

REGULATION AND SUPERVISION OF BANK CHANNELS

POLICY OPTIONS FOR KENYA

JANUARY 2010



This report was commissioned by FSD Kenya for the Central Bank of Kenya. It was conducted by Bankable Frontier Associates LLC.



The report was commissioned by FSD Kenya. The findings, interpretations and conclusions are those of the authors and do not necessarily represent those of FSD Kenya, its Trustees and partner development agencies.



The Kenya Financial Sector Deepening (FSD) programme was established in early 2005 to support the development of financial markets in Kenya as a means to stimulate wealth creation and reduce poverty. Working in partnership with the financial services industry, the programme's goal is to expand access to financial services among lower income households and smaller enterprises. It operates as an independent trust under the supervision of professional trustees, KPMG Kenya, with policy guidance from a Programme Investment Committee (PIC). In addition to the Government of Kenya, funders include the UK's Department for International Development (DFID), the World Bank, the Swedish International Development Agency (SIDA), Agence Française de Développement (AFD) and the Bill and Melinda Gates Foundation together with the Government of Kenya.

Table of Contents

TABLES & FIGURES - ABBREVIATIONS	ii	Chapter 4	
EXECUTIVE SUMMARY	iii	PHILOSOPHY OF CHANNEL LICENSING	9
Chapter 1		4.1 Definition of branches and agents	9
INTRODUCTION	1	4.2 Risks of branch and agent channels	13
1.1 Purpose of report	1	4.3 General approach to channel regulation	13
1.2 Methodology:	2	Chapter 5	
1.3 Structure of the report	2	ALLOWING BANK AGENTS: MAIN REGULATORY CHOICES AND OPTIONS	15
Chapter 2		5.1 Authorisation of agent network managers	15
KENYAN CURRENT REALITY	3	5.2 Establishment of a register of agents	15
2.1 The regulatory framework for branching and agency	3	5.3 Competition and exclusivity	18
2.2 Current branch approval process	3	Chapter 6	
2.3 Channel establishment costs	4	CONCLUSION	19
2.4 Branches and alternative channels: Existing models and responses	4	6.1 The case for change	19
2.5 The implication of AML/CFT regulation	4	6.2 Recommendations and next steps	20
Chapter 3		REFERENCES	21
INTERNATIONAL TRENDS IN REGULATION OF DISTRIBUTION	5	ANNEX A: PEOPLE MET	22
3.1 Reference countries	5	ANNEX B: CENTRAL BANK OF KENYA BRANCH OPENING CHECKLIST	23
3.2 Delivery Channels	5		
3.3 Branching regulations	6		
3.4 Agency regulations	6		

Tables and figures

TABLES

Table 1:	Checklist to terms of reference	2
Table 2:	Bank branch growth	6
Table 3:	Branch regulations across the selection of countries	7
Table 4:	Comparison of agent services allowed	9
Table 5:	Comparison of agent services allowed	10
Table 6:	Comparison of agent services allowed	11
Table 7:	Risk differences between branch and agent	12
Table 8:	Main regulatory choices, options and evidence	16
Table 9:	Summary comparison of current and proposed approach	19

FIGURES

Figure 1:	Number of bank branches and ATMs in Kenya	1
Figure 2:	Average capital expenditure costs for Kenyan banks (US\$)	4
Figure 3:	Comparison of % banked	5
Figure 4:	Mixture of bank delivery channels per 100,000 in 2008	5
Figure 5:	Branch approval is linked to other restrictions	7
Figure 6:	What services are agents allowed to provide?	8
Figure 7:	Agents and account opening administrative	8

Abbreviations

ATM	Automated teller machine
AML/CFT	Anti-Money Laundering/ Countering the Financing of Terrorism
BFA	Bankable Frontier Associates
BSD	Banking Supervision Department
CBK	Central Bank of Kenya
FSD/K	Financial Sector Deepening/ Kenya
KYC	Know Your Customer
MIC	Middle Income Country
POS	Point of sale

