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Regulating mobile money: The Case of M-Pesa in Kenya

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Agenda

1. **Context of mobile money in Kenya**
2. How has mobile money evolved?
3. Regulatory questions
4. Conclusions: learning from Kenya



Kenya: Relevant Statistics 2008



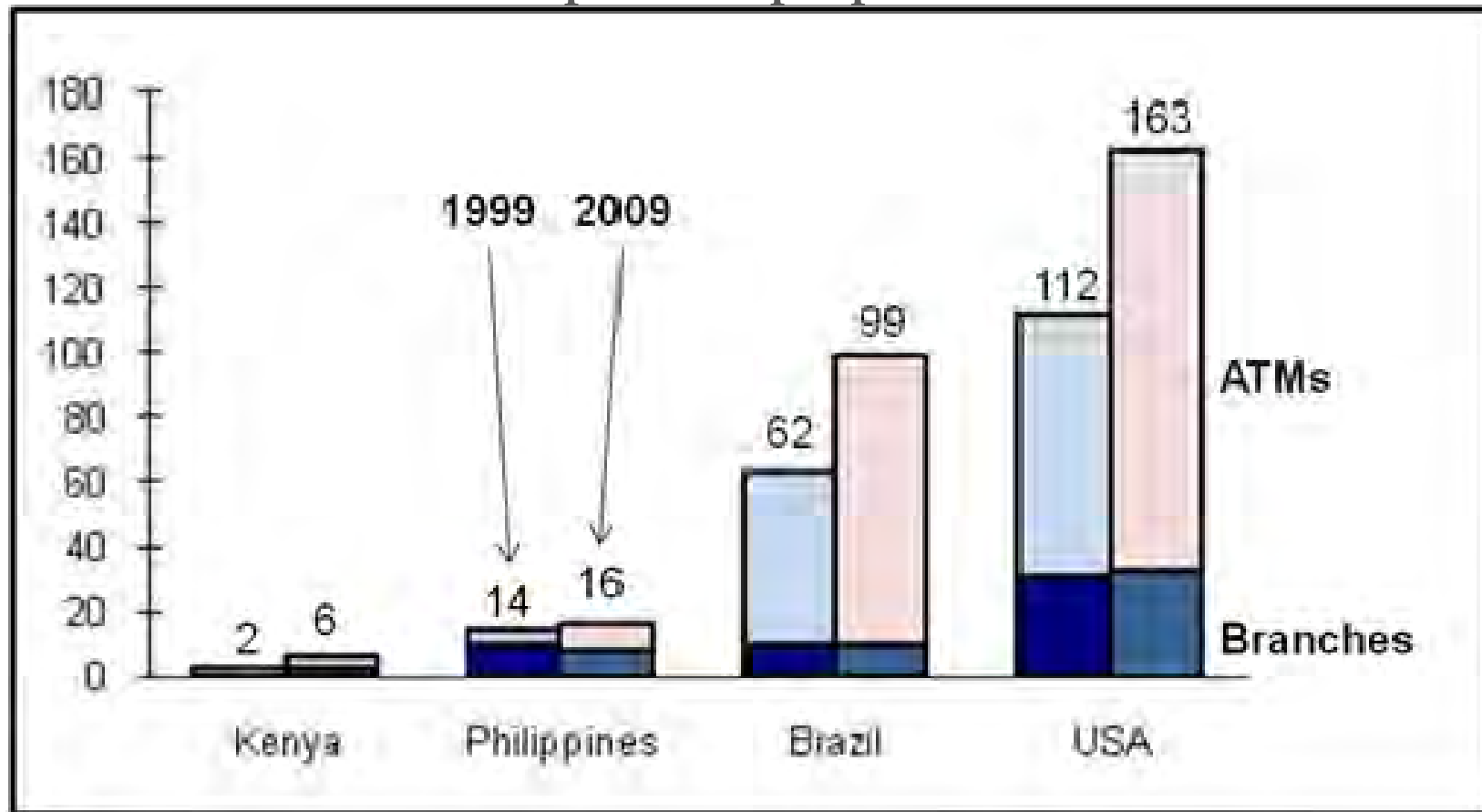
- Mobile Phone Penetration:
80%
- Bank Account Penetration:
21%
- Population: 39,002,772
- GDP per capita: \$1,600
- Rural Population: 78%

