**KEY NOTE ADDRESS BY THE DIRECTOR GENERAL COMMUNICATIONS AUTHORITY OF KENYA DURING THE WORKSHOP ON DIGITAL FINANCIAL SERVICES AND FINANCIAL INCLUSION AT THE ITU HEADQUARTERS IN GENEVA, SWITZERLAND**

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Distinguished Delegates;

Ladies and gentlemen;

***Introduction***

I feel privileged and greatly humbled for this opportunity to speak at this inaugural workshop on Digital Financial Services and Financial Inclusion. I believe this moment goes further to augment the recognition of my Country’s successful implementation of the Digital mobile Financial Services.

Kenya is internationally re-known as the home to the mobile money transfer service; MPESA being the leading brand. This recognition has earned us international glamour with the big question of; *“How did Kenya do it”?* Our simple answer to this is summarized in our belief that, *the future in ICTs belongs to braveness but not to faint heartedness.* Close to seven years ago,Kenya’s ICT players identified the need to embrace’ financial inclusion as another source of revenue generation. We seized the opportunity to adopt this innovation despite initial skepticism, to implement this innovative idea, which was thereafter closely followed up the roll-out of relevant regulatory frameworks. This has been our journey to the present success story of Digital mobile Financial Service; the story of MPESA, and other emerging competing brands in my country.

***Key Stakeholders in Digital Financial Services***

Growth in mobile financial services can be attributed to the competitive environment created for the innovators and providers of mobile financial services, including a closer collaboration between the ICT and financial regulators. The desire for more revenue streams among the players in the telecommunication industry; the desire to diversify services beyond traditional voice fueled the need for innovating in more value-added services. Traditional banks have joined and further diversified the kind of financial services now being offered through mobile platforms. Customers’ demandfor speed, convenience, availability, mobility and low cost financial services has also significantly influenced the penetration and adoption of mobile financial services by various public and commercial institutions in Kenya. The Policy and regulatory frameworks are being improved to allow for diversification of financial services, improved competition, increased penetration of the supportive infrastructure and risk management to build confidence in the use of this service.

***Digital Financial Services being offered in Kenya***

Presently, the Digital financial services offered in Kenya include mobile money transfer, mobile banking, online banking and agency banking. These services are offered through a collaborative framework between the licensed telecommunications operators in Kenya and various financial institutions and banks that have now joined other players in accelerating access to banking services. Kenya has witnessed competing interests in gaining access to this market through mobile network operators, virtual mobile network operators and the local network of banks. The communications Authority of Kenya and Central Bank Kenya are both collectively providing the regulatory facilitation to the smooth delivery of these services.

What we have witnessed in Kenya is a situation where players are leveraging on the particular strengths to a gain a niche in this market creating tremendous opportunities for more innovative services. Mobile operators for example are gushing on the opportunities of agency networks and their ability to control infrastructure rollout to gain a competitive age over their counterparts in the banking sector. Brick-wall traditional banks are utilizing their various products and services in addition to ease of access to mobile financial platforms to improve on their customer base. Behind the scenes, the two regulators are drawing up on their synergies to ensure this entire ecosystem works within the approved and secure framework. One of the most recent example is the consultative and collaborative efforts the two regulators exhibited when they made a determination on the application of *Thin SIM* for mobile financial services, which was a case that involved two players, one of whom contested against the use of this technology while the other wanted it deployed.

***Why Mobile Financial Services in Kenya***

As previously highlighted, Kenya has been globally recognized as the home to the first mobile money transfer service (MPESA), which is just one among our various mobile financial services brands that exist in Kenya. Launched on 6th March 2007 by the Safaricom Limited, MPESA, which pioneered the mobile financial services in Kenya served mainly the unbanked population, and acted as a means through which the rural and urban poor communities could access various financial services.

The advent of mobile money transfer services led to the rapid growth and access to a variety of mobile financial and banking services, creating immense opportunities for applications in various sectors of Kenya’s economy. The greatest value proposition with the introduction of mobile money transfer services this far, is the availing of affordable mobile money transfer and banking services to large sections of poor community and reducing the financial divide among the rural population that were hitherto marginalized by the conventional commercial banks.

***Business Models and Success Recorded with Digital Financial Services***

Currently, there exists six Operators in Kenya offering mobile financial services namely Safaricom’s – “M-Pesa”; Airtel Networks Kenya Limited’s-“Airtel Money”; Essar Telcoms - “yuCash”, Telkom Kenya’s - “Orange money”, Mobile Pay’s - “Tangaza” and “Mobikash” by Mobikash.