EXECUTIVE SUMMARY

1. Bank branches and alternative channels for financial services such as ATMs have grown rapidly in absolute and per capita terms in Kenya in recent years. However, non-bank agent channels in the form of M-PESA agencies have grown faster still, and are not subject to direct regulation by the Central Bank of Kenya (CBK).
2. Objective of report: In this context, this report aims first to review the current and proposed approaches to the regulation and supervision of bank distribution, both branch and agent, in Kenya in the light of current experience, international practice and future needs; and second, to recommend to the Bank Supervision Department (BSD) of the CBK a general policy approach towards regulation and supervision of bank branches and agents. The report does not address the situation of non-banks nor does it contain detailed regulatory recommendations, which are to follow agreement on the general philosophy of approach.
3. Branching: The current regulatory regime for branching requires that banks obtain specific approval from BSD for each branch opening or location change. While this requirement incurs costs for banks and supervisors and may cause delays, there is little evidence from discussions with banks that this requirement has per se impeded the plans of Kenyan banks for branch expansion. Before the recent amendments to the Banking Act, Kenyan banks have been prohibited from establishing agency relationships for the purpose of deposit taking, since this activity specifically has been deemed to be deposit taking business. There is currently a lack of clarity about the supervisory approach to alternative banking channels such as ATMs (which in practice require at least notification to CBK although this is not always enforced). After the recent growth in branches, few Kenyan banks plan further major expansion of their branch networks in the next three years; however, most banks interviewed expressed keen awareness of the potential to develop lower cost agent networks.
4. International context: To provide a broader comparative context, the bank branch and alternative channel regulations from a selection of 6 reference countries (Brazil, Colombia, Mexico, Peru, South Africa and India) have been studied and compared. The comparison demonstrates that while all of the countries have experienced growth in numbers of financial outlets (usually both in traditional and alternative channels), the respective regulatory frameworks for bank distribution tend to fall either into a so-called orthodox approach in which branches are individually licensed, still common in developing countries, or a system based approach in which reliance is placed on the capability of the institution, which is more common among developed countries. A majority of countries now allow banking agents to function, although the range of functionality and the restrictions imposed differ.
5. *Agents*: There are seven key policy choices which will define the bank agent framework in Kenya. While outlining and discussing the options for each choice, we make a case for:
 - a. Any entity appointed by the bank can potentially be an agent. This should extend to natural people as well as corporate entities.
 - b. Agent acquiring banks must first be generally authorised for this function, and thereafter may acquire individual agents with notification to the supervisor.
 - c. Agents should in time be allowed to perform a full range of functions on behalf of banks: even opening new accounts provided this can be linked to a new category of basic account on which AML-CFT risks are lower and consequently, CDD requirements can be lowered.
 - d. Agent exclusivity should not be prohibited at this stage; but rather multiple acquiring of one agent should be enabled so that 'network managers' can function as agents on behalf of multiple banks, appointing sub-agents.
 - e. Agents should not be allowed to charge clients directly for banking services under the Banking Law.
 - f. There should be a strong presumption in favour of agents performing only online transactions because this materially reduces the nature of the risk; where exceptions are needed because of remote locations, these should be accompanied by increased scrutiny.
 - g. Consumer protection for clients using agents should be built on transparent pricing of all services offered by agents; establishing and clearly advertising mechanisms for complaint/ recourse by the principal bank (such as call center depending on volume); consistent collection and reporting by acquiring banks on complaint statistics. The potential development of a central agent register to which complaints can be mapped and monitored will also allow for better surveillance of agent activity.

The recent amendments to the Banking Act do not allow all of these to be implemented at once, but it is important that CBK offer to the market a longer term vision and espouse a policy direction in which the country will be able to develop robust and widespread financial distribution points.
6. *Case for change*: This report makes the case for revising CBK's regulatory approach towards bank distribution away from the current approach of individual outlet licensing towards an approach in which banks are pre-authorised to operate defined channels such as agents, branches and ATMs based on their capability to manage the risks involved; with a clearly calibrated approach to defining, managing and offsetting where necessary these risks and notifying the CBK, preferably through a central public register, of all new outlets. This is based on three main arguments:
 - a. This approach is in line with international trends, and would continue to entrench CBK's position as an innovative regulator. It is unlikely to undermine or destabilize the branch system, although it may

rationalize it, since agents typically do not replace existing branches but usually extend their reach and agents require branches as hubs for cash handling services and banks require locations which can provide oversight for surrounding agents.

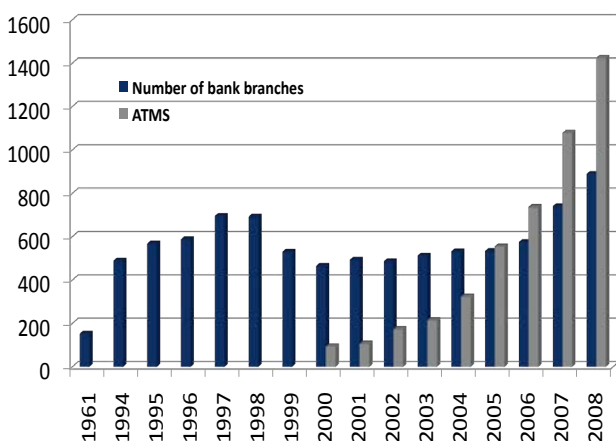
- b. It is necessary if the country is to achieve levels of financial inclusion envisaged in Vision 2030 because of the high costs of traditional banking infrastructure.
 - c. It will enable more efficient use of supervisory capacity on the real risks of associated with the growing use of alternative banking channels, rather than reliance on traditional licensing approaches which do not manage the risk.
7. *Recommendations:* The report makes six specific recommendations for CBK:
- a. Draft and issue 'guidelines' which include clarity on agent acquiring, to set a strong foundation for the future development of the industry.
 - b. Investigate the feasibility of establishing a central register of agents.
 - c. Investigate the coverage available from insurers to cover operational risks associated with deployment of agent channel.
 - d. Engage with the e-payment framework to ensure more level playing field between bank and non-bank agents.
 - e. Propose legislation to amend the Banking Act section requiring branch licensing in 2010.
 - f. Investigate the capacity and training needs of BSD to undertake the supervision functions associated with agents.