Source: CIA Fact book, FSD Kenya



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

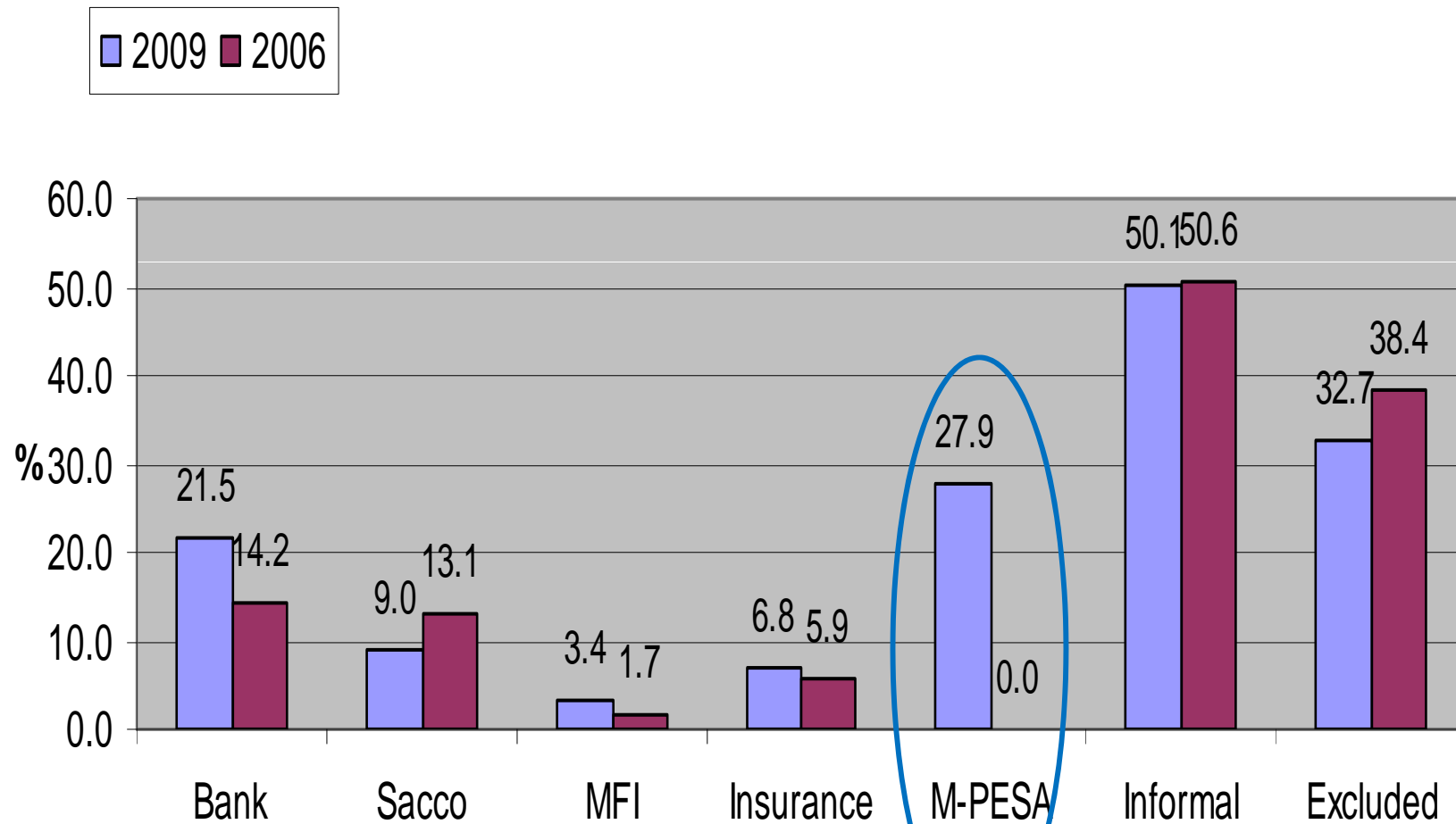
ATMs and branches per 100K people in selected countries



Source: BFA for CGAP/DFID 2009



...and a changing institutional landscape



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



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; change proposed to allow banks
Is taking of cash/ opening of accounts subject to AML control?	Regulations cover banks only	AML/CFT Act Pending which would have broader reach



