

Kenya's Draft National Payments System Vision and Strategy 2021-2025

David Cracknell



Picture Credit: Creative Commons

The Central Bank of Kenya (CBK) launched a draft National Payment System Vision and Strategy 2021-2025, for public consultation. Comments are to be delivered by 21st of January 2021. The purpose of this blog is to highlight this important document. Once finalised the National Payment System Vision and Strategy 2021-2025 will be an important reference beyond Kenya.

One of the first and most notable differences about the national payments system strategy – is that it includes a vision. The vision – “to enhance Kenya’s global leadership in digital payments by building a world-class, secure, resilient and collaborative payments system that powers Kenya’s economy and its journey to cash lite”. The strategy is based on five principles, trust, security, usefulness, choice, and innovation. A vision is important – the strategy is for five years 2021-2025, but payments and digital finance is evolving so fast that the principles are likely to become the key reference in guiding CBK choices in later years.

The strategy is divided into sections, after an executive summary and introduction, the context section is interesting, as it provides a succinct overview of how payments and payment instruments have been evolving in Kenya, section 3.6 shows significant declines in currency in circulation and cheque values since 2010, and the growth in card-based POS transactions, in bank to bank transfers and in Real Time Gross Settlement (RTGS) transactions. However, the largest growth is in mobile money transactions. The picture is known and understood – but it is particularly well presented and will become a point of reference. Payments are presented in an international context and in relation to existing and emerging global standards including PCI-DSS, G20 high level principles on financial inclusion, the FATF standards and the Maya Declaration and the Bali principles.

With the national and international contexts established, section 4 moves into vision statement, principles, and strategic objectives. The four strategic objectives are given as:

- 1) To facilitate payment systems that meet the diverse needs of users and supports the country's development agenda,
- 2) To ensure payment systems are secure through influencing industry and global standards and adopting safe technologies,
- 3) To power an ecosystem based on collaboration leading to launch of premier and global competitive innovations, and
- 4) To implement a supportive policy, legal and regulatory framework that is firmly enforced across all existing and emerging players.

After this the document moves to elaborating the vision through the five principles. Each principle is discussed through the perspectives of customers, businesses, payment industry participants, and the government and then strategic initiatives based on this principle are provided. This organisation is interesting and intuitive. More importantly, it reveals how the CBK intends to operationalise the principles.

Trust

Under trust the strategic initiatives include: to adopt relevant global standards, encourage integration of digital identity, protect digital payment users, protect payments data and privacy, enhance consumer awareness among digital payment users and facilitate effective pricing standards and practices.

My comments Emerging issues around identity go beyond the CBK's position in the payments' strategy, which relate to eKYC, AML and CFT. These issues relate to using payment and big data to create 'digital identities' which go far beyond biometrics and the ownership and use of this information. Secondly under trust – I would like to have explicit reference to the issue of 'informed consent' where providers must ensure that customers understand, as far as possible, the contracts they are making. The section on pricing is worth highlighting – the CBK wishes pricing is aligned to principles of customer centricity, transparency and disclosure, fairness and equity, choice and competition and affordability. Potentially this signals a more interventionist approach by the Central Bank, time will tell. However, as a principle I feel its important that there is a distinction between 'pricing the rails' that everyone uses (which should be inexpensive) and 'pricing services' which are built on those rails (which should be subject to competition). It is also important to recognise that the 'rails' include basic M-Pesa transactions, but of course Safaricom has invested significantly in creating these rails. It is not going to be easy to create the right balance.

Security

Under security the strategy recognises challenges for consumers, businesses, payment industry participants, and government at high level. Initiatives are to adopt common security standards, create robust security reporting, enhance security data analytics, and facilitate cooperation on complaints resolution.

My comments: The analysis in this section is very high-level, perhaps not wanting to highlight weaknesses in the existing system, but possibly reflecting the nature of the research methodology. However, whilst I very much agree with the direction of the CBK policy – I would suggest that it places more emphasis on interagency cooperation on security to include other regulators and government bodies. In my view this is essential. The CBK regulates payments, but it does not regulate all entities in the chain of payments, meaning the system itself can contain vulnerabilities introduced through other actors. This could include for example, regulated and non-regulated SACCOs, and government departments.

Usefulness

Usefulness according to the CBK means that payment needs are met in an affordable, or cost-effective manner. It was noted that trust and usefulness converge for many users. The documents note that specific users have

different payment needs, for SME users it is about retaining customers and providing a competitive edge for larger businesses – its about the security of payments. Under the usefulness section, there is an informative section on the challenges faced by consumers, businesses, payment industry participants and government agencies. Generally, challenges revolve around downtime, interoperability, costs, financial education for consumers and downtime, time, and process for businesses. For payment industry participants low returns are noted and the presence of many closed loop solutions. For the government – its about integration, interoperability, downtime, and identity.

Strategic initiatives include enhancing interoperability, facilitating efficient and effective clearing, adopting common standards, improving interchange fee arrangements, improving efficiency of real time gross and cross border payments, encouraging government digital payments, boosting regional and cross border payments, review universal agents and promote accessibility to marginalised groups.

