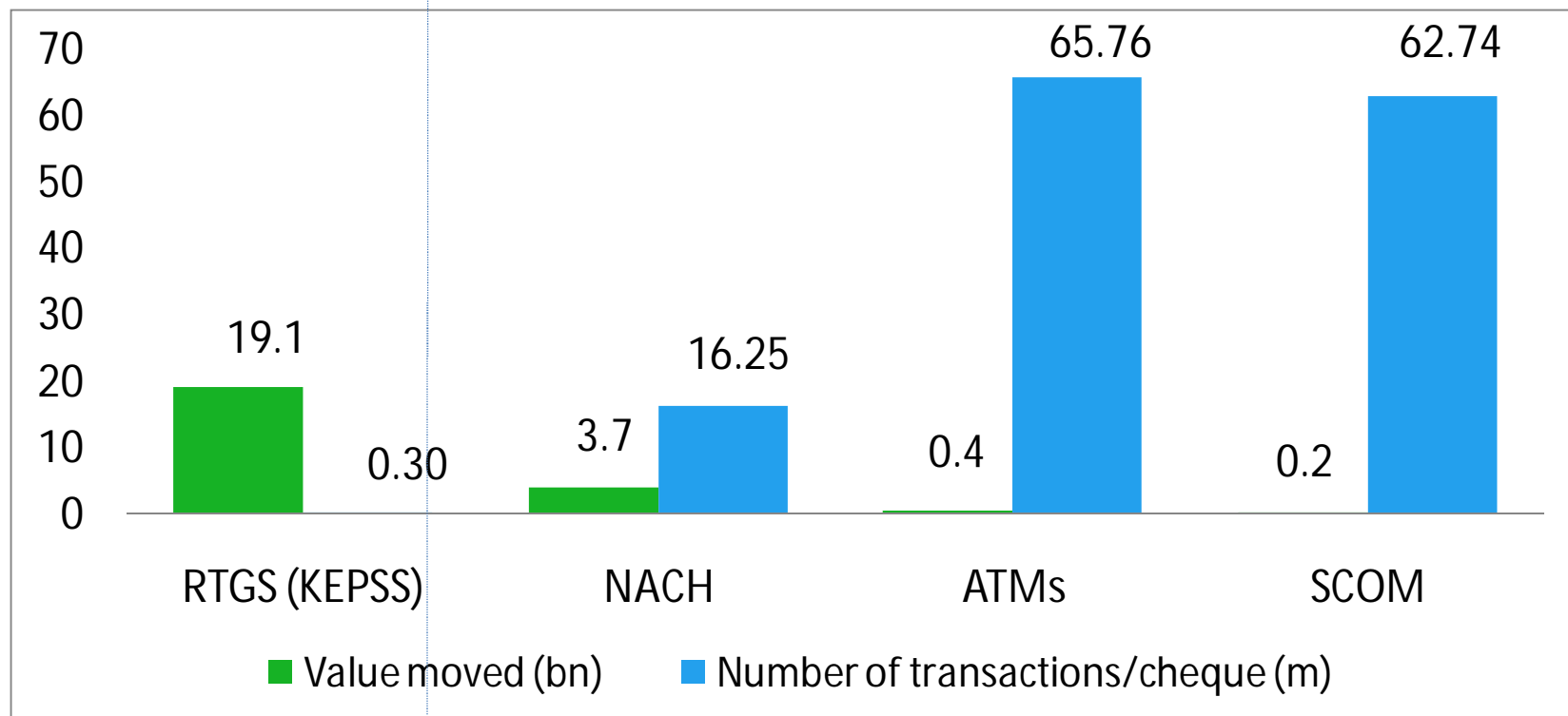
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...however, it is still miniscule in terms of value

Current Kenyan Payment system flows: monthly average (2008)



High value payment systems

Retail payment systems

Source: Mwaura, S (2009)

