05 Kenya

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Image source: Isaac Smith on Unsplash

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Summary Frame

Country summary: **Kenya**

Country group	**LMIC**
% adults with a financial account (Findex, 2017)	**82.9%**

ACCOUNT TO ACCOUNT R/T:

STATUS

Name of scheme/s	**PesaLink**	**Mobile Money A2A interoperability**
Date of launch	**Feb 2017, went live April 2018**	**Agreed Jan 2018, Went live April, 2018**
Scheme manager	**Integrated Payments Service Limited (IPSL) - a fully member bank owned company**	**Agreements rather than separate entity to manage scheme**
Membership	**42/47 banks and member banks**	**3 Mobile network operators**
% financial accounts included in scheme	**99%* (based on feedback from the scheme)**	**100%**

HIGHLIGHTS

Highlights from country:

- Communications Authority of Kenya (CAK) and Central Bank of Kenya (CBK) played a key role in pushing for mobile money interoperability. CBK required for non-discriminatory pricing and no interchange fees.
- Moreover, Competition Authority (CA) abolished/ prohibited agent exclusivity, which was later put into law by the Central Bank of Kenya (CBK).
- The payments regulator encourages interoperable systems but does not mandate it. According to the Kenya 2014 NPS Act a payment service provider shall use systems capable of becoming interoperable with other payment systems in the country and internationally.
- Whereas the payments regulator convened the industry and prescribed conditions (no interpart fees/ surcharge) in the formation of the EMI-led scheme, the regulator played a minimal role in the Pesalink arrangement.

INTEROPERABILITY JOURNEY:

- In the EMI-led scheme, regulator made threats to intervene in 2017, following an investigation on dominance and stalled discussions between MNOs to remedy the situation. Reasons were related to dominance and competition concerns
- Pesalink was fully initiated by Kenya Bankers Association (KBA), the banking industry umbrella body.
- Agent exclusivity was abolished in 2014 following a CAK ruling. Agent interoperability does not exist but has been recommended under CA's efforts
- Pesalink took about 5 years after inception to launch and can be regarded as picking up, but success is yet to be seen,
- EMI interoperability took about 6 years since the first complaints by the challenger around dominance, but the performance/ outcomes are dismal.

Calibrating the role of **public sector in IO**

Funding & implementation role

In setup and beyond	0: None	1: Participate/ co-fund	2. Incubate only	3: Sole fund
0: Endorse	PesaLink			
1: Catalyze 1--Encouragea				At this level, regulator applies moral suasion but takes no direct action
2: Catalyze 2 -Actively convene & participate				Regulator also takes direct steps, such as studies, convening or threats
3: Mandate				Mandate could include 1 or more of: • Required connection to central switch • Required participation in a scheme • Method and/or level of interparty fees set
Oversee				Typical role may be oversight, but this may not apply to non-prominent non-prominent Retail Payment Systems

Policy role

Endorse:

- Approved,licensed and currently provides oversight
- The regulator chaired the pesalink committee and availed resources to sit and contribute to the meetings
- Availed RTGS as a settlement engine for Pesalink
- Provided sound regulatory framework through S21& 22 of NPS regulations -" shall use systems (technically able) capable of becoming interoperable with other payment systems in the country or internationally..and... may.. enter into interoperable arrangements..for the purposes of managing interoperability may participate in a PSMB"

None:

- CBK did not contribute towards any of the expenses incurred in setting up the scheme

NOTES: The project was funded by the banks, with technical assistance from FSD Kenya

Calibrating the role of **public sector in IO**

Funding & implementation role

In setup and beyond	0: None	1: Participate/ co-fund	2. Incubate only	3: Sole fund
0: Endorse				
1: Catalyze 1--Encouragea				At this level, regulator applies moral suasion but takes no direct action
2: Catalyze 2 -Actively convene & participate	Mobile Money	**Catalyze 2:** • The regulators put pressure on the operators to interoperate and convened discussions to make it happen after it commissioned a study that recommended interoperability as a tool for boosting competition. • Although 'no interchange' came about because the operators could not agree, the Central bank endorsed it as a crucial principles for interoperability related to lowering cost. **None:** • CBK did not contribute towards any of the expenses incurred in setting up the scheme		Regulator also takes direct steps, such as studies, convening or threats
3: Mandate				Mandate could include 1 or more of: • Required connection to central switch • Required participation in a scheme • Method and/or level of interparty fees set
Oversee				Typical role may be oversight, but this may not apply to non-prominent non-prominent Retail Payment Systems

Policy role

Country Interoperability **summary frame**

The banking sector which had little involvement from the regulator has achieved better results than the mobile money scheme which had heavy involvement from regulators and a government authority

A2A or CICO		PUBLIC POLICY ROLE IN INCEPTION					PUBLIC ROLE IN IMPLEMENTATION			
		0. Endorse	1. Catalyze 1	2. Catalyze 2	3. Mandate	None	0. None	1. Co-fund	2. Incubate	3. Fund and own
OUTCOME	0. Uncertain /too early									
	1. Below expectations			Mobile Money			Mobile Money			
	2. In line with expectations	PesaLink					PesaLink			
	3. Above expectations									

Setup and Ownership

A2A interoperability: **PesaLink Interview Highlights**

BACKGROUND: Market maturity elements such as a collaborative banking sector and a competitive digital payments space, coupled with donor and regulatory support contributed to the takeoff of PesaLink.

- **Mature competitive market fragmented commercial bank market shares* and a key non-bank player**: For a long time and prior to Mpesa, the payment system was operated by the CBK and commercial banks. Kenyan banks largely looked at each other as competitors, and took a siloed approach to developing infrastructure. However, with the entry of non-bank players and in particular M-Pesa which quickly became a key player in the payments space, they begun to realise the need to interoperate, and established bilateral agreements with M-Pesa to facilitate wallet to account interoperability.