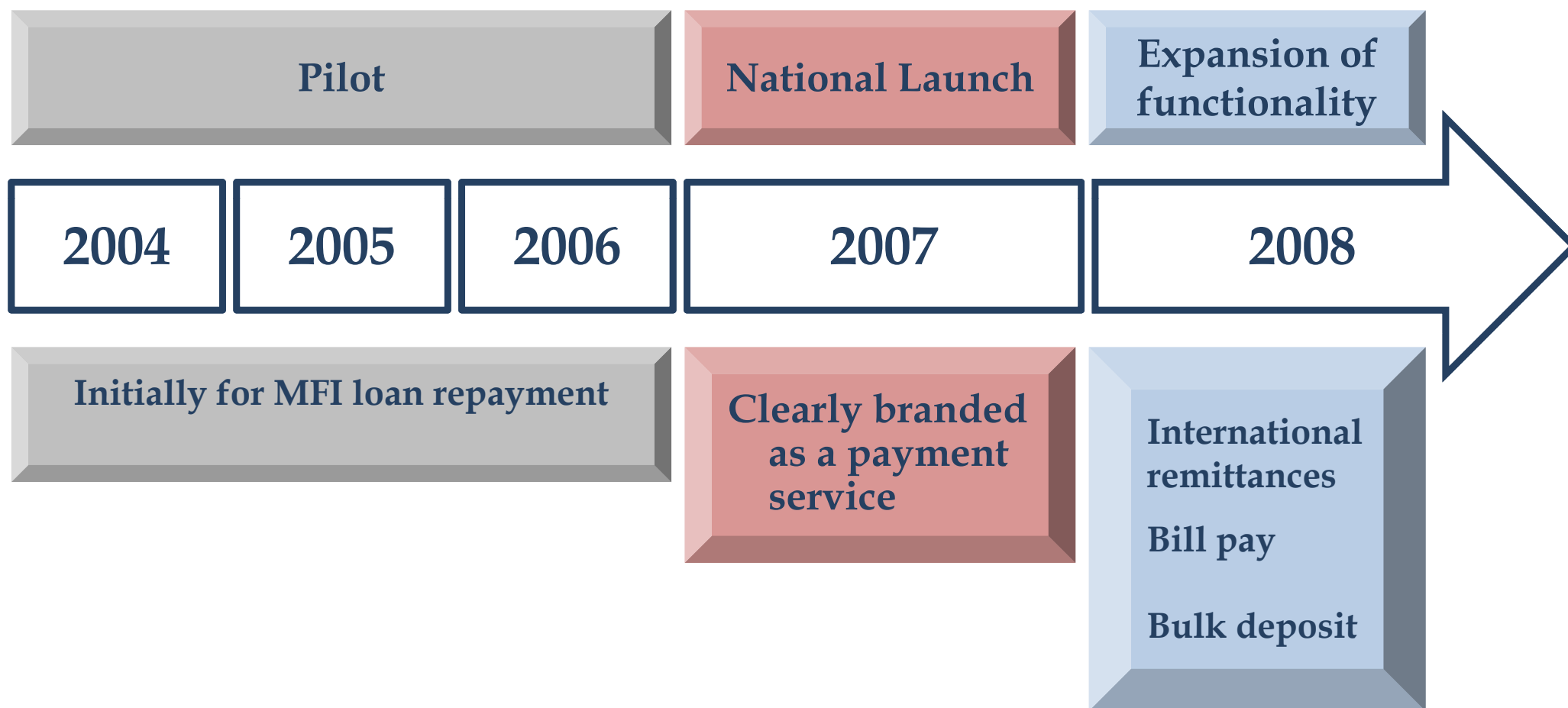


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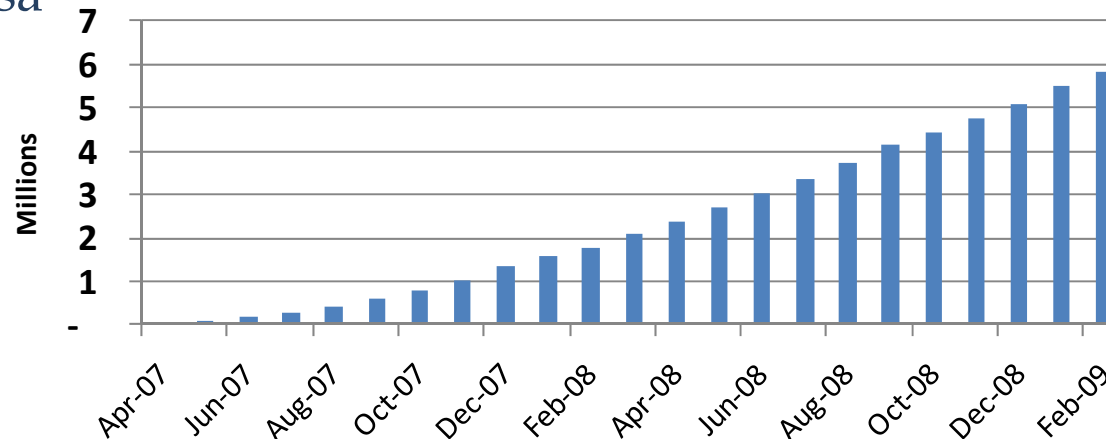


Evolution of M-Pesa



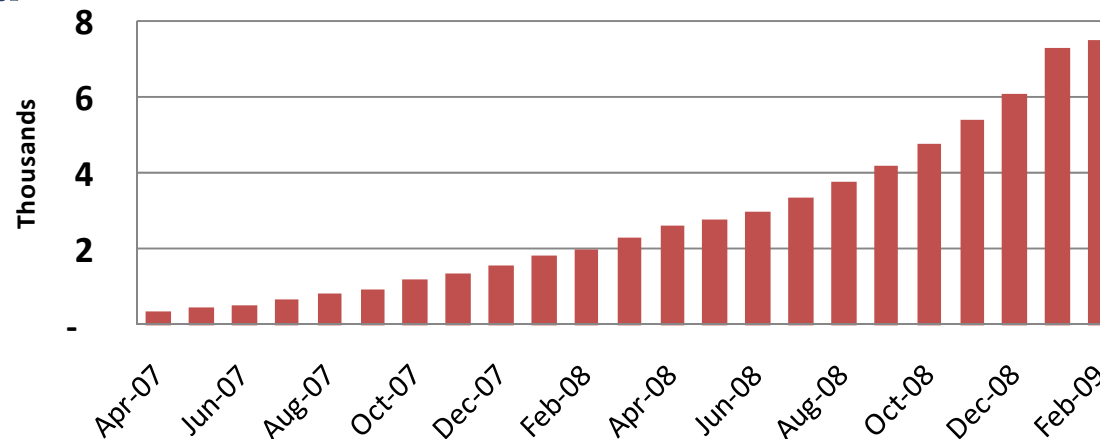
M-PESA: Explosive growth in 24 months...

Growth of M-Pesa
USERS
(millions)



6/2009:
More than 6
million
registered
M-Pesa Users

Growth of M-Pesa
AGENTS
(thousands)