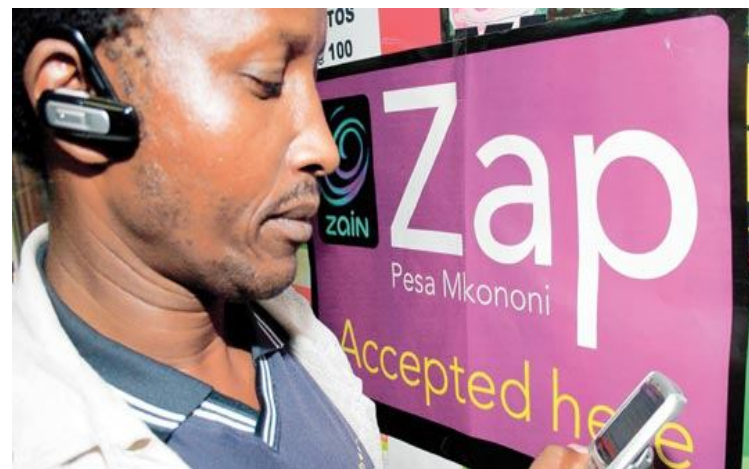
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MOBILE PAYMENTS REGULATORY FRAMEWORK

State of the Market- **Competition**

- ❑ 2007- Soon after launch, competitor MNO launches _____ scheme, which fails to get traction;
- ❑ **Sokotele** second MNO Zain applies for approval for new m-product, **Zap** (substantially similar to M-Pesa; launches in 2009);
- ❑ Yu, Scheme operated by Essar Approved in July 2009;
- ❑ Many applications received from other MNO's and non-bank players to operate a mobile scheme.



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State of the Market- Survey of M-Pesa Users

- 70% of users are already banked
- Blend of uses:
 - 50% send/ receive money
 - 20% store value
- Average user:
 - Male
 - 25-45 year s old
 - Better education
 - 60% of senders urban; slightly more than half of receivers rural
- 90% believed money was safe with M-Pesa
- High satisfaction levels
 - More than 80% said they would worse off without M-Pesa



Source: FSDK presentation (2009) on 2008 survey of 3000 M-Pesa users

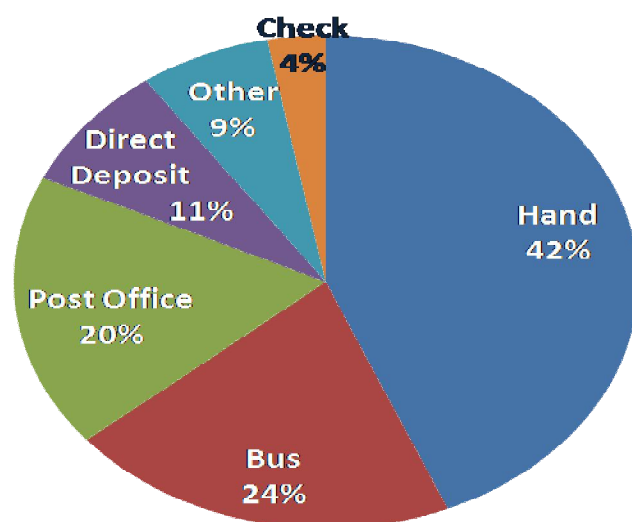
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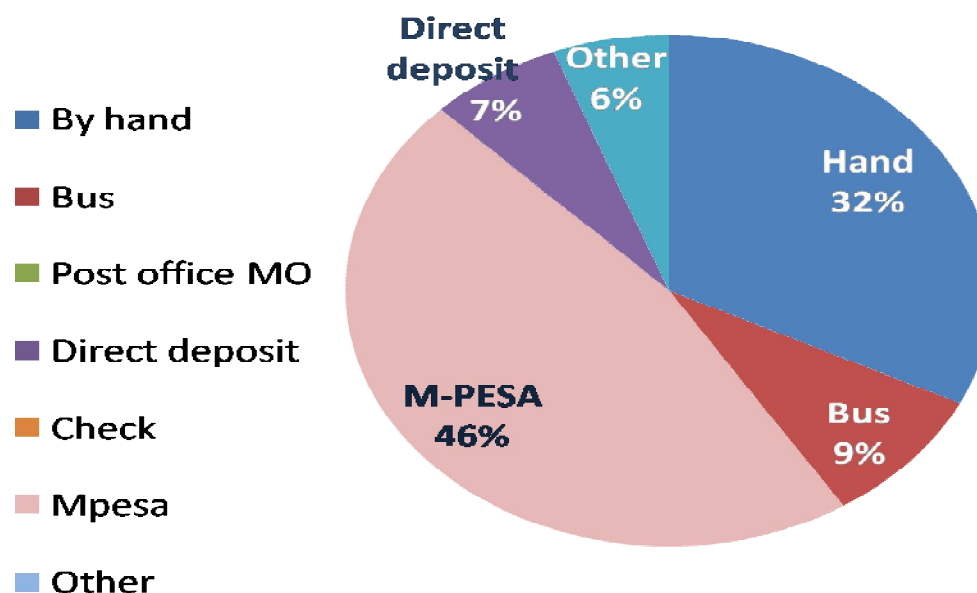
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State of the Market- How Do People Send Money?