- **Market led approach jilted by competition to fulfil market gaps:** In 2012, the banks found themselves in a situation where an MNO was a major switch for banks. Moreover, the banking sector did not have an instant payment solution at the time. Kenya Bankers Association (KBA) established a subsidiary, Integrated Payments Service Limited (IPSL) in 2012 to implement and operate the central switch. Kenya Inter-participant Transaction Switch (KITS), commercially known as Pesalink, initially went live in 2018 as a utility for KBA member banks with aspirations to expand its services to cover non-banking organizations in the future. It was funded by the 46 member banks.

- **Supportive regulatory environment:** The Competition Authority of Kenya (CAK) and the Central Bank of Kenya (CBK) were updated on the findings at each key milestone (KBA 2016). In addition to ultimately approving and licensing PesaLink as a payment service provider, The Central Bank staff provided technical support and chaired project implementation meetings as PesaLink would require integration to the RTGS to settle payments across banks.

- **Development agency support:** FSD Kenya helped catalyze the agenda as a non-partisan party. They provided technical support at different levels of the project such as business case development at the onset through a market modelling study (conducted by BFA).

*Only one bank had a market size index of over 10% . The index comprises net assets, customer deposits, capital and reserves, number of deposit accounts and number of loan accounts

Source: BFA interviews (2020)

A2A interoperability: **PesaLink Interview Highlights**

GOVERNANCE: Although non-bank players can participate in the scheme either directly or indirectly, membership and board representation favours the banks.

- The governing council (board of KBA) - makes investment decisions but created IPSL/Pesalink as an independent / separate commercial entity with its own board of directors. They consist of:
  - Senior bank directors (4 bank heads and the KBA CEO)
  - (since 2019) 5 Independent directors (currently outside the banking space)

BUSINESS MODEL: Highly incentivizes providers to route transactions due to the low switching fees and autonomy to set end-customer prices, but sustenance of the offering is a concern.

- **Switching fees:** Pesalink charges KES 11.6 per transaction to banks who are shareholders who met their own integration costs and also contribute annual fees based on the KBA formula. The entire KES 11.6 accrues to IPSL, but is waived for transactions below KES 500 (USD 4.76). This compares to the per transaction cost of KES 145 paid to CBK for RTGS, and KES 22 and KES 15 paid to Safaricom for transactions above KES 1,000 and below KES 1,000 respectively. Non-banks meet their own integration costs and IPSL charges KES 20 per transaction since they did not contribute to capital investment and do not pay annual fees.
- **Customer fees:** For the median transaction which is about KSh 48,000 (USD 480), banks charge between Ksh 30 - 100 (USD 30 cents to 1). Sending under USD 5 if free across all banks.
- IPSL is yet to break even and run sustainably. It has had to obtain additional funding injections from member banks over the years.

Source: BFA interviews (2020)

A2A interoperability: **PesaLink Interview Highlights**

PERFORMANCE: Overall, PesaLink's performance is considered to be mostly in line with expectations in terms of its infrastructure but there was unanimous agreement that there is ample room to include additional payment streams.

- Pesalink was considered to have fully met its objective of providing banks with cheaper and more efficient switching rails than all other available options.
- However, despite operating since 2018, PesaLink transactions peaked at just under 300,000 transactions per month in June 2020. At the time, transactions on the platform were zero-rated as a response to the COVID-19 crisis.
- Interestingly, the low level of transaction volumes are not considered a shortcoming of IPSL/ the PesaLink platform. It is mainly attributed to the players struggling to cooperate as the solution was treated with suspicion at first and hence not marketed to customers. However, the participants are progressively seeing its benefits and are for instance increasingly creating more awareness amongst customers.

- Industry players were also of the opinion that IPSL should have achieved and should aim to achieve more given that the banks granted it some level of goodwill. It was viewed that:
    - Pesalink should be a one stop shop for all switching, allowing interoperability at every stream including cards and agents.
    - Pesalink should facilitate bank and mobile wallet interoperability replacing bilateral integrations.

"It takes both of us to succeed; they may give me the rails but if I do not push it then...Outcome we see is probably a reflection of the effort FSPs have put in."

\- **Bank**

Source: BFA interviews (2020)

A2A interoperability: **PesaLink Interview Highlights**

COMPETITION & INNOVATION: PesaLink's ambition of being a national switch, is propelling IPSL to institute improvements that support competition and innovation in the wider payments industry and these are expected to start bearing fruit in 2021.

The improvements include:

Moving from being more of a platform to a fully fledged scheme	Scheme rules are not fully developed as the initial focus was on infrastructure. For example, it has formed a working group across banks to work on the scheme rules and standard operating procedures etc.
Upgrading to a more robust switch	with capability to switch payments between bank account and mobile wallets.
Increasingly allowing non-banks to participate	Participants currently include microfinance banks, major SACCOs, and there are ongoing negotiations with telcos.
Increasingly facilitating more overlay products through incorporating fintechs	and aggregators that can create solutions on its rails.
Working towards being the back office of commercial banks	e.g by facilitating high volume batch payments and standing orders on behalf of some commercial banks so that they can focus on retail customer facing offerings, lowering their cost of operations by creating efficiencies.
Hiring a new CTO from Nigeria Inter-Bank Settlement System (NIBSS) and appointing independent board members	There is a perception that the new leadership will be more agile and aggressive in building out PesaLinks value proposition.

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Summary frame: **A2A interoperability stipulated objectives and background - Mobile Money**

Image source: twitter.com/AIRTEL_KE

OBJECTIVE of the mobile money scheme was to solve dominance which was stifling competition. Interoperability was considered a better option to cessation of M-pesa from Safaricom.