Chapter 1

INTRODUCTION

As figure 1 below shows, the number of bank branches in Kenya has more than doubled in absolute terms since 2000, reversing several years of branch closures. Over the same period, the number of ATMs deployed has soared from an insignificant number to reach more than 1400. This expansion of conventional banking channels supports the view of a retail banking system which has been expanding quite rapidly: as FinAccess 2009 shows, the percentage of Kenyan adults banked rose from 18.9% in 2006 to 22.6% in 2009. However, if Kenya is to expand access to financial services further so as to reach middle income norms of proportion of people banked by 2030, in line with Vision 2030, then further massive investment in the distribution infrastructure is required.

Figure 1: Number of bank branches and ATMs in Kenya



Source : FSDK (2009) The state of financial service delivery in Kenya today, Presentation 22 May 2009

While banks have been deploying traditional and new channels for business, the most rapidly growing network for financial transactions has been that of agents of M-PESA, the mobile payment product offered by Safaricom. Just fewer than three years after launch, M-PESA reports some 7 million customers, served entirely through more than 12,000 agents. This number exceeds several fold the total distribution points of the banking sector and extends to smaller communities which have no banking representation at all. The M-PESA agent network is not presently subject to direct regulation, while until amendments to the Banking Act take force, Kenyan banks are not permitted to use agents to take deposits on their behalf, although they can and do use agents for other purposes.

The growth of the agent network for financial transactions in Kenya mirrors developments in other countries in recent years, especially in Latin America. As more countries have prioritised financial inclusion as a goal, so they have sought to enable new, alternative channels for financial services outside the bank branch, as a cost effective way of reaching large numbers of low income customers sustainably.

Regulators and policy makers in Kenya have already demonstrated a high level of commitment to the goal of promoting financial inclusion alongside the stability and efficiency of the financial system. The 2009 Finance Bill amended the Banking Act to allow the appointment of agents by banks. The CBK therefore wishes to examine the local demand among banks and international lessons so as to inform policy thinking about their choices of how to regulate and supervise bank distribution.

1.1 PURPOSE OF REPORT

Against this background, the purpose of the report is to provide a high level assessment of the current reality in Kenya in regards to the penetration, costs and effectiveness of banking delivery channels, specifically bank branches and agents, against the perspective of practice in other relevant jurisdictions. This is done in order to frame the key choices and recommend ways forward to shape new directions in the policy and regulatory environment for retail banking distribution, which will emerge following the approval of a regulatory framework for agents. This document is intended to be used as a background and basis for informed consultation between regulator and banks.

Note that the scope of this report does not address specifically the issue of regulating the distribution for non-banks offering financial services other than as a point of comparison. It also does not intend to make detailed recommendations regarding regulation and supervision of banking channels: these details follow the consideration of the key options and underlying philosophies outlined in this report, but are not part of it.

The terms of reference for this project outlined three distinctive philosophies of channel regulation:

- An *orthodox approach*, in which minimum standards are set and applied, usually to each new channel, as in a branch licensing regime;
- A *market based approach*, in which the risks attached to the channel are recognized and calibrated; however, rather than setting standards, regulators instead require that risks of a certain type or beyond a certain level be offset by adequate mechanisms to cover possible loss, such as insurance. Individual institutions are free to choose how to offset the risk of failure; individual licensing of branches is no longer required.
- A *systems approach*, whereby the regulator would focus on the capability of the institution to manage the risks of a particular channel – whether branch, agent or electronic – and would stay informed about channel dynamics overall as a part of the overall picture, but would not license each one.

The evidence discussed in the paper will explore the dynamics of these three approaches, how they compare to the present reality in Kenya and across a selection of international peers, and ultimately the consequences associated

¹ No data available between 1961 and 1994

Table 1: Checklist to terms of reference

Issue to be covered	Reference
Banking Sector Stability <ul style="list-style-type: none"> Operational Risks inherent in operating a decentralized agents network and operationally intensive bank branches 	Section 4, table 6
AML/CFT <ul style="list-style-type: none"> Risk based application of KYC via appropriate threshold requirements 	Section 2.5
Consumer Protection <ul style="list-style-type: none"> Maintenance of service standards across all channels, customer redress, price transparency and data protection. 	Section 5, line 7
Competition <ul style="list-style-type: none"> Establishment of a level playing so that non-bank agents do not face a lower regulatory hurdle than bank-based systems, nor must it raise regulatory compliance for existing agent models. 	Section 5.3
Systemic Impacts <ul style="list-style-type: none"> Attention must be paid to ensure that banks are not incentivised away from establishing branches due to the lower cost of running an agent network, resulting in a “sub-optimal” mix of branches and agents. 	Sections 3.2, 6.1 and 4.1

with implementing a regulatory framework that adheres to these respective philosophies.

The table below summarizes where specific issues mentioned in the terms of reference are addressed in the report for easy reference.

