



Central Bank of Kenya

Kenya Experiences – Oversight Assessments

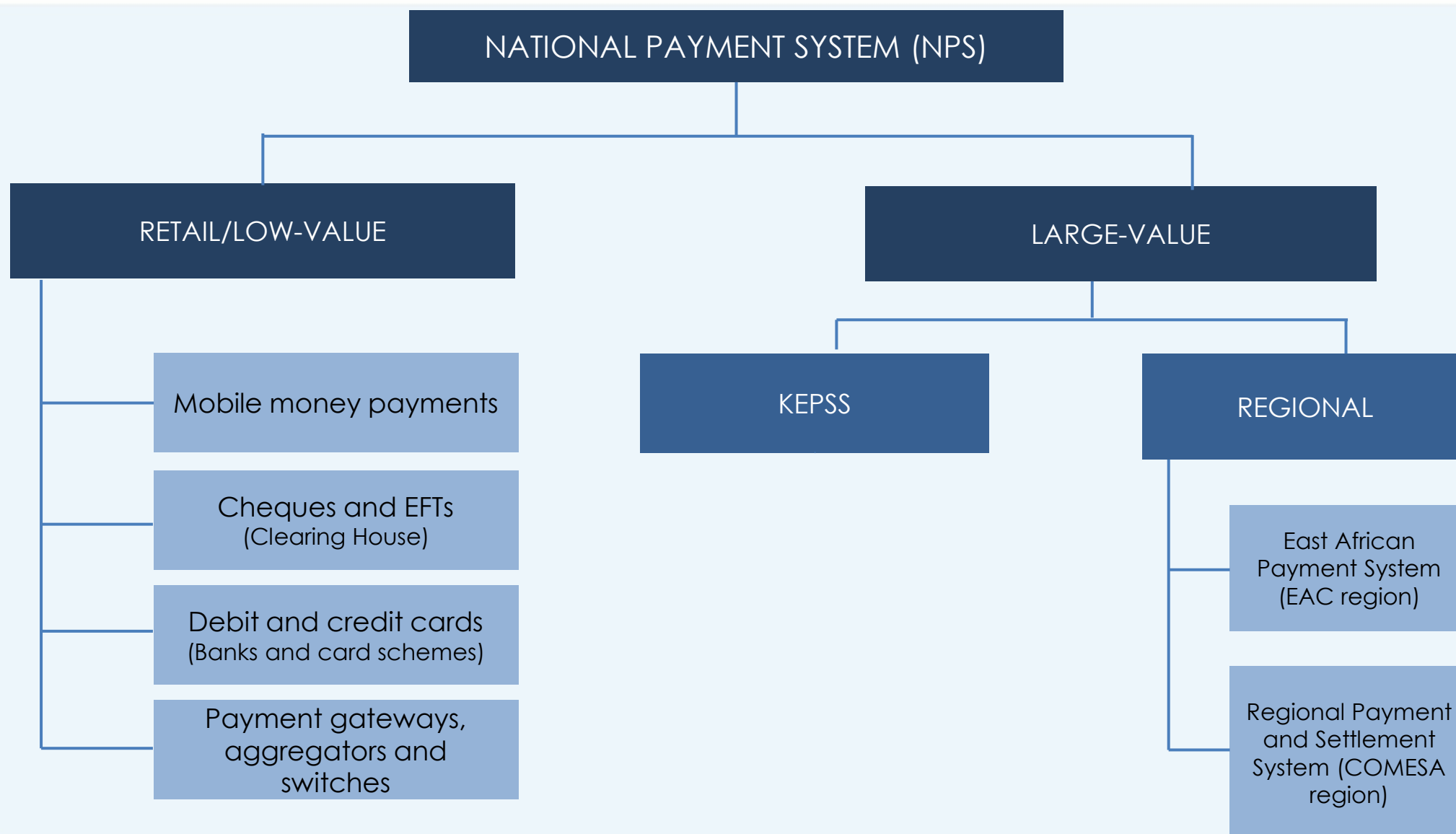
Wednesday, January 31, 2024

Timothy Wafula – Head, Oversight and Compliance

WWW.CENTRALBANK.GO.KE

1. Structure of the National Payment System (NPS).
2. Categories and performance of Payments Service Providers (PSPs).
3. Highlights of overall FMI risks per category
4. Tools for Oversight
5. Assessments conducted on FMIs

Structure of the National Payments System (NPS)



3.