Heavy regulatory and political involvement:

- Communications Authority of Kenya (CA) commissioned a study on competition in the local telecommunications market following grievances from telco operators who were pushing for a level playing field. The 2017 report established that Safaricom's dominance was stifling competition and proposed interoperability with a functional separation of Safaricom and M-Pesa as a possible solutions.
- Following the report, there was growing political pressure to tackle the issue of dominance through separation. The Minister of ICT stepped in and proposed interoperability as the better method. According to industry players, the ICT ministry and CBK then played a pivotal role in quickly facilitating and moderating the discussions that yielded an agreement to allow mobile phone subscribers to transfer money across networks in Jan 2018. Interoperable transactions went live in Apr 2018.

Source: BFA interviews (2020 -2021)

A2A interoperability: **MM Interoperability Highlights**

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BACKGROUND: Solving dominance through interoperability was a tall order based on previous unsuccessful attempts at trying to level the playing field.

Monopolistic mobile money market

- The mobile money space has been dominated by Safaricom's M-pesa which at the time facilitated 99% of mobile money transactions and accounted for 87% of the mobile money transcriptions (This has not changed).
- By the time mobile money interoperability was introduced, providers such as Essar and Orange had entered and exited the market as they struggled to gain traction. It had been difficult to compete with Safaricom on the mobile money space, and the mobile money proposition was making it difficult for telco providers to gain ground in other offerings.

Despite regulatory attempts to enhance competition in the past

- Competition Authority of Kenya's (CAK) ruling against agent exclusivity in 2014 and the introduction of Mobile Virtual Network Operating licenses in 2014 allowed others like Equity bank (with its robust customer base) to serve as a quasi-telco provider by leveraging Airtel Kenya's infrastructure.
- Moreover, FSD Kenya had attempted to bring together mobile money and e-money issuers by supporting the setup of Mobile Money Association of Kenya (MMAK). An Executive Committee was setup and FSD Kenya supported various initiatives aimed at exploring collaboration opportunities for wider industry gains and increased financial inclusion. One initiative was a market study conducted by BFA to determine if there was sufficient demand for mobile money interoperability.

Ultimately the regulators mandated the telcos to work together to achieve interoperability

"It would not have happened without them (ICT Min and CBK). We met with them frequently. It started out as a conversation but ended up being a mandate, which was good as it got us to work together...... This needs to happen now and it needs to happen for the industry but we need you to tell us how to get there." **- MNO**

A2A interoperability: **MM Interoperability Interview Highlights**

BUSINESS MODEL: **No surcharge or interchange means that there is no clear business case especially for smaller players who are net senders.**

- **Price discrimination between on-net and off-net transactions is prohibited:**
    - For costs to remain low for end-consumers, the regulator required that there be no surcharge.

- **No interchange was a compromise not the goal**: While one side pushed for a receiver pays interchange model as is the case in Tanzania, the other side pushed for a sender pays model. In the end, the regulators mediated and they compromised and agreed on a no interchange model. The rationale was that:
    - A receiver pays model would have made sense on a per unit basis regardless of volume. Both net receivers and net senders would never be at a net loss position. The receiver would be compensating the sender for costs related to putting liquidity in the system and the cash out fee.
    - A sender pays model was based on the sender paying for access to reach the other (established) network.

- **No switch fees:** Each provider meets the cost associated with maintaining bilateral connections.

Source: BFA interviews (2020)

A2A interoperability: **MM Interoperability Interview Highlights**

GOVERNANCE: Apart from the initial rules laid at the onset, there has been no centralised coordinated effort applied across the MNOs who are the only members.

- Scheme membership is only open to the three licensed mobile network operators: Safaricom Plc, Airtel Networks Kenya Limited, and Telkom Kenya Limited. MVNOs leveraging Airtel's infrastructure were not included.
- The scheme agreement required that customers should be able to transfer funds across networks in real time, at low cost, and in a secure environment.
- Transactions are cleared and settled bilaterally through: transfers to pre-funded business accounts held with each other, maintaining ledgers, and API connections.
- At the moment, there is no coordinated approach/ special committee to any issues that come up or progress the scheme forward. Parties meet, discuss amongst themselves, and amend agreements as needed.

Source: BFA interviews (2020)

A2A interoperability: **MM Interoperability Interview Highlights**

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PERFORMANCE & COMPETITION: Overall, the mobile money interoperability scheme is considered to have been below expectations but not a failure. It failed to bring about competition in the mobile money space but a few gains have been noted.

- **It has failed to meet its objective of promoting a competitive mobile money space**:
    - M-pesa continues to dominate 99.8% of mobile money transactions. Its mobile money subscriber base has also risen from 87% (April 2018) to 99% (Sep 2020). This is despite Safaricom losing ground in overall mobile subscriptions from 70% to 65% over the same period.
    - A 2017 MMAK Interoperability Market Demand Study commissioned by FSD Kenya and conducted by BFA established that a significant segment of customers kept Safaricom as their primary provider because of mobile money and their stronger network connectivity, but used other telcos as secondary providers to leverage cheaper rates.
    - **Lack of customer awareness and poor customer journeys are considered to be the key reasons** why MM interoperability never took off limiting the benefit to users:
        1. Interoperable transactions became loss making for smaller senders due to a combination of their net sender position and no interchange. Hence they stopped promoting the offering to customers.
        2. Different user journeys and an especially difficult user journey on the dominant platform served as a barrier to usage.

- **Interoperable transactions can be assumed to be less than 1% of the total volume of MM transactions.**
  Since we established that smaller MNOs are net senders and their transactions account for 0.02% of the total volume of transaction.

- **However, some gains have ensued:**
    - They have given smaller telcos an advantage as consumers have one less reason not to subscribe to them.
    - Cross-network transfers are more efficient compared to what was initially available - voucher option.
- The smaller telcos noted that interoperability is a journey. In addition to fixing the current issues, full benefits can only be harnessed once merchant and agents are also interoperable.

Source: BFA interviews (2020)

Answers to Research Questions

Research question 1: Why interoperability? Is interoperability necessary for full financial inclusion?