1.2 METHODOLOGY

The research for this policy study included:

- in-country interviews of BSD staff and banks; and
- international comparative research.

The in-country interviews were conducted with senior officials of eight prominent Kenyan banking institutions, as recommended by staff at the Central Bank of Kenya, during a field visit to Nairobi in September 2009, who are listed in Annexure A. This selection of institutions were recommended by staff at the Central Bank of Kenya and chosen due to the diversity in size, nature and complexity of each respective retail operation. The interview process addressed the following topic areas: Extent of existing network for branches, ATM's and POS (Total numbers, recent growth, projected growth)

- Operational costs of establishing and running a branch; ATM; POS.
- Cost of regulatory compliance with branch regulations.
- Efficacy of CBK branch approvals process.

- Intended agent network strategy (extent of network, types of services offered).
- Anticipated challenges in implementing agent model (operationally and regulatory burden).
- Perception of what role would be played in an interoperable system

(Information specific to any institution was kept confidential and is published in a separate confidential annex for CBK only.)

The international research conducted for this report was primarily desk-based. The selection of countries included Brazil and Colombia (to which two countries, a CBK-led team undertook a field visit during the period of this study for the purpose of ascertaining information directly), Peru, Mexico, South Africa and India. Resources included published regulations of the relevant regions as publicly available on the respective Central Bank web sites, information from an extensive CGAP survey regarding agent and branching regulations across the globe, as well as personal contacts in the respective markets.

1.3 STRUCTURE OF THE REPORT

This report assesses first the Kenyan context in law and practice with respect to conventional and alternative banking channels. Section 3 widens the lens to consider the same in the chosen group of six reference countries. Section 4 considers options and risks specific to branching policy, while section 5 does the same for agents. Section 6 summarizes the recommendations and the case for change behind them; and proposes and next steps.

Chapter 2

KENYAN CURRENT REALITY

2.1 THE REGULATORY FRAMEWORK FOR BRANCHING AND AGENCY

The Banking Act defines a “branch” as “any premises, other than its head office, at which an institution (i.e. bank) transacts business in or outside Kenya”. Section 8(1) of the Act requires that specific approval of the Central Bank must be obtained for opening a new branch or changing the location of a branch. In addition, section 8(3) requires that banks give CBK at least six month’s notice of intention to close a bank branch.

The Act (section 8(2)) requires that, in order to give its approval, the Central Bank may require to be satisfied as to:

- The history and financial condition of the institution;
- The character of its management;
- The professional and moral suitability of its management;
- The adequacy of its capital structure
- The convenience and needs of the area to be served; and public interest in general.

These considerations reflect the traditional considerations that have influenced branching policy in the past, namely:

- *Prudential risk management*: in the days in which branches were the only channel for banking business, the viability of branches had a major effect on the prudential risk of banks, especially since the unit capital cost of new branch establishment is high;
- *Public policy objectives regarding access*: the desire to ensure an appropriate distribution of banking services has often featured to a greater or lesser extent in branching policy. Here it is one of many factors in a list weighed towards prudential risk management.

In addition to these factors, branching policy has sometimes been used as a tool of supervisory control: once a bank is registered, the ability of a supervisor to enforce specific decisions through penalties and sanctions may be limited; but withholding approval for branching decisions may be used to reinforce supervisory authority in other areas. This latter factor has apparently not been used much in Kenya.

Currently, as different forms of offices, including marketing offices, have been placed and deployment of ATMs and POS devices have proliferated, banks experience a lack of clarity over the wide boundaries of definition of a branch. In general, no specific approval is required for alternative channels such as ATM or POS deployment, although the launch of a new channel would be subject to general discussion and agreement by BSD and banks would be expected to notify BSD of new deployments, although this does not always happen. Banks already use agents (such as supermarkets) for certain transactions only, such

as cash withdrawals. Certain banks have already entered agreements which allow customers to repay bank loans using mobile payment accounts or to transfer funds from bank accounts to mobile wallets. Under the current broad definition of branch above, the CBK has to date not allowed banks to appoint agents which can also take deposits, since BSD has ruled that this would constitute banking business and can only be undertaken through branches.

However, clauses in the Finance Act of 2009 amended the Banking Act to allow the appointment of agents by banks. Essentially, the effect is to recognize an agency as “an entity contracted by an institution and approved by the Central Bank to provide the services of the institution on behalf of the institution in such a manner as may be prescribed by the Central Bank.” The changes allow CBK to approve the appointment of agents and to prescribe the manner in which they may offer services.

2.2 CURRENT BRANCH APPROVAL PROCESS

Currently, CBK is able to approve applications to open new branches within a week following receipt of an application in terms of section 11 of the Prudential Guidelines issued in terms of the Banking Act; and following the procedures outlined there. Under normal circumstances the approval process takes a couple of weeks.

Before the new branch premises can be opened, they must be inspected by an authorised representative of the CBK who will conduct an on-site inspection using the checklist contained in Annex B which sets minimum standards relating largely to safety and operational risk. Banks have one year to act on an authorisation or else a new approval would need to be sought. The timing of the inspection of a completed branch by the CBK inspectors prior to authorizing its opening depends on the location of the branch since Nairobi based staff must travel to the branch location.