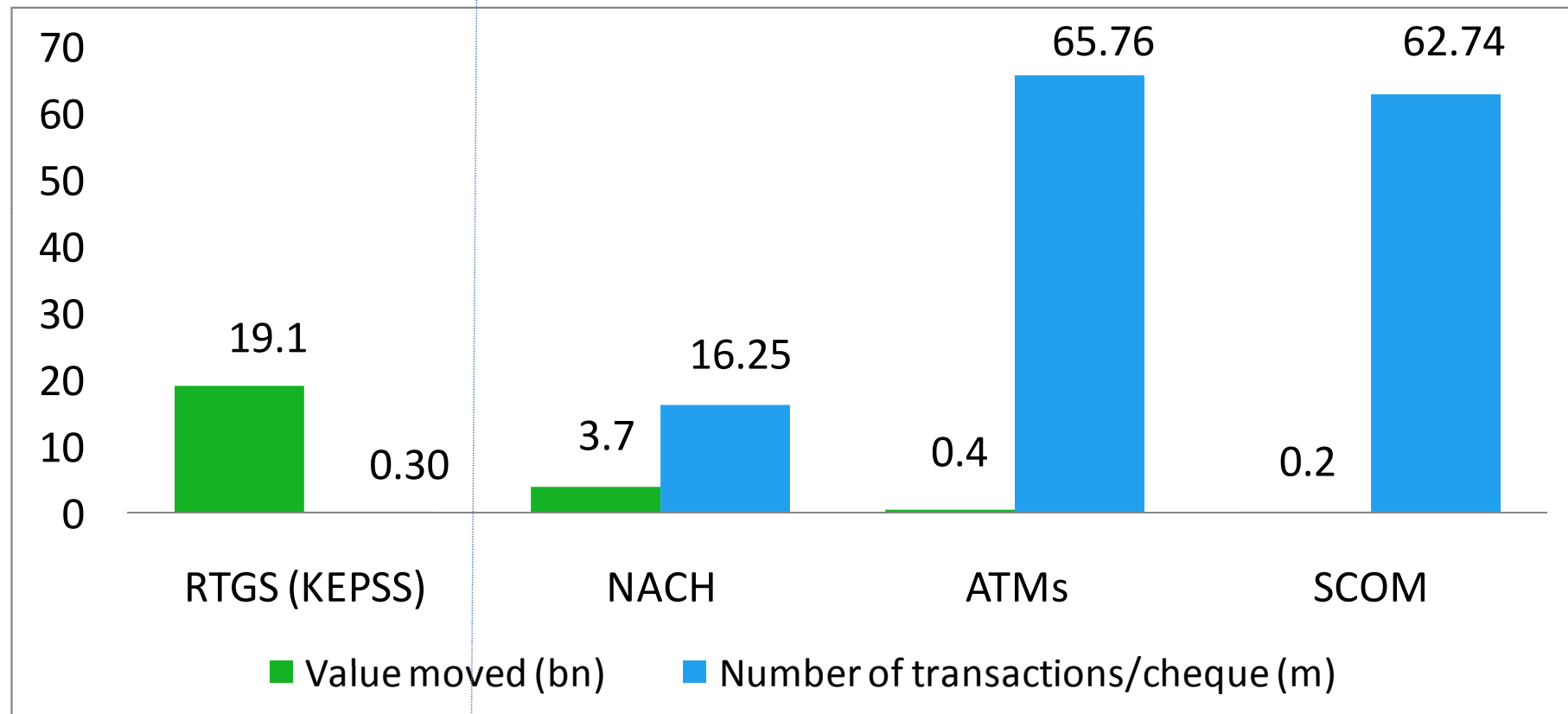
6/2009:
Over 12,000
M-Pesa Agents

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



...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)



State of the Market- **Competition**

- ❑ 2007- Soon after launch, competitor MNO launches **Sokotele** scheme, which fails to get traction
- ❑ Late 2008- second MNO Zain applies for approval for new m-product, **Zap** (substantially similar to M-Pesa; launches in 2009)
- ❑ Many applications received from other MNO's and non-bank players to operate a mobile scheme