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Seemingly, greater financial inclusion in Kenya was achieved by a dominant mobile money service without the contribution of an interoperable scheme.

- **In 2018 when MM interoperability became operational, 82.9% of adults in Kenya were already formally financially included and mobile money was the key driver.**
  - The model pioneered by Safaricom was successful in reaching the underserved through its wide reaching telephony services and wide agent network.
  - By then 79% of adults had mobile money accounts compared to 40.8% that had a bank account. Before mobile money, inclusion stood at 26.7% in 2006. (FinAccess, 2019).
  - By the time of the scheme, 82.9% of Kenyan adults were already formally financially included compared to only 26.7% in 2006 before M-Pesa was launched. 79% of the adults had mobile money accounts compared to 40.8% that had a bank account. M-pesa accounted for about 90% of the mobile money subscriber base at the time.

Source: BFA interviews (2020)

Other highlights: **Scheme-based interoperability should remain the 'northstar' of interoperability, however great strides can be achieved through other forms of integration before reaching the destination**

- **M-pesa has in itself become a national payments switch to which all other players (banks and MNOs) connect.** It has enhanced its relevance by expanding its use cases. Customer demand pushed other FSPs to plug into its ecosystem.
- **It has fostered wallet to account and wallet to wallet 'integrations' creating value for itself, customers, some players and the wider industry at large.**
  - Leveraging its rails, *new business models have emerged* resulting in enhanced products. For instance, complementary products such as Mshwari and Fuliza through collaboration with banks, and competitive products such as digital lending offerings.
  - Competing models have emerged e.g Equitel's MVNO based mobile wallets. As mentioned, many argue M-Pesa jilted banks into action to create Pesalink.
  - Cost of payment transfers have declined over the years.
  - Digital payments and particularly mobile money payments have become so ubiquitous that currency in circulation as a % of GDP has almost halved (4.7% in 2010 to 2.7% in 2019).
- **Even so, the integrations are on a bilateral basis and hence effective interoperability is yet to be attained.** The current bilateral agreements are on M-Pesa's terms, which have further cemented its dominance and risks stifling further innovation.

Source: BFA interviews (2020)

Research question 2: What are the effective policy levers for achieving interoperability success?

Pesalink emerged as a better scheme than the mobile money scheme as it has had more significant benefits to industry players and customers compared to the mobile money scheme, with a key difference being: (i) the maturity and structure of the market which influenced the drivers and objectives to interoperate and (ii) the regulatory involvement, resulting in the following conclusions:

- **A light touch facilitative role may be effective in a collective market driven initiative:** The banking sector, which was mature (KBA was formed in 1962) and competitive, had realised the need to cooperate in order to gain. That motivated the different players to sit around the same table and bring the scheme to fruition. The regulator played a lightouch role that mostly came down to approving and licensing the switch as a PSP, and this seemed to work well.

- **The use of a regulatory hammer is likely to result in a 'tick box MM interoperable scheme' with unconsidered compromises being made to get off the ground:** The mobile industry, a new phenomenon, was barely 10 years old; with an entrenched first mover. There had been some attempts by regulators to level the playing field (agent non-exclusivity, MVNOs) but these had not yet borne the desired results. It is viewed that increased political pressure resulted in the payments regulator taking over from the communications regulator and this time taking action in a competition issue by mandating interoperability. Objectives set out have not been achieved: M-pesa continues to dominate 99.8% of mobile money transactions; ts mobile money subscriber base has also risen from 87% (April 2018) to 99% (Sep 2020); and interoperable transactions can be assumed to be less than 1% of the total volume of MM transactions.

- **However, regulatory intervention was and is still important for driving MM interoperability in Kenya because of the lopsided market composition:** "*Interoperability requires concerted effort from players without running to the regulator. However, when the industry does not make progress the regulator should step in and intervene. ….*" ***- MNO***

Source: BFA interviews (2020)

Research question 2: What are the effective policy levers for achieving interoperability success?...continued