However, no bank interviewed for this project reported that either the application process or the standards checklist was per se unduly onerous or went far beyond what the bank itself would consider prudent standards for establishing new premises. If anything, bank-specific standards generally exceeded those set by the CBK. It is therefore not the case that the branch approval standards have significantly impeded or even made more costly the mainstream branching process, as the increasing numbers of branches reported at the outset appear to reflect.

Of the banks interviewed, none felt constrained in its ability to set up full branches. However, the existence of a strictly defined list of standards has defined the lower limit of what constitutes a branch in a way which may have restricted innovation with restricted function outlets. Banks expressed some uncertainty over this definition and its application. It is also clear that the approval and supervision process does absorb significant resources at the level both of BSD and bank compliance staff who prepare the applications including

business plans for each branch. It is estimated that each branch opening may involve a supervisor for 2–3 working days to process, analyse and respond. Based on the average of 100 branch openings per year in the past three years, this process alone absorbs close to a person year i.e. the equivalent of one full time position, without accounting for the physical inspection. These costs of scarce supervisory time need to be set off against the benefits brought by this level of oversight: the narrow focus on licensing physical outlets may obscure the ability to consider and address the broader risks which may emerge as part of a bank's distribution strategy.

2.3 CHANNEL ESTABLISHMENT COSTS

The investment costs of different banking outlets are affected by both regulatory norms and operational requirements (particularly physical security). Drawn from interviews with banks, figure 2 below shows the general capital costs for setting up one unit of each type of channels. Clearly, there is in practice a large range: this is especially true for branch establishment costs which are subject to individual bank specification according to brand image and target market. The number reflected below is therefore more a minimum than an average. These up-front cost numbers do not include operating costs, which may be substantial, especially if significant cash movement is required to service branches and ATMs.

2.4 BRANCHES AND ALTERNATIVE CHANNELS: EXISTING MODELS & RESPONSES

While banks did not report significant constraints in respect of the regulation of traditional (branch) channels, they did express concern for the unlevel playing field with non-banks and a desire for greater clarity with respect to the deployment of agents as soon as possible. Banks interviewed also expressed strong appetite to deploy agent networks as a way to extend their distribution at lower cost, although their levels of readiness varied. In general, it appears that while some banks envisage expanding their branch infrastructure somewhat over the next 3–5 years, the overall increase in the number of branches is likely to be more modest (even without yet fully taking into account the effect of allowing agents which may further rationalize the networks of some). Kenya already has several third party networks which operate outsourced distribution on behalf of banks in a form of agency which does not yet extend to deposit taking. One is Paynet, which operates ATMs

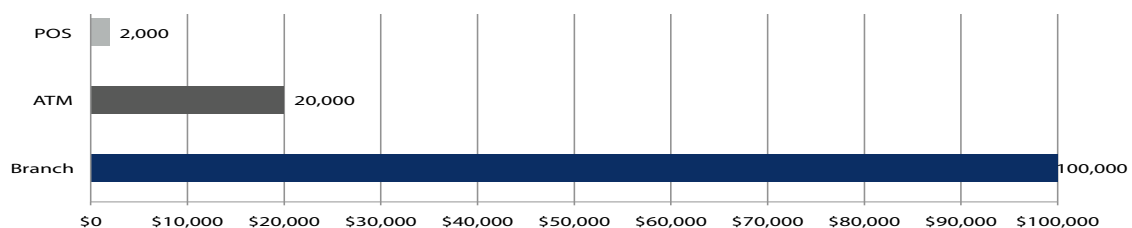
and POS networks on behalf of banks; and a second is Post Bank. PostBank is authorised to operate under the Post Office Savings Bank Act (Chapter 493.B) and hence does not fall within the mandate of the Central Bank or restrictions of the Banking Act. PostBank does therefore act as a cash collector for financial institutions interested in using its network to pay bills and for remittances (both foreign and domestic). In order to expand its network, the PostBank is already training and deploying agents, equipped with POS devices to conduct basic transactional business. Additionally Equity Bank is currently offering a service with the Nakumatt supermarket chain offering cash back services at their sales points to Equity customers.

2.5 THE IMPLICATION OF AML/CFT REGULATION

AML-CFT regulation has an important bearing on which persons can offer which services to whom. The existing legislation regarding AML/CFT in Kenya is the Proceeds of Crime and Anti-Money Laundering Bill, recently passed by Parliament on 10th December 2009 and assented to on 31st December 2009. It will most likely have a direct impact on customer identification procedures for branches and agents alike. Additionally current CBK guidelines² on AML/CFT for banks (re-issued in 2006) require that identification of customers takes place under specified circumstances. Identification and verification procedures allow for non-face to face (S.4.4) which mentions explicitly postal and telephone banking and internet and cyber banking. Neither however appears to rule out the use of agents to comply with the requirements, mentioning only that the bank in question "should establish to its satisfaction that the person exists..."