Before M-Pesa



After M-Pesa (2008)



Source: FSDK presentation (2009) on 2008 survey of 3000 M-Pesa users

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MOBILE PAYMENTS REGULATORY FRAMEWORK

How does m-payments promote broader policy objectives?

- Broadens access to financial services and promotes wider formal financial inclusion.
 - Kenya had very low levels of formal usage in 2006
- Promotes economic efficiency through reduced transaction costs.
 - Mobile infrastructure is cost effective and flexible to the needs of the population
- Enhances safety, security & efficiency of transactions.
 - Electronic footprint provides better tracking and monitoring of financial activities without the challenges of managing physical cash
- Provides a focal point to assess areas for development in the retail banking system e.g. partnerships and agency banking.
- Positive impact on social & economic growth – employment opportunities.

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MOBILE PAYMENTS REGULATORY FRAMEWORK

Question 1:

How is Kenya's Regulatory context?

Key Questions relating to enabling a mobile money product in Kenya	Current reality (Banks Act/ Central Bank Act)	Proposed changes
Can non-banks issue e-money and/or operate payment systems?	Not Prohibited	Payment system bill which would give this authority is pending
Can banks appoint agents to take deposits?	No	Non-banks not precluded; changes enacted to allow banks
Is taking of cash/ opening of accounts subject to AML control?	Regulations cover banks only	AML/CFT Act Ascented to on 31/12/2009

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Question 2:

What is the risk profile of mobile money?

- **Operational risk**: Providers responsible for managing operational risk through procedures and controls.
- **Anti money laundering**: KYC facilitated by national identity cards, electronic footprint provides audit trail and transaction monitoring is critical .
- **Systemic risk** – Defined threshold limits, volumes and reporting
- **Consumer Protection** – Provider has procedures and capacities to handle and resolve complaints timeously and reports to regulator.
- **Agency risks** – Clear accountability for actions of agents through agent agreements.
- **Insolvency** - Trust account in a regulated institution that is ring fenced from the operations of the service providers, mitigates the risk.

These risks were discussed in detail prior to issuing the letter of no objection to Safaricom

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Question 3:

Whether to regulate at outset?

Did the proposed activity fall under definition of Deposit taking?

NO, because:-

- No intermediation (& no interest paid)
- Funding ring fenced: not available for operations

If not, how should CBK relate to it?

- Presently no direct authority to regulate but intend to bring mobile payments into the regulatory framework under the proposed National Payment Systems Bill and AML/CFT)
- Meanwhile, various conditions set on reporting requirements

Was there demand for it in the market?