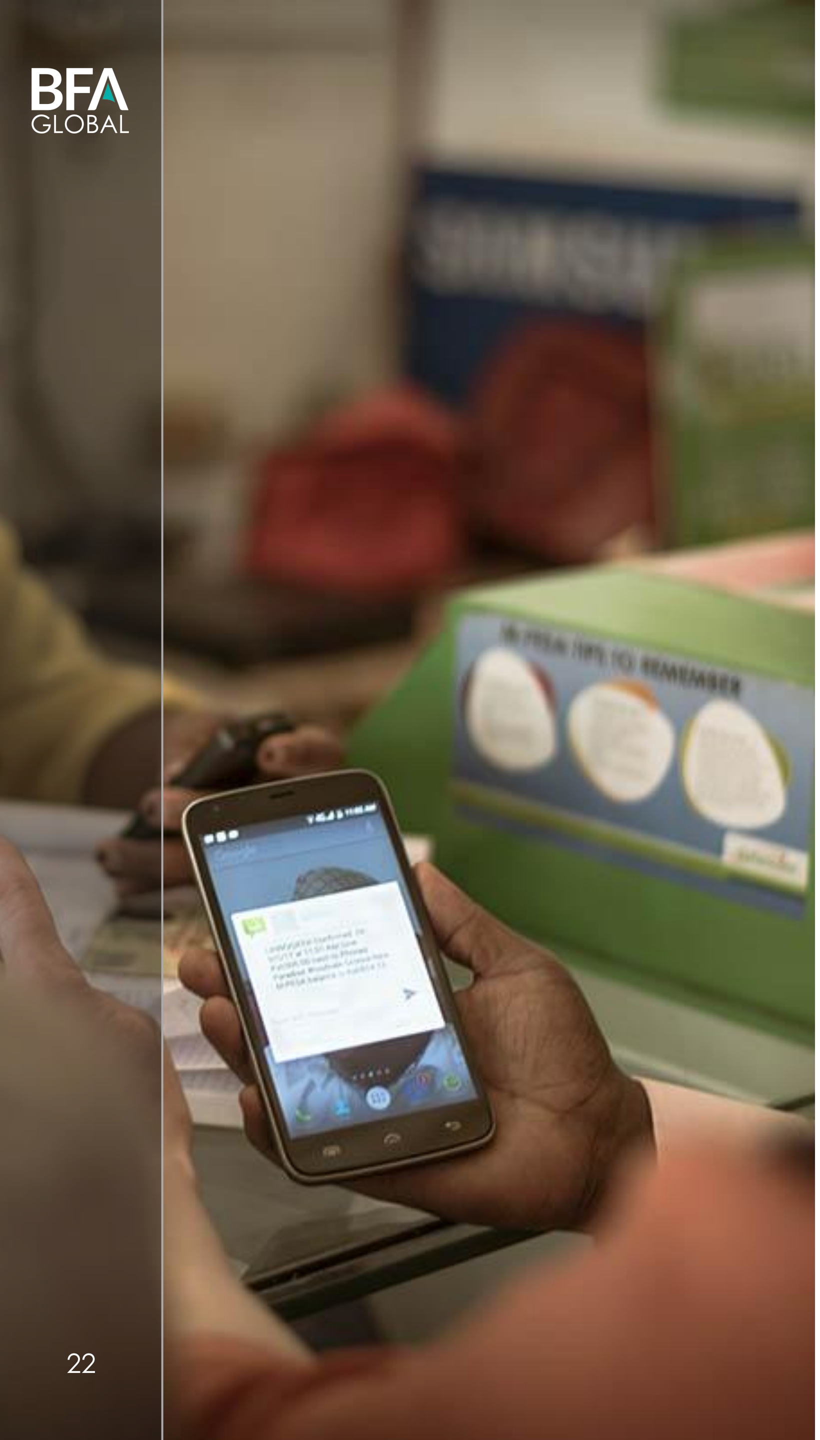
- **According to both the MM and bank industry players, the regulator must be involved in a measured and consistent fashion to push the industry players along:**
  - *The regulator must:*
    - Give clear direction/ lead since she has the long term view and greater outlook. *"They can see what we cannot see, they should have a vision of how it all fits together."* ***- MNO***
    - Act as a promoter and facilitator of discussions and nudger
    - Monitor outcomes from time to time to ensure that objectives are being met e.g are customers benefiting?
  - The regulator should encourage industry initiatives by for example: e.g
    - Steering away from being authoritarian/ prescriptive and imposing on the business case, *"it has to make sense otherwise even the consumers you want to benefit will not benefit as the players will not provide since they have to be accountable to their shareholders"*- **Bank**
    - Issue licences and product approvals quicker and be open to innovation 'not just preach it'.

- **However, to balance the above interventions effectively, the regulator needs capacity.**
  - A few players highlighted that capacity may be lacking in the CBK:

> *"The interoperability framework/ policy must be driven by the central bank but we appreciate they are constrained in terms of capacity. We have agreed as industry players we will come together and come up with a policy document/ framework guideline, then go back to the regulator. CBK is yet to give the proposal a blessing since the beginning of 2020. COVID might have slowed the progress or CBK may not have sufficient capacity."* - **PSP. Similar sentiments were shared by a bank representatives.**

> *"One player suggested that it may not have been clear whether the CBK had clear objectives for mobile money interoperability as they would have put better incentives in place to achieve the goal. They were to conduct a review to determine why interoperable transactions were so low meaning it was not evident at the time the model was not adequate."* - **Researcher**

Source: BFA interviews (2020)



Research question 3: When should the foundation/ policy makers advocate for interoperability - from the beginning or let it evolve over time?

Interoperability is a long term destination to navigate towards, but not to rush into

- **Lack of intervention could ultimately still result in interoperability in the long term when the market matures**.
  - At that point, providers/ competitors realize the need for collaboration in order to grow unlike in the beginning when most are focussed on building out their products and proving their business models.
  - Kenya's banking sector present a case for a slow evolution towards interoperability as the market matures. Even the larger financial sector is also exhibiting signs of tailwinds in that direction. (See the slides that follow for more details).

- **However, even if you want interoperability to be realized more quickly, imposition on industry players is a likely recipe for disaster.**
  - The lesson is not to force competing players into 'a marriage'. Conflicting interests must balance i.e. address competition before coordination can take place to achieve market wide benefits.
  - Rather, giving direction from the onset, technical support, facilitation, nudges so that the industry formulates an agreement/ solution that balances incentives so as to yield buy-in/ desired outcomes.

- **Journey towards interoperability requires consistent and maybe even customised effort:**
  - Even when providers come to the realization that they need to interoperate, or an agreement is set in place, the journey to interoperability does not end there. Continued effort from the foundation/ policy makers is still required to ensure that desired outcomes are achieved in the long-run. For instance an agreement that does not balance incentives must further be tweaked to reflect the market dynamics.

Source: BFA interviews (2020)

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Other highlights: **Unanimous agreement that there will be greater interoperability in 3-5 years based on recent factors**

- **Through a natural progression, there appears to be a shift from competition to collaboration with the conviction that nobody can get there unless everybody gets there.**
  - The market appears ripe for greater interoperability based on industry-wide driven interoperability milestones:
    - Pesalink launched
    - Payments Association of Kenya* - Although disbanded by the regulator, for the first time all payment players sat down to begin to charter an industry path to interoperability.

- **Despite PAK being disbanded, the interoperability agenda is still going ahead, although not in the envisioned coordinate manner**:
  - Emerging solutions to fill the interoperability gaps are coming up e.g Pay with Equity - a merchant payment till that integrates mobile, pesalink and card payments.
  - One bank has applied to offer interoperable agent services on behalf of other players, the application is yet to be approved - there was an indication that the proposed commercials could be the concern as they were deemed to be too expensive.
  - Pesalink had positioned itself at the core of the PAK agenda to provide services as the national switch but did not stop in its tracks. It has embarked on significant improvements to better serve the wider community of payment providers.