However, even for non face-to-face verification, identification and address verification must happen. This can be by means of a combination of checks, although few if any would be suitable for low income people who lack utility bills or employers to provide verification. The current AML/CFT regulations in Kenya aspire to provide a risk based framework to financial services. However, there has not yet been explicit provision made for exemptions from certain "know your customer" (KYC) procedures for certain categories of basic bank account with restricted transaction values and balances; this is common in other jurisdictions, including Brazil, India, South Africa and Colombia of the group of reference countries in this report.

Figure 2: Average capital expenditure costs for Kenyan banks (US\$)



Source: Interviews with Kenyan banks, Sept. 2009

² Central Bank of Kenya, Prudential Guidelines for institutions Licensed under the Banking Act, section 8 (Guidelines on Proceeds of Crime and Money Laundering (Prevention), CBK/PG/08; 4.3.1.1

Chapter 3

INTERNATIONAL TRENDS IN REGULATION OF DISTRIBUTION

3.1 REFERENCE COUNTRIES

Six countries were selected as reference countries for comparative research: Brazil, Mexico, Colombia, Peru, India and South Africa. These are generally considered middle income countries, and with the exception of India, are considerably more urbanized than Kenya today. Each country reflects a different approach to the expansion of financial services, although in each, financial inclusion has been treated as a priority; and in each, alternative channels are in widespread use, albeit to differing extents. While these countries are on the forefront of those dealing with the regulations of agents it should be noted that the current practice is not necessarily best practice.

As figure 3 below makes clear, each country starts from a different situation as well: the proportion banked (as a proxy for formal financial inclusion) in each of these other markets range from 25% (Mexico) to 63% (South Africa). This likely reflects the different levels of per capita income as well as the geographic distribution of population.

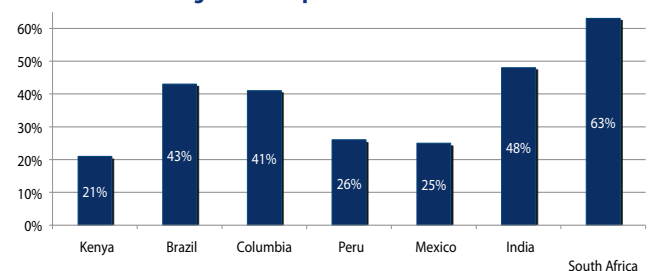
3.2 DELIVERY CHANNELS

In all of these reference countries, banks are allowed to appoint agents, although with different restrictions as will be discussed later. Figure 4 below

shows both the total number of touch points per 100,000 people in 2008, as well as how these are made up of branches, ATM and agents.

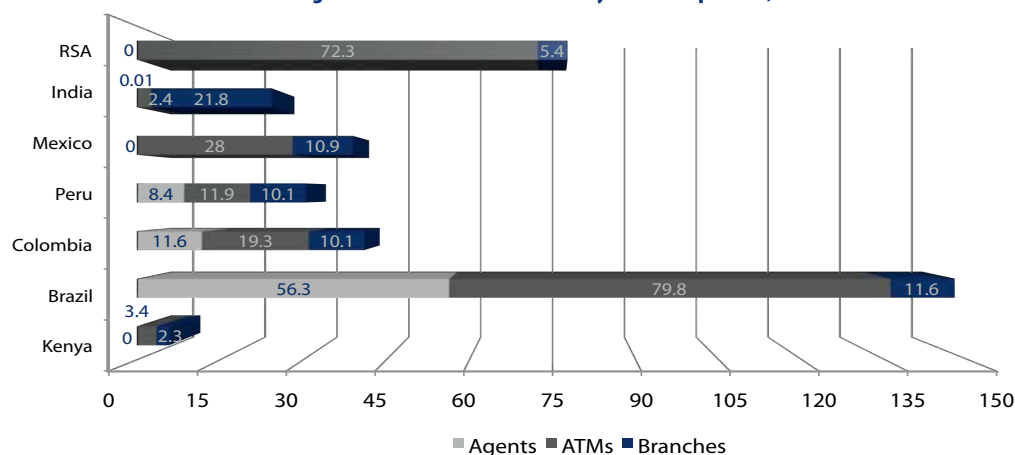
While figure 4 reflects the current position in per capita terms, the growth trends are interesting. The number of ATMs has grown substantially in all six

Figure 3: Comparison of % banked



Source: Kenya, FinAccess Study, 2009; South Africa, FinScope Survey, 2008; Brazil, Colombia, Peru, Mexico, India, Honohan Indicators, 2007

Figure 4: Mixture of bank delivery channels per 100,000 in 2008³



Source: CGAP Financial Services Access Survey, 2009; excludes M-PESA agents in Kenya since this is not currently a bank delivery channel. For South Africa; note that bank agents are not explicitly authorised although they are allowed to function broadly, hence there is no official number, although in theory every point of sale could function as a type of bank agent.

between 2004 and 2008, with the rate ranging from 74% (Mexico) to 380% (Brazil). This growth demonstrates the strong interest by banks to reduce the costs of banking channels and the use of emerging technologies to do so. These ATMs are mainly used by customers for cash withdrawals, account inquiries, and, where the technology allows, bill payments, showing that these are basic services that are in high demand.