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

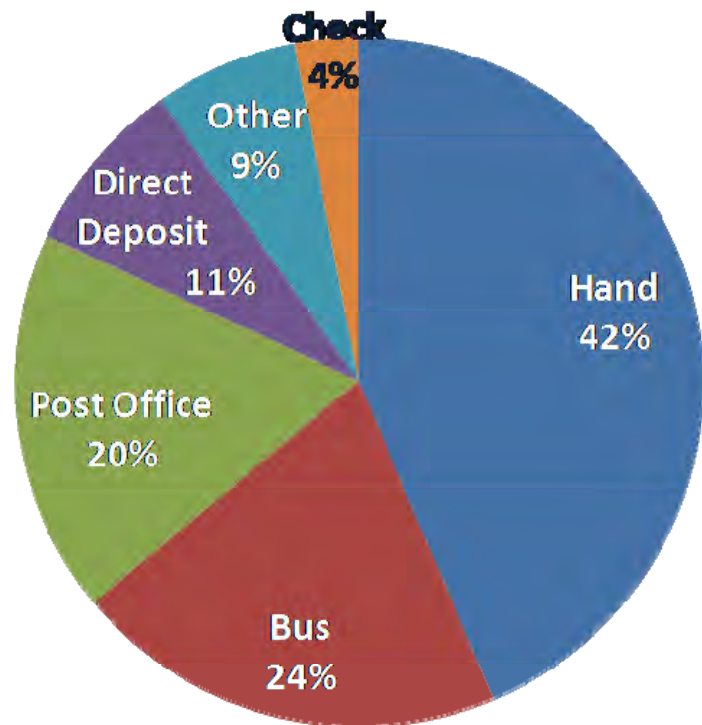


Source: FSDK presentation (2009) on 2008 survey of 3000 M-Pesa users

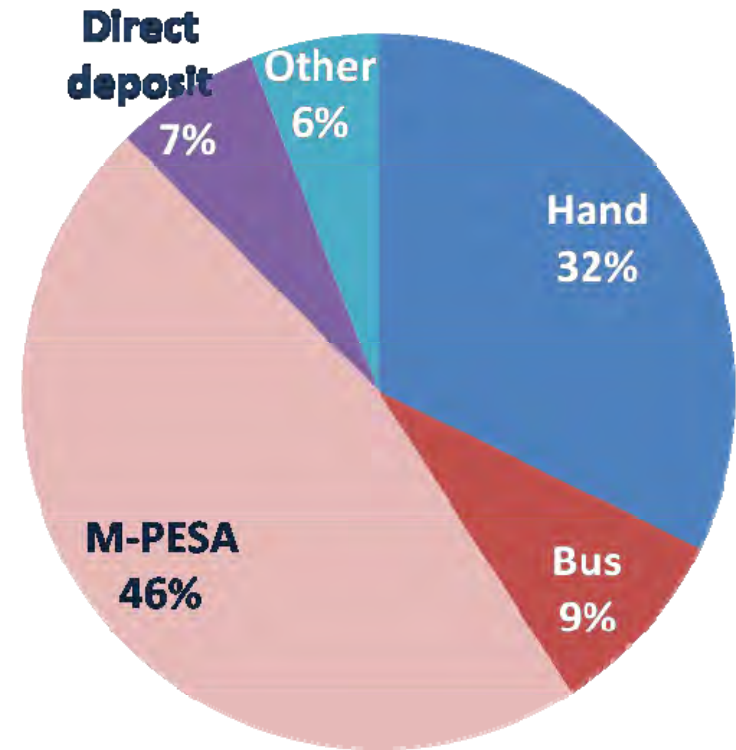


State of the Market- How Do People Send Money?

Before M-Pesa



After M-Pesa (2008)



- By hand
- Bus
- Post office MO
- Direct deposit
- Check
- Mpesa
- Other

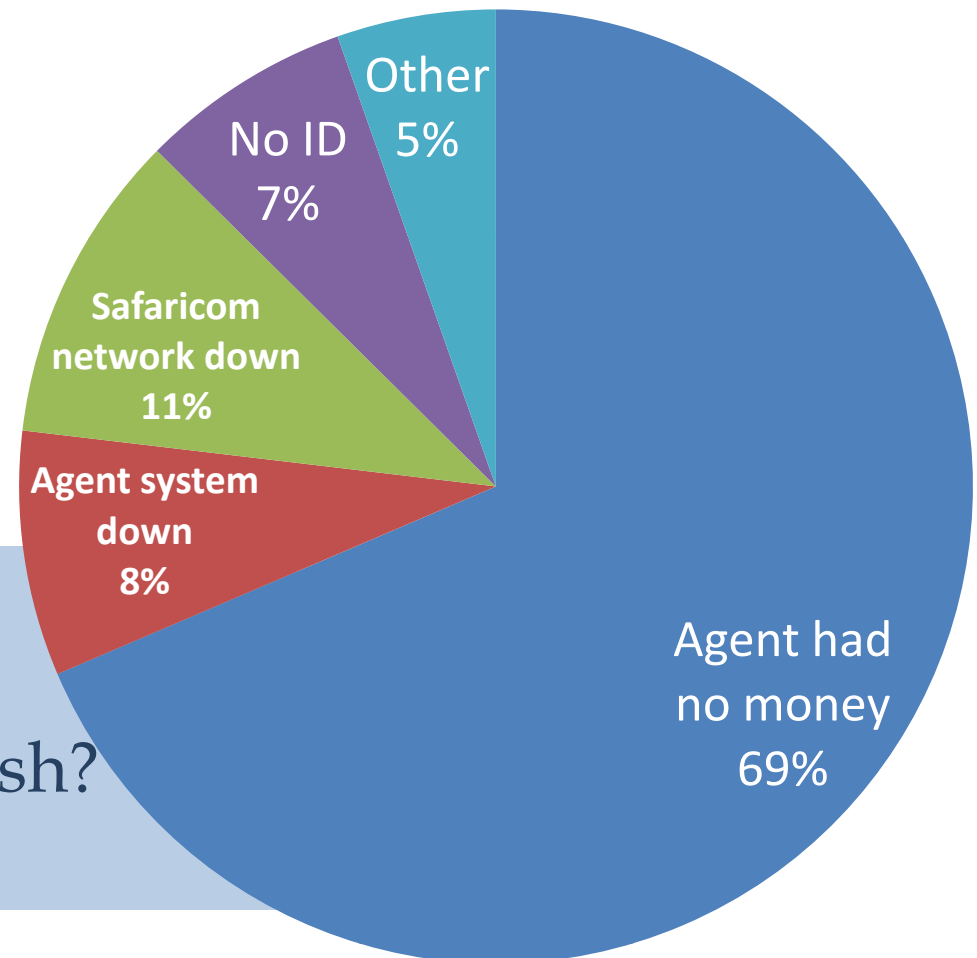
Source: FSDK presentation (2009) on 2008 survey of 3000 M-Pesa users



State of the Market- Agent cash flow is a challenge

- 20% of users report they could not withdraw money from an M-PESA agent
- Nearly 70% because agent lacked funds

Why could you **not** withdraw cash?



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





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How does m-payments promote broader policy objectives?

- Broadens access to financial services
 - Kenya had very low levels of formal usage in 2006
- Leapfrogging access to wider e-banking
 - Mobile infrastructure is cost effective and flexible to the needs of the population
- Enhancement of safety, security & efficiency
 - Electronic footprint provides better tracking and monitoring of financial activities without the challenges of managing physical cash
- Focal point to assess and consider general development issues in the retail banking system
- Positive impact on social & economic growth

Source: Mwaura 2009



What is the risk profile of mobile money?