***Envisioned to act as the payment system management body as envisioned and provided for in the NPS Act (Sections 7 and 8) and Regulations

Other highlights: **Unanimous agreement that there will be greater interoperability in 3-5 years based on recent factors...continued**

- **External factors are also putting pressure on the market players to collaborate in order to grow their businesses or lose out.** They include:
  - It is believed that the EAC cross border interoperability initiative will be a key driver. Kenya is already lagging behind her neighbours.
  - Post covid shocks have forced players to rethink their strategies: “what should be my core business, how do I become more efficient?”
  - Threat of external players amplify lessons from past inaction: “If we continue not talking to each other we shall die like fools if we allow one person to monopolize the space be it Mpesa or an external player such as a bigtech, then you know what the pricing will be, not in the interest of anyone.”
  - External interventions: Donor agencies are perceived to be pushing instant payment schemes and regulators embracing them.
  - Customers are becoming more demanding - raising expectations of what they want.
  - Particular to mobile money, one researcher remarked that: “MNO interoperability will change, but not sure if higher or lower, we do not know if the same providers will remain in the market. It might be too late to enter the market for Telkom, what's in it for Airtel to keep investing.”

- **If actualized, the draft national payments strategy aims to foster full (broader use cases) and effective (beyond technical integrations) interoperability in about 5 years.** Industry players welcome the strategy but some are still skeptical that it does not hold the CBK accountable to move quickly enough and deliver measurable results.

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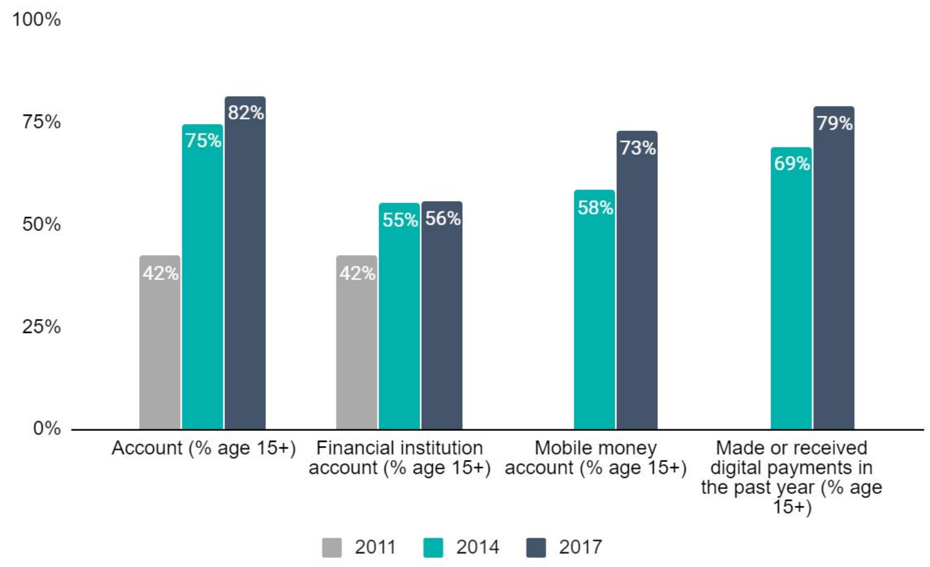
Additional Context

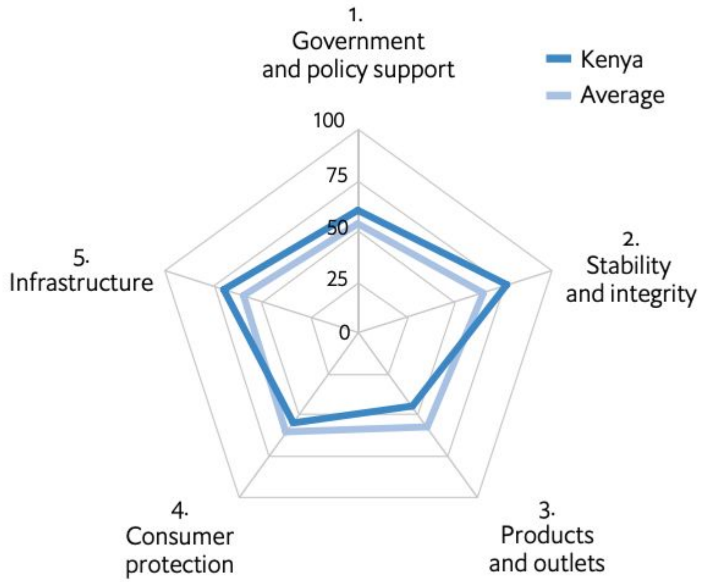
Country **context**

Financial inclusion and digital payments



Source: FINDEX 2017

Country environment



Rank	22
Score	54
Average score	52

Source: EIU Microscope 2019

Other relevant information:

--how payment system in general has evolved (types of streams offered)

--any particular external issues affecting payment system? E.g. when different classes of entities were allowed, such as EMIs, PSPs

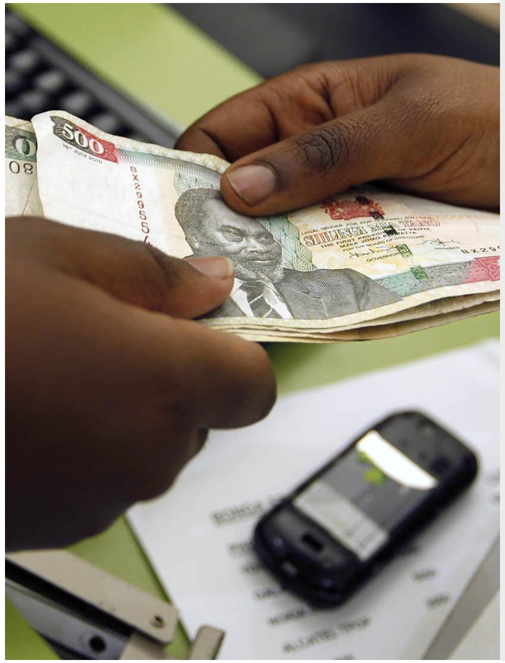
--concentration ratio of large players in A2A (banks, MMOs, etc)

A2A country timeline

Industry-facilitated scheme with external resourcing, which has progressed slowly

2012: IPSL's formation can be traced to 2012, when the KBA, recognizing the central role of the banking industry in the payment system, established the Integrating Payment Systems (IPS) project to address the challenge of creating a more integrated retail payment system in Kenya (KBA 2016).