In contrast to the exponential growth of ATMs amongst the selection of countries, there has been no general trend with respect to bank branch expansion as table 2 shows. However, the emergence of new delivery channels such as ATMs and agents does not appear to threaten the extinction of branches but does bring rationalization. Brazil is the only country of the group with a more than ten year history of explicitly allowing bank agents, known there as correspondents. The total number of agents—137,000 in early 2009 had more than doubled from 63 509 in 2000.⁴

³ India's branches include the 100,000 IndiaPost branches

At the same time as this large scale roll of agents, the number of total number of bank branches contracted by only 13%, and the number of ATMs increased significantly. Since agents require bank branches both as points of oversight by the bank, and as points of service for their cash and other needs, it is not the case that allowing agents has undermined branching in that country, as much as rationalized it. This rationalization is important for the financial access agenda as we will discuss.

On a more generalized basis, Matthews and Ding (2006) use evidence of channel growth from 14 advanced countries between 1997 and 2002 to ask whether the growth of electronic channels is associated with a reduction in the number of branches or branches per capita. They conclude that there is no clear relationship here: while there has been increasing use of electronic channels in all these countries, the ratio of branches to electronic channels varies positively but weakly in relation to other factors such as level of GDP.

Table 2: Bank branch growth

Bank branch growth 2004-2008			
	2004	2008	% Change
Kenya	439	887	102%
Brazil	25,763	22,209	-13%
Mexico	11,392	11,588	2%
Peru	1,133	2,920	158%
Colombia	3,880	4,482	15%
South Africa	2,711	2,611	-4%
India	67,097	248,133	270%

Source: CGAP Bank Branching Regulation Survey, 2008

In some developed countries such as US, UK, Canada and France, the overall number of branches actually increased during the period under review. It is therefore not the case that the bank branch is 'dying' as a result of the growth of alternative channels, but rather there is a complementarity relationship between branches and other channels. Even in Brazil where the number of agents has grown rapidly since first allowed more than a decade ago, the number of bank branches has shown relatively limited decline. Clearly, the channel mix (ratio of branches to other touch points) varies greatly by stage of market development as well as by country specific characteristics.

3.3 BRANCHING REGULATIONS

The table below compares the approach to branch regulation across the selection of countries and also the areas of direct supervisory interest. Apart

from India and Peru, all of the countries restrict the definition of a 'branch' to a brick and mortar traditional branch. India has gone as far as including ATMs but excludes agents, while Peru has done the opposite, excluding ATMs from the definition of a branch but including agents. Authorisation to open a branch enters a less clear situation with an interesting mix of approaches. Apart from Kenya, only Peru and India require authorisation to open each bank branch.⁵

Looking across the other countries, Colombia and Mexico do not require authorisation to open a bank branch, and South Africa requires only general notification as part of the regular supervisory relationship between the bank and regulator. In these cases, there is a direct correlation between the level of regular supervision given to bank branches and the authorisations process. Colombia, Mexico and South Africa do not specify any general criteria for banks to operate their respective branch networks. It is apparent from this table that very little supervisory capacity is committed to this administrative task. Conversely, while Brazil does authorize branch openings it does not apply a lengthy list of prerequisites. Due to the nature of the security environment in Brazil (i.e., relatively high crime rates), the primary role of the authorisation process is to ensure that bank branches are taking the necessary measures to protect bank branches from criminal damage and activity.

In the context of table 3, it is interesting to take a more global view of bank branching approval as a conduit to other operational restrictions. Figure 5 demonstrates that in a global survey of regulators in 125 countries recently completed by CGAP, a majority still require approval to open branches. This requirement for approval also goes hand in hand with other requirements such as minimum hours of operation. CGAP reported that requiring bank branch approvals was associated with lower branch penetration.

3.4 AGENCY REGULATIONS

In the context of a broad network of available banking channels, the effectiveness of agents is underpinned by the types of services they offer and the level of convenience to the customer. Broadly speaking there are two categories of services offered by agents: transactional services and administrative services. A **transactional service** can be defined as a service which facilitates a transaction on the behalf of a client that requires an exchange of funds and a clearing and settlement authorisation on the part of the bank in question. An example of this would be a deposit into an account, a bill payment or withdrawal from an account. All of these require the bank to ensure that the transaction can be settled between the customer account and the agent account.

⁴ Brazilian Central Bank (<http://www.bcb.gov.br/?CORPAIS>); note that not all can perform the full range of agent services.

⁵ Brazil also requires a level of authorisation to open a bank branch but the intended purpose of authorisation is to ensure that the branch adheres to strict physical security requirements due to the high level of physical security threats in Brazil.