As at 30th June 2014, about 64% i.e. 27 million of Kenyan population was recorded to be using mobile money transfer services compared to about 36% that had used the service by end of June 2010. In addition, Mobile Payments Agency network has rapidly grown from about 31,900 in June 2010 to about 120,800 in June 2014. Over the same period, the total volume of money moved over the mobile payment platform grew from US$653Million to about US$23Billion. This trend of tremendous growth in the access and use of the mobile money transfer and payment services in Kenya underscores the importance of the service in addressing the financial needs of the unbanked community. This growth has further impacted positively on the country’s overall economic growth, thus directly contributing to a recent re-categorization of Kenya’s economic status for the first time ever, being ranked as a *middle-income* economy.

To date, the mobile money transfer service has revolutionized the business landscape in Kenya. The service is now integrated with other payment services, a factor that has not only immensely contributed to the *ease of doing business* but also increased consumers’ convenience. Many innovations have emerged around the mobile payment system such as savings facility (M-Kesho), micro-credit facility (M-Shwari), and utility bill payments (electricity, water, pay-TV, parking fees, shopping and other e-commerce payments just to mention but a few.

The competition landscape has no doubt been equally impacted. Mobile money transfer services have become a key value proposition in acquiring and retaining customers on mobile network platforms, resulting in significant reduction in churn, which is a key parameter for the evolution of market shares. Consequently, due to attractiveness of the mobile payment services to consumers of other telecommunication services, mobile payments significantly differentiates tradition telecommunication services such as voice thereby potentially influencing competition in the market. The requirement for interoperability is essential in ensuring mobile payment ecosystem enhances competition by way of improving the quality of service provisioning and lowering of costs of transacting through this service.

***Regulatory Regime and Regulators Place in Digital Financial Services***

In Kenya, both the Communications Authority of Kenya (CA) and the Central Bank of Kenya (CBK) have concurrent jurisdiction in the regulation of mobile money payment services. While CBK’s role is regulating the financial services platform, the Communications Authority of Kenya licences and regulates the mobile telecommunications platforms upon which mobile financial services ride and also ensures quality and affordable access costs to these platforms. The two regulatory bodies work very closely to promote a stable and conducive environment for digital financial service innovation to thrive and hence contribute to the financial inclusion agenda. The regulators also work with other Government agencies to promote a sound, safe, efficient, innovative and inclusive financial system thus sealing off opportunities for “forum shopping”.

***Challenges from the Kenyan experience***

Ladies and gentlemen, our success has not been without challenges. There are various concerns surrounding digital financial services. Firstly, innovation often outsmarts regulation, thus it is up to the policy makers and regulatory agencies to create an environment that supports innovative applications and to adjust regulation to evolving innovation. Secondly, the challenges brought about by technology used for mobile financial services poses serious regulatory challenges to both telecommunications and financial regulators. This was recently experienced in Kenya when one MNO opposed the application of *Thin SIM technology* to offer mobile money services. Thirdly, there is need to ensure that evolving systems serve the broader objectives of socio-economic growth and development as well as protect consumer interests, while creating an environment that encourages and rewards innovation. Fourthly, there are cyber-security threats to financial transactions via digital platforms from illegal activities such as Money Laundering and frauds. Lastly, there are still traceability difficulties when offering micro-credit loan and insurance services to consumers via mobile financial platforms. These have resulted into many people lacking full confidence in the security of using online platforms for such transactions.

***Conclusion and Way-forward***

As I conclude, I wish to point out that due to information Asymmetry, stakeholders and more specifically regulators may not have capacity to anticipate new innovations especially from the digital financial service ecosystem in the near and distant future. However, from Kenya’s experience, we foresee the potential of increased convergence of digital mobile financial services especially between telecommunications companies, banks and micro-finance institutions.

For the reason I have outlined, the creation of an ***enabling environment for the sustainable growth*** of digital financial services is paramount for the successful growth of this service. This involves collaborative approaches by all stakeholders in designing a balanced regulatory framework that both ***supports innovation and mitigates risks,*** which may threaten progressive development for such services.

Finally, I am confident that this initiative to have a Focus Group on Digital Financial Services is a positive step towards the right direction that would spur the enabling role of ICTs in meeting the global goal of financial inclusion.

Thank you.