June, 2012: Project was launched with a pre-study phase in June 1st, 2015, in Nairobi. KBA engaged the global technology consultancy firm to design the PesaLink payment switching and processing solution (Tieto 2017).



KBA formally requested Financial Sector Deepening (FSD) Kenya to drive the process of setting up the switch interchange rate. This was to ensure that the process was carried out by a neutral body. At each key milestone of the study, both the Competition Authority of Kenya (CAK) and the Central Bank of Kenya (CBK) were updated on the findings (KBA 2016).

2016: After years of negotiations and false starts, the Kenya Bankers Association, in 2016, launched Pesalink through a subsidiary Integrated Payments Services Ltd (IPSL) (IPSL 2018).

2017: The KITS payments platform was officially launched on February 16th, 2017, with 22 banks (of 42 in the country) (Tieto 2017).

A2A country timeline

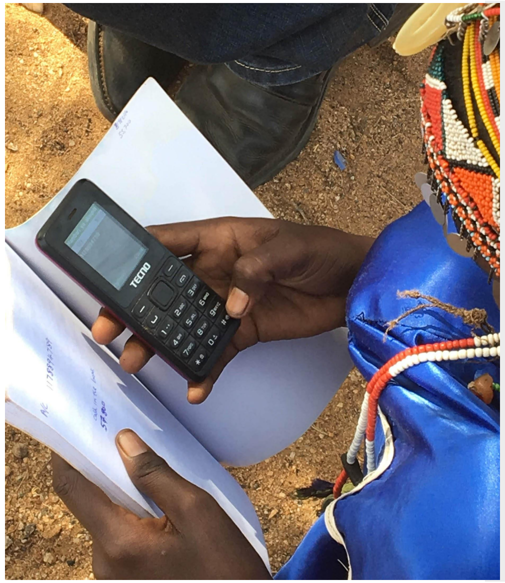
Industry solution sparked by an ultimatum from the Communications Authority of Kenya as an effort to curtail dominance in the telecom industry

May 2016: In May 2016, Communications Authority of Kenya (CA) commissioned UK-based research firm Analysys Mason to conduct a study on competition in the local telecommunications market. This was in line with its statutory mandate of developing and ensuring fair competition in the ICT sector. The report recommended interoperability as a possible solution (Quartz 2018).

2017: It appears that the Government took a proactive approach as part of leveling the playing field by bringing the operators together to agree on highlighted issues. In Nov 2017, following stalled discussions to set up an interoperable mobile wallet, CA Director-General Francis Wangusi noted that the authority might be forced to step in (Standard 2017).

TO

Jan 2018. M-Pesa and Airtel Money launch a pilot test of the cross-network service (Business Daily 2018)



April, 2018: Central Bank of Kenya welcomed the implementation of interoperability on mobile financial services from April 10th, 2018. In approving this step, the CBK laid out three principles, one being on the cost/pricing: no surcharge applied - meaning that a sender will be charged the same to send money within their network and outside of their network – and no interchange fees (CBK, 2018).

Oct 2018: Telkom T-Kash joins M-Pesa and Airtel Money in the interoperability initiative, effective October 4th (Capital Business 2018).

2020: Pesalink processed 4M transactions in 2019 compared to M-Pesa's 11B (ACI Worldwide 2020).

A2A country **timeline**

Agent interoperability has been recommended to curtail dominance, but so far only agent exclusivity has been achieved through a ruling by the Competition Authority of Kenya (CAK).

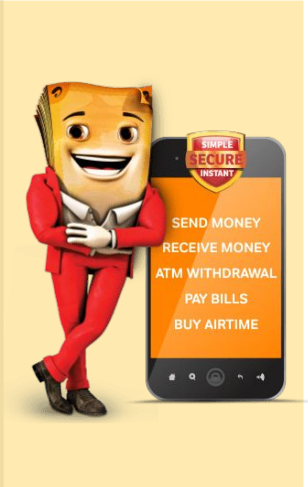
2014: The Competition Authority of Kenya (CAK) rather than the Central Bank, addressed the issue of MNO agent exclusivity. CAK awarded the case to Airtel in July 2014. As Francis Kariuki, Director General of the CAK, explained to CGAP, "In contestable markets, competition issues such as exclusivity agreements should be handled by the competition authority, or where none exists, a competition unit within a sector regulator." Airtel had about 10,000 agents at the time, while Safaricom had 85,000 agents (CGAP, 2016 & Techweez 2014).

2014. After the CAK's ruling on agent exclusivity in July 2014, the number of agents in Kenya serving only one provider dropped from 96% in 2013 to 87% at the end of 2014 (and stagnated since). The Central Bank of Kenya also followed up with the National Payment Systems Regulations of 2014, which prohibited exclusivity in agent contracts of payment service providers such as mobile money providers (CGAP, 2016).

2007: M-Pesa launched March 6th, 2007, and attained more than 1 million active users by November 2007. In 2009 M-Pesa formed various agent partnerships with banks, petrol stations and Pesapoint ATMs to avail services even after hours when agents are closed. In 2009 it got into a partnership with KCB, one of the banks with the widest branch network, to ease agent access to e-money float.