Categories of PSPs in Kenya

FMI category	Category business model	Number of authorised PSPs
1. KEPSS (RTGS)	<ul style="list-style-type: none"> Large Value Payment system 	1
1. Electronic money issuers	<ul style="list-style-type: none"> Converts Kenya currency to electronic form (e-money). Allows customers to cash-in (deposit) and cash-out (withdraw). Example: Safaricom PLC 	7
2. Electronic wallet providers	<ul style="list-style-type: none"> Utilizes e-money for payments with no option of cash-in or cash-out, i.e., no agent network. Example: Cellulant Kenya Limited 	7
3. Payment gateways	<ul style="list-style-type: none"> Enables businesses/institutions/Government agencies to accept/collect payments from customers/public electronically. Example: Pesapal Limited 	18
4. Payment switches	<ul style="list-style-type: none"> Facilitate exchange of payment instructions between financial institutions such as banks, ATMs, payment cards. Example: Integrated Payment Services Ltd (PesaLink) 	3
Total number of authorised PSPs as at January 16, 2024		35

4.

Highlights of overall FMI risks per category

PSP category	Highlights of key risks
KEPSS (RTGS)	<ul style="list-style-type: none"> • Liquidity Risks • Legal Risks • Systemic Risks • Settlement Risks • Credit Risks • Business Risks • Operational Risks
Electronic money issuers	<ul style="list-style-type: none"> • Fiduciary risk: Loss of customer funds held or failure to maintain 1:1 parity between e-money and customer funds held in trust accounts • Operational risk: Platform instability/system failure • Fraud risks due to its prevalence and ubiquity
Electronic wallet providers	<ul style="list-style-type: none"> • Fiduciary risk: Loss of customer funds held • Operational risk: Platform instability/system failure
Payment gateways	<ul style="list-style-type: none"> • AML/CFT risk particularly for cross-border payments • Risk of facilitating illicit activities under the guise of enabling merchants settle transactions
Payment switches	<ul style="list-style-type: none"> • Operational risk: System stability and business continuity risks as switches connect multiple institutions through a central infrastructure



Licensing & Annual Renewal

As part of the licensing process, review:

- Articles of incorporation
- Business Plans
- Systems Rules
- System Security audit reports
- Risk management, AML/CFT & business continuity policies etc.

Offsite supervision

During operation, the PSP provides regular information and reporting to CBK which is analyzed for reporting and monitoring of risks and exposures e.g.,

- Market focused monitoring e.g. consumer related complaints based on volume and nature, growth trends of products and services in the market
- Institution-focused monitoring e.g. trust fund governance and safeguarding, financial performance i.e. profitability and operational efficiency

Onsite supervision

On a regular or ad-hoc basis, CBK will carry out risk-based compliance reviews at the premises of the PSP and based on the findings, may make recommendations for remediation.

This is guided by:

- supervisory programs,
- Annual Plans and
- an onsite oversight framework
- Strategy and governance
- Financial risk e.g. fund safeguarding
- Conduct risk
- Operational, AML/CFT/CPF and IT risk

FMI	Scope
1. KEPSS Self-Assessment	<ul style="list-style-type: none">• KEPSS system and its operations• Compliance of CBK to each PFMI principle applicable to it as a payment system.• Responsibilities of CBK as the relevant authority for financial market infrastructures.
2. Mobile Money Service Providers	<ul style="list-style-type: none">• AML/CFT/CPF inspections• Trust Income utilization – Reporting, Governance, Interest utilization• Cyber risk assessment