My comments: The analysis around usefulness challenges suggests opportunities for use cases which can integrated through payment service providers to improve user experiences at customer, business, and government level. There is a fundamental challenge on the viability of payment service providers and payment based fintech companies, which the strategy suggests but does not elaborate upon at this point. Payments require volume to be sustainable, consumers require low prices to be willing to use the payment option. To achieve both high volume and low price – implies scale, particularly when investments in security infrastructure and standards are included. Scale, itself can lead to abuses of market position. The document includes the recognition of digital financial exclusion and the need to promote accessibility in marginalised populations. The strategy does not elaborate on how this is to be achieved, but it is a commitment which the Central Bank should be held to account for as we move forward. I am happy to help.

Choice

A competitive market provides choice at a price which is viable for investors. The strategy highlights the importance of competition, but also the fact that the payments infrastructure may of itself limit choice for regulatory reasons. In these areas of ‘public good’ the “key aim of the Central Bank will be effective oversight to ensure that lack of choice does not lead to overpricing in these segments or exploitation”.

The market analysis around choice raises important issues for consumers, businesses and governments related to market concentration, costs, high interchange fees set by participants, lack of interoperability in some areas. In terms of payment industry participants, the lack of open and secure APIs, lack of payment system participation from non-banks and the complexity of on-boarding for different payment platforms are noted. Strategies include fostering effective competition, pricing principles, and switching, open standardised and secure APIs and encouraging market entry acknowledges specific challenges, for example, access to the payment system for SACCOs and potential solutions, fintech based secure APIs.

My comments: An in-depth study I conducted with SASRA on shared services, supports the need for improved access to the payment system for SACCOs. Its probable that this would be achieved through outsourcing. Outsourcing and Banking as a Service (BaaS) will become increasingly important in financial services. Guidelines may be required here. The commitment to open APIs is important – it provides the rails for open data. The CBK commits to risk management frameworks and standards including on liability and consumer protection.

Innovation

Kenya is seen as an innovation hub, one of the centres of financial technology in Africa. However, the market analysis showed considerable challenges for consumers, businesses, participants, and government. The usefulness of this section may be to promote use cases against these challenges, as much as it is to create specific policy responses. To stimulate innovation – the strategy proposes – open but secure API standards, regulatory support for innovation (the continuance of test and learn), expanding innovation in government and global influence and learning.

My comments: Rightly, Kenya is seen as a world leader in the mobile payments space, and a centre of financial innovation in Africa. The CBK recognises this explicitly in the ‘innovation principle.’ The points raised are fine in the context of payment innovation.

Other Sections

The remaining sections are on regulatory approach, implementation approach and a conclusion. I have not commented on these. However, in the annex it notes the stakeholders engaged. Whilst the coverage is impressive, I would have liked to have seen participation from SASRA and more than one SACCO consulted.

Collateral Issues

Financial sector innovation goes significantly beyond the payments system. I would like to see the CBK have a consultative process with the Government of Kenya, key ministries such as the ICT ministry around a financial sector innovation policy. This would build on earlier work including the Digital Kenya strategy¹, and the digital finance policy paper. However, it would add emphasis on supporting and building the supply side – the fintech ecosystem. Such an innovation policy could help to enshrine – sandbox, test and learn operating principles, accessibility to policy makers, incentives for innovation labs and hubs, and learning from and contributing to best practices worldwide.

The policy makes no reference to Central Bank Digital Currency (CBDC). Let us be clear CBDC is not sanctioning bitcoin, rather it is a state sanctioned digital currency which incorporates many of the advantages of bitcoin, and controls for significant cypto-currency issues.

Emerging issues related to digital financial exclusion, the ownership of digital identity – including ‘big data’ identity beyond biometrics, and informed consent can be addressed in part through the implementation of the payment strategy but raise concerns beyond payments.

In Conclusion

This National Payments Systems Vision and Strategy 2021-2025 is an important document. I commend Governor Patrick Njoroge and his team for the consultative process which invites comments on the strategy. In submitting comments on the strategy there is a process to follow so please do download the draft strategy and feedback form on: <https://bit.ly/3bfczUq> - be sure to get your comments in to the Central Bank by the 21st of January 2021.

This blog is one of a series of blogs, should you wish to sign up to receive additional blogs, please write to David Cracknell at david@firstprinciples.consulting

David Cracknell is the Director of First Principles Consulting Limited, based in Nairobi, Kenya. He advises financial institutions, governments, policy makers and donors on financial services, including digital finance, policy and regulation, and inclusive finance.

¹ Government of Kenya (2019), “Digital Economy Blueprint” <https://bit.ly/35wf2WK>



42 RIVERSIDE DRIVE
NAIROBI
BOX 76436 - 00508
KENYA
+254-733-713380

DAVIDJCRACKNELL
DAVID@FIRSTPRINCIPLES.CONSULTING
@DAVIDJCRACKNELL
WWW.FIRSTPRINCIPLESINFINANCE.COM