2011: Launch of Airtel money. At the time M-Pesa had over 28,000 agents (Techmoran 2014 & Microsave 2011).

2012: Airtel first wrote to the Competition Authority of Kenya (CAK) in September, accusing Safaricom of charging higher transaction fees for cross-network money transfers and having a policy of offering M-Pesa services exclusively through its 78,856 agents (PaymentsCM 2013).



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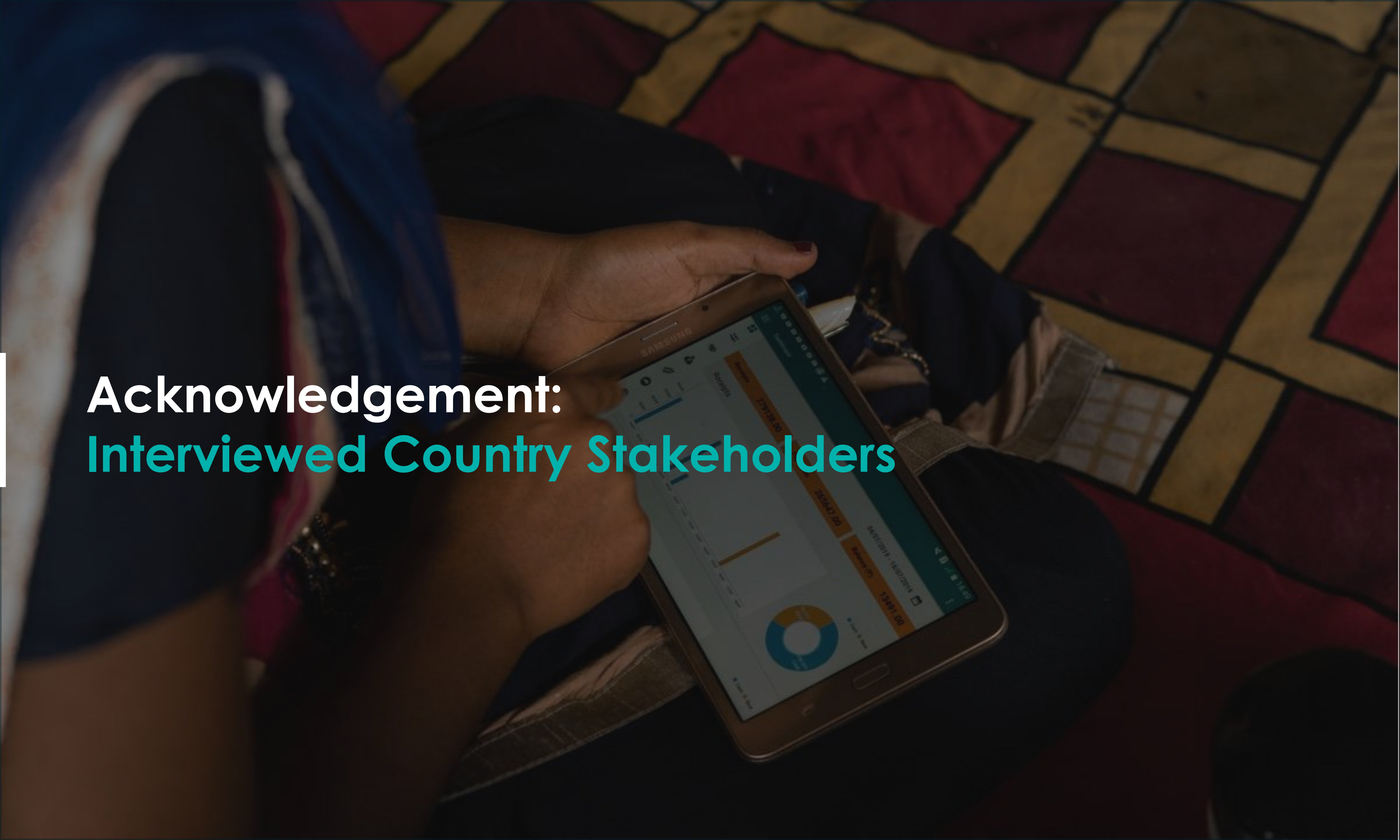

Acknowledgement:
Interviewed Country Stakeholders

Acknowledgements Kenya Stakeholders:

Name	Position	Organisation
Regulator		
Adano. W. Roba	Director, Planning, Research, Policy & Quality Assurance	Competitions Authority
Stephen Mwaura	Former Head of National Payments Systems	Central Bank of Kenya
Scheme Manager and (or) operator		
Fidelis Muia	Director of Technical Services	Kenya Bankers Association (KBA)
Seun Owoeye	Chief Operating Officer - Real-Time Payments	Integrated Payment Services Limited (IPSL)
Participants		
Meshack Akoko	Head of digital payments	Co-operative Bank of Kenya Airtel Kenya (Previous Org.)
Dennis Njau	Director Retail Banking and Payments	Equity Bank
Anuj Tana	Former Director, Mobile Financial Services	Telkom (Previous Org.)
Saddiq Mwai	Director of Digital Financial Services	Telkom
Andrew Wamicwe	Regulatory Director- Mobile Financial Services	Airtel Africa
Alvin Okari	General Manager, Group Airtel Money Products	Airtel Africa
Bonke Michael	Airtel Money Manager	Airtel Africa
Alice King'ori	Airtel Money Representative	Airtel Africa
Payment Experts / Other Ecosystem Players		
Romana Rajput	Country General Manager	Interswitch
Juliet Mburu	Program Manager, Digital Payments	Financial Sector Deepening Kenya
Victor Malu	Head, Future Financial Systems	Financial Sector Deepening Kenya
Oscar Ikinu	CEO	Tangaza Pesa
Brian Muthiora	Regulatory Director, Mobile Money	GSMA