- The **Fin Access Survey (2006)** demonstrated that traditional banking channels were not reaching the unbanked
- High demand for access, coupled with inadequacy of traditional channels, was critical in the decision to authorize M-Pesa to launch.

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Question 4:

How to integrate mobile payments into an efficient retail payment ecosystem? Future questions

How to promote appropriate levels of competition?

- How many players can the Kenyan market support at the level of payment instrument provider vs. retail payment system?

How to promote interconnection to other systems?

- Agents are exclusive. Is this efficient or optimal for access?

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Question 5:

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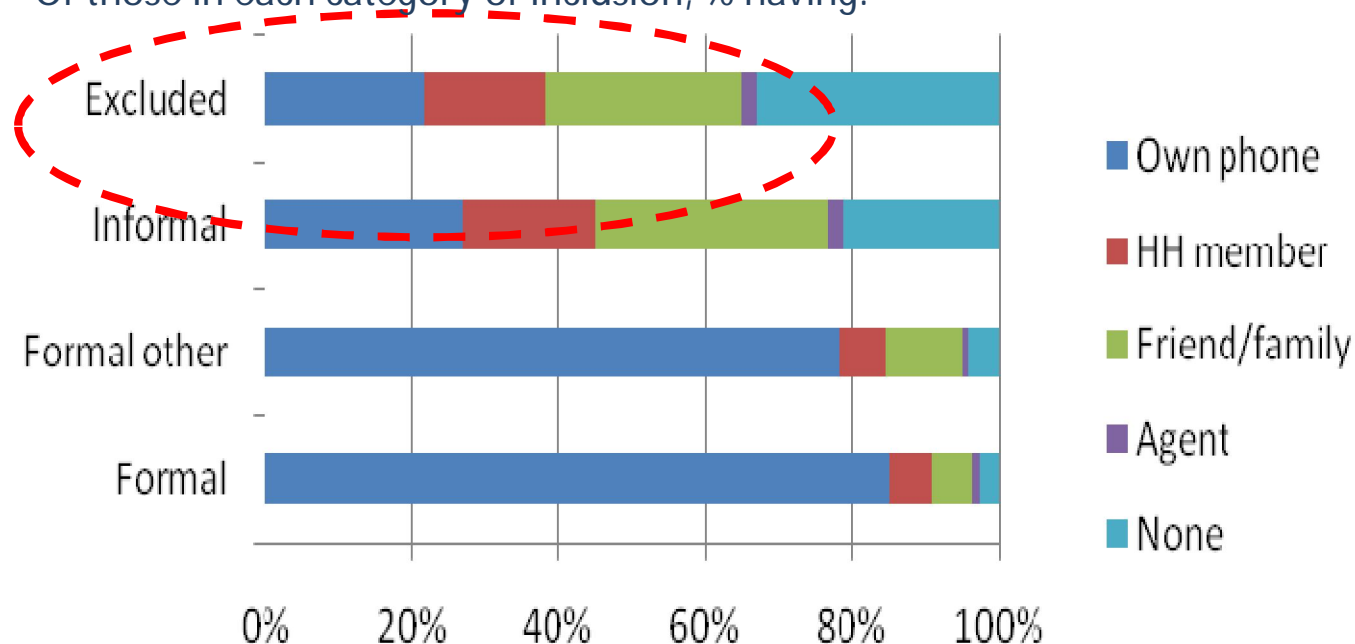
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We have come a long way in a short time, but
there is further to go

There are many financially excluded people who
increasingly have access to mobile technology

Of those in each category of inclusion, % having:



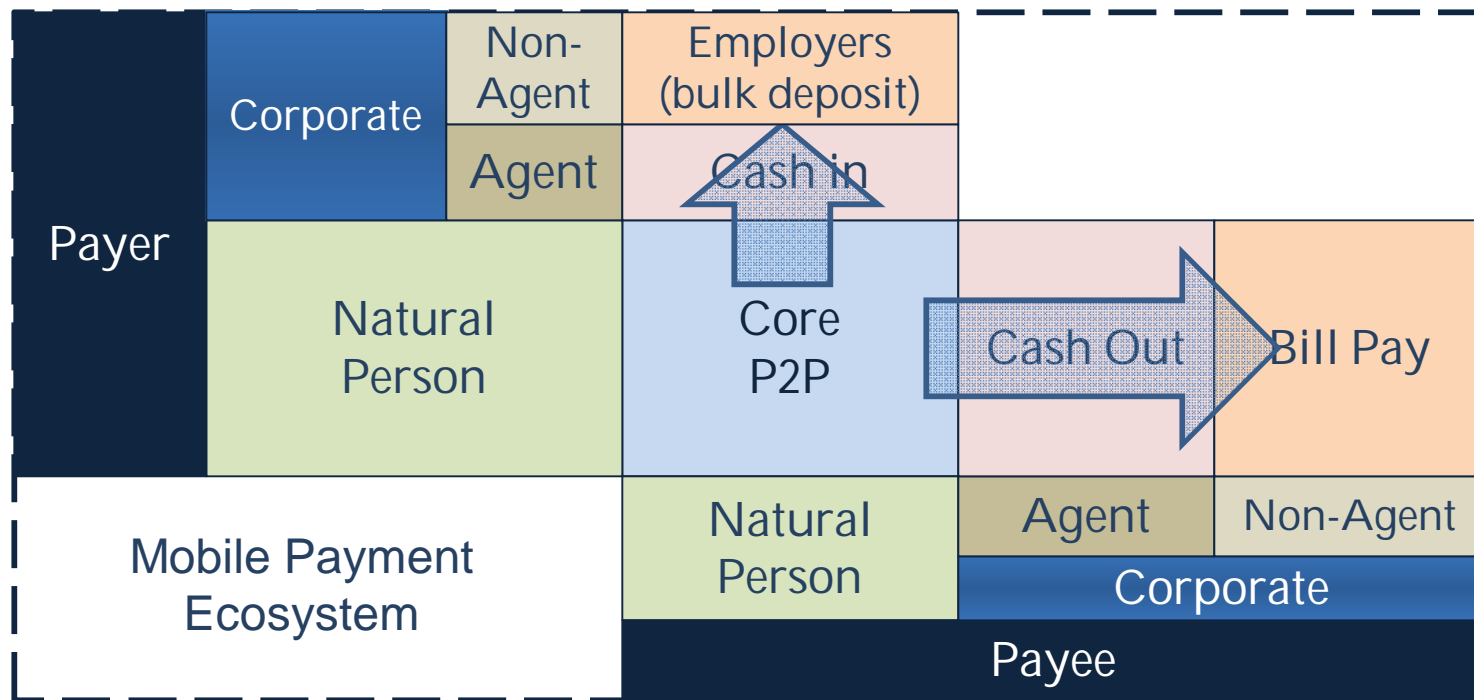
Source: FSD(2009)

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M-Pesa has expanded well beyond its core P2P functionality