The CBK identified the following key risk categories that required greater scrutiny due to the nature of the mobile money product.

Operational risk and business continuity arrangements

Money Laundering Risk

System integrity

Insolvency

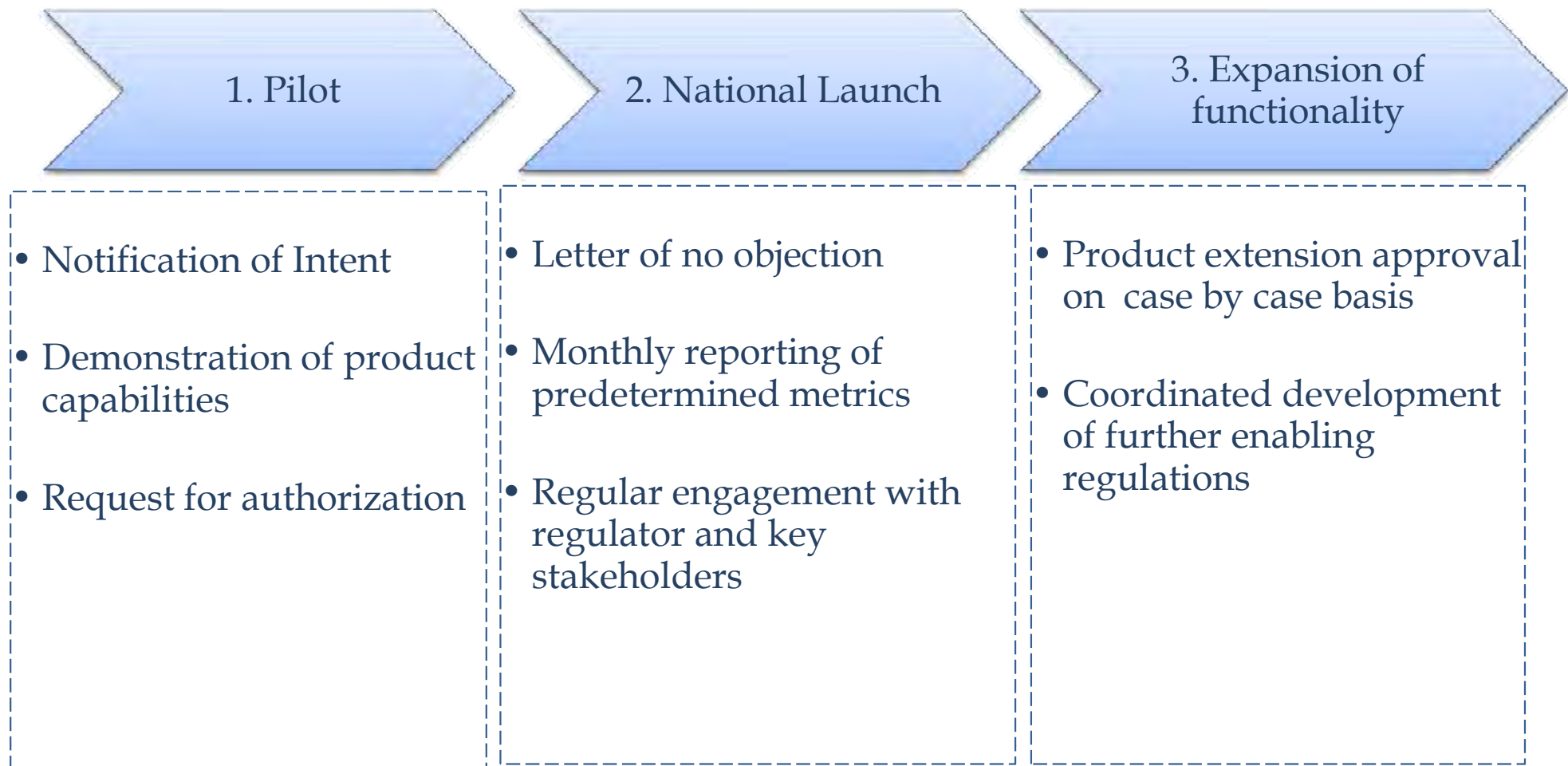
Legal risks

Liquidity

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



Engaging with the Regulator



Question 1: Whether to regulate at outset?

Did the proposed activity fall under definition of Deposit taking?

NO, because:

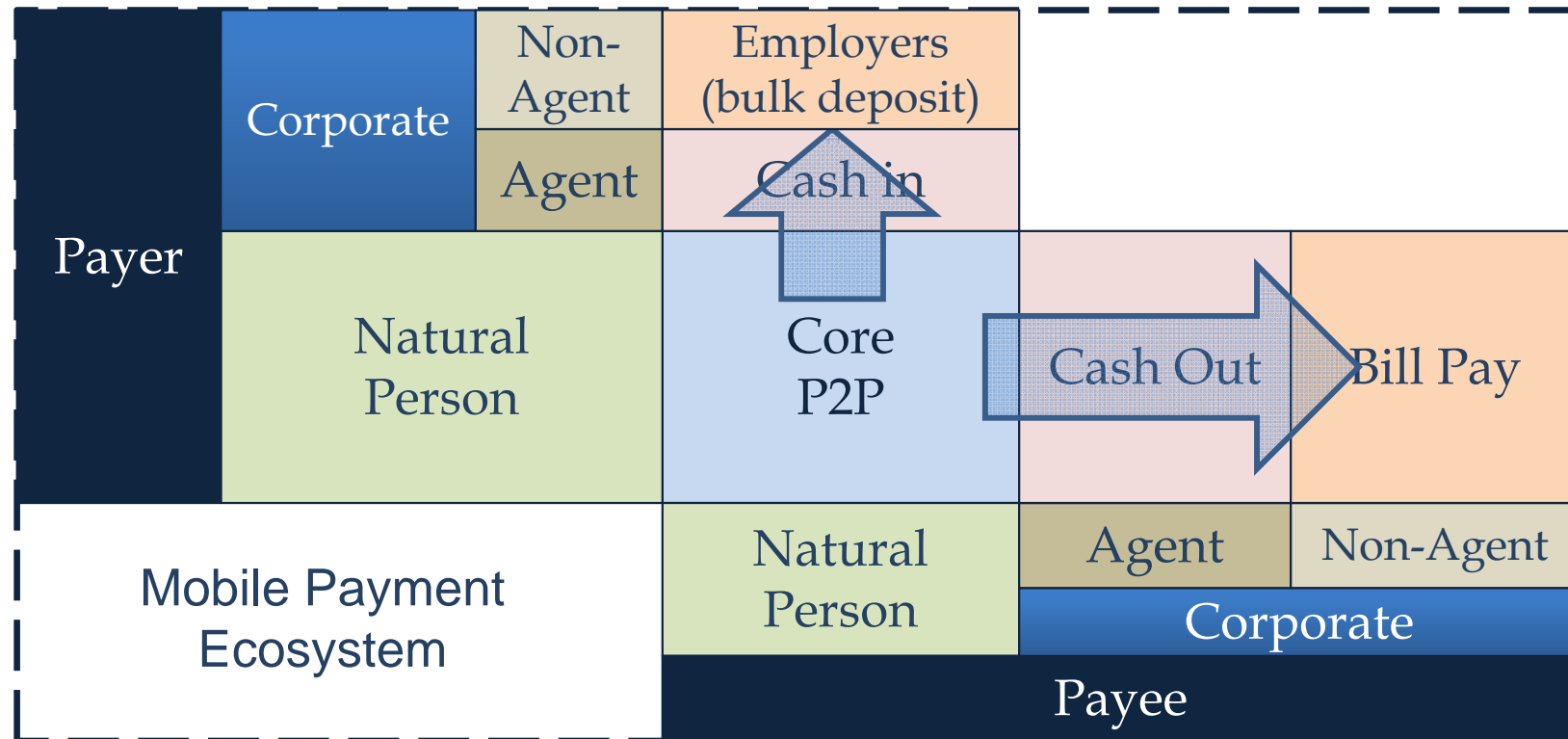
- No intermediation (& no interest paid)
- Funding ring fenced: not available for operations

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 coming acts (e.g. National Payment Bill and AML/CFT)
- Meanwhile, various conditions set



M-Pesa has expanded well beyond its core P2P functionality



Question 2:

How to address ongoing expansion of scheme?

Current questions

How/ whether to treat differently because of reaching system wide proportions?

- Approved as a money transfer scheme but increasingly used as a pervasive retail payment instrument.
- Consequences of denial of service or failure rising for individuals

Current boundary questions arising:

- Can M-Pesa be used to buy goods at a merchant?
No formal provision for merchants to accept, although this happens informally as small businesses accept M-Pesa; and larger businesses take bill pay
- Can banks use M-Pesa to take deposits?
No – this is considered agent deposit taking which is not currently allowed, but under consideration



Question 3:

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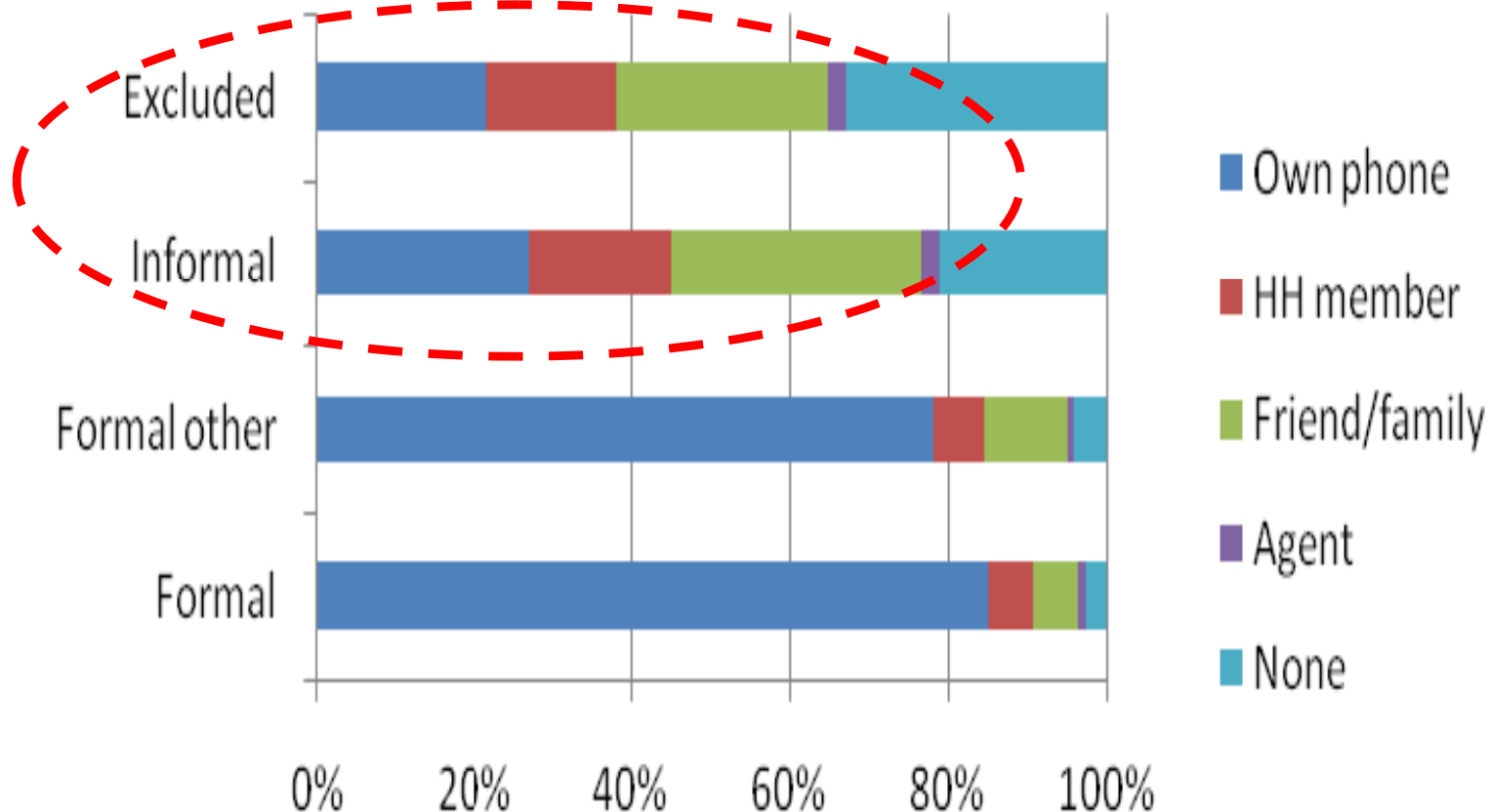
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We have come a long way in a short time, but there is further to go

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

Of those in each category of inclusion, % having:



Source: FSD(2009)



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



Thank You



Annex 1:

How does M-Pesa Work?



Regulating Mobile Money: The Case of M-Pesa



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

08/05/07 – WBZ



How to register...

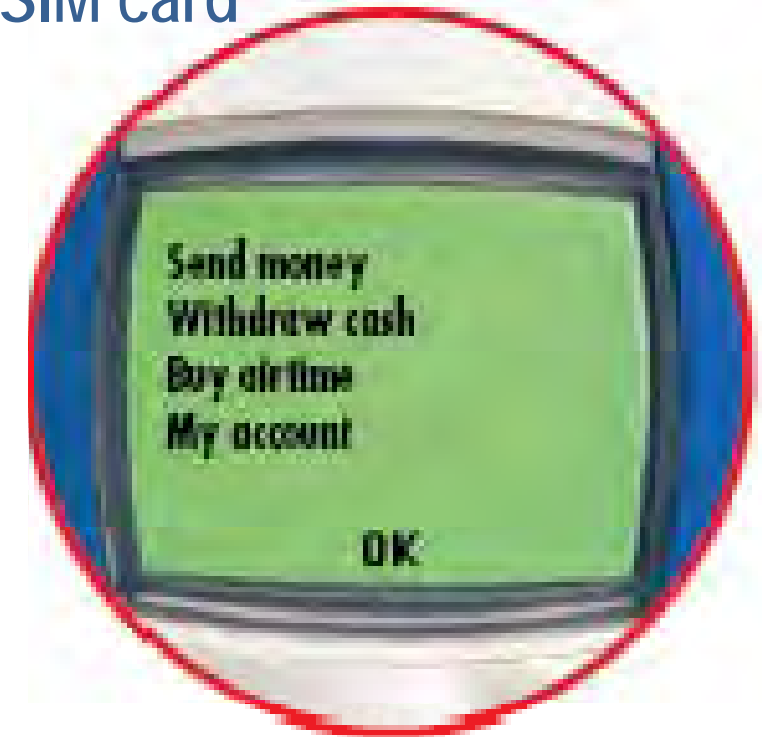
Go to any local Agent to register:

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*

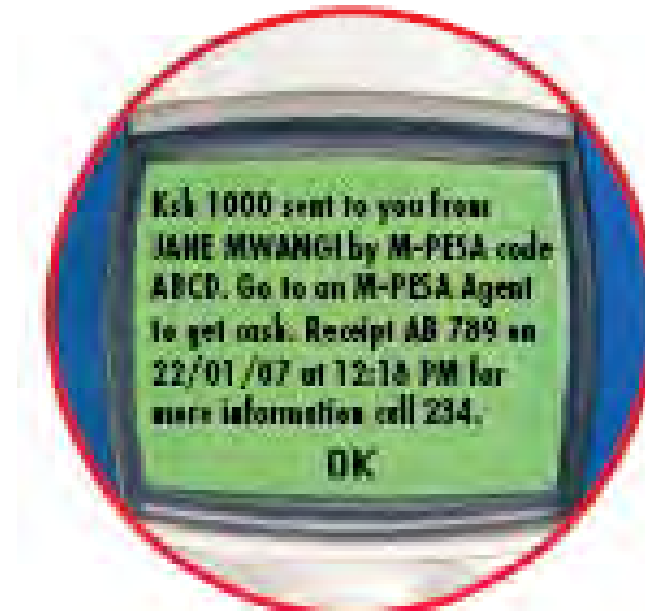
Source: Lonie S (2007) A brief introduction to MPesa



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



Putting the pieces together...