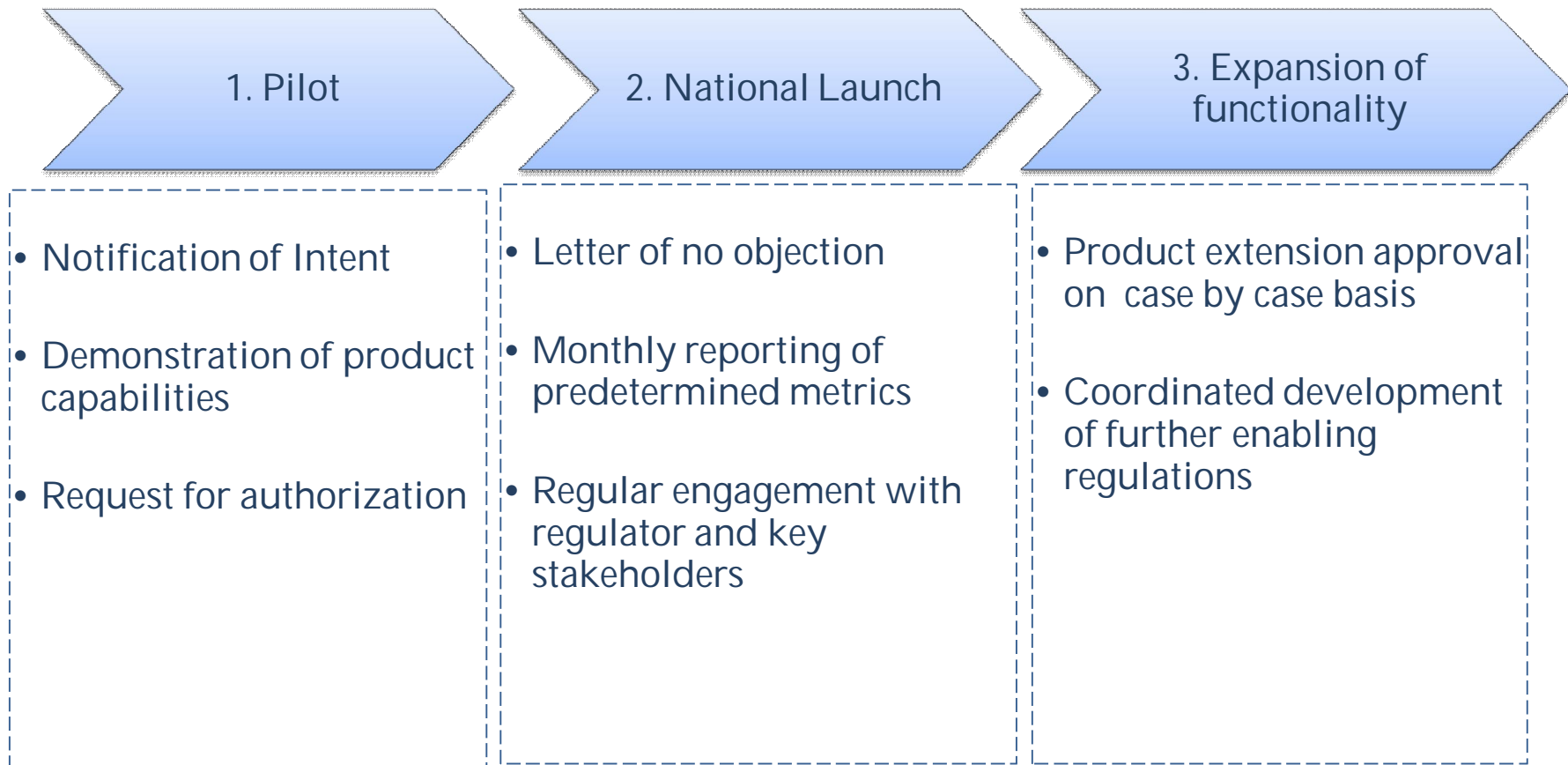


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Engaging with the Regulator



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Leadership through engagement

- An **enabling approach** requires purposeful and continued engagement to understand and facilitate innovations that can improve financial inclusion.
- Regulatory certainty is critical to ensure market confidence in long term investment in broadening financial access
- New legislation (such as the draft NPS Bill and accompanying guidelines/regulations) endeavors to provide the necessary level of certainty and a create level playing field for all financial services



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Proposed Regulatory Framework

- In crafting the new regulatory framework the way forward is to rely on the conceptual differences between:
- **Banking Business:** Generally regarded as deposit taking and lending that raises prudential risks that should be regulated to manage the risks.
- **Electronic money:** Which involves issuance of stored electronic value presents a different level of risk as it does not involve intermediation.
- **Payments:** Which involves the transfer of value. Here the risk of loss is limited to a relatively short window and the need for prudential regulation is limited.

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Thank You



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