Table 3: Branch regulations across the selection of countries

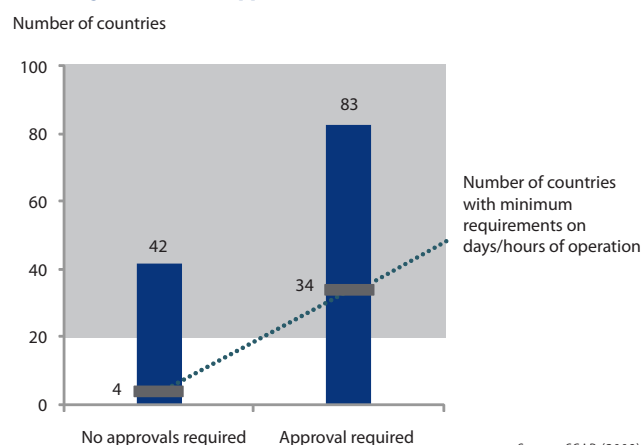
Process undertaken	Kenya	Brazil	Colombia	Mexico	Peru	India	South Africa
Definition of a branch:							
Definition of branch includes ATMs?	No	No	No	No	No	Yes	No
Definition of branch includes agents?	No	No	No	No	Yes	No	No
Authorisation required to open each branch?	Yes	Yes	No - Individual notification	No - Individual notification	Yes	Yes	General Notification Only
Areas of direct supervisory interest in considering branching:							
Security of premises	•	•	•	—	•	•	—
Geographic location	•	—	—	—	•	•	—
In line with stated retail strategy	•	—	—	—	•	•	—
Financial statements proving viability	•	—	—	—	•	•	—
Facilitates competitive local market	•	—	—	—	•	•	—
Provides access to the unbanked and underserved	—	—	—	—	—	•	—
Statement of operations to be conducted at that branch	•	—	—	—	•	•	—
Authorisation required to close a branch?	Yes	Notification	No	No	Yes	Notification only	No

Source: CGAP Financial Access Survey (2009); Publicly available regulations and interviews with respective country regulators.

An **administrative service** on the other hand is one where there is no exchange of funds and thus no clearing and settlement requirement. This can include an account balance inquiry or extend out to credit applications. In the case of an application process the emphasis is on the *transmission of information* to the head office or bank branch to allow an authorised individual to make a decision on the request, if necessary. The agent is merely a conduit

of information who does not guarantee or facilitate the decision making process and is not liable for the result of the decision. While account opening also includes an administrative element, this is dependent on whether or not the agent is completing the account opening process or if this responsibility is retained by the bank branch and the agent merely transmits the information to the bank.

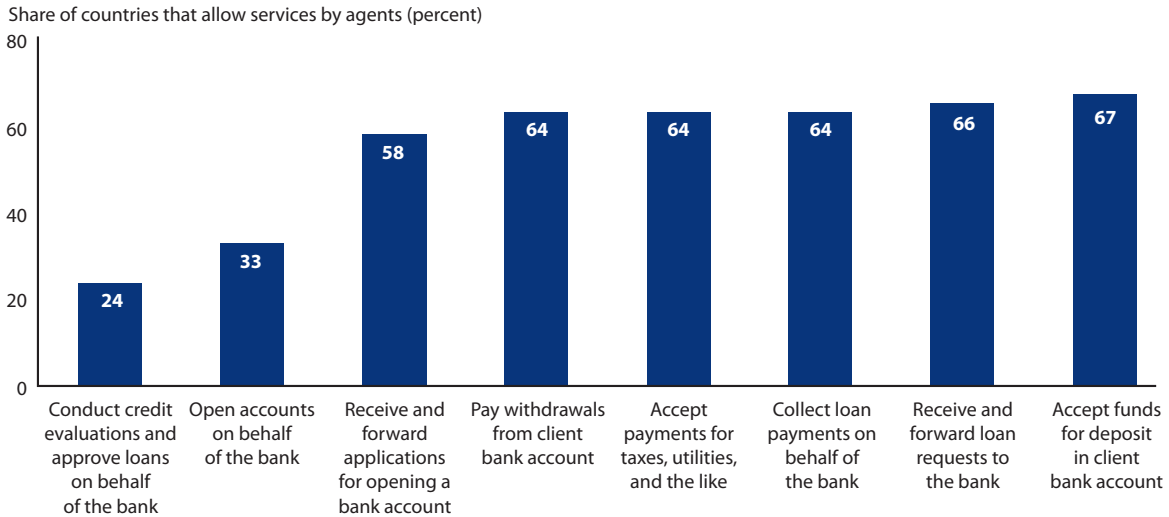
Figure 5: Branch approval is linked to other restrictions



Source: CGAP (2009)

A recent survey of regulators conducted by CGAP (2009) has documented the extent to which different regimes authorised agents to conduct financial services on behalf of a regulated institution. Figure 6 below shows that 67% of countries worldwide *allow* agents to offer at least the transactional part of the range of banking services. Comparatively, close to 60% of the countries surveyed allow agents to offer a mix of both transactional and administrative services, from receiving and disbursing loan payments to forwarding loan and account opening applications.

Figure 6: What services are agents allowed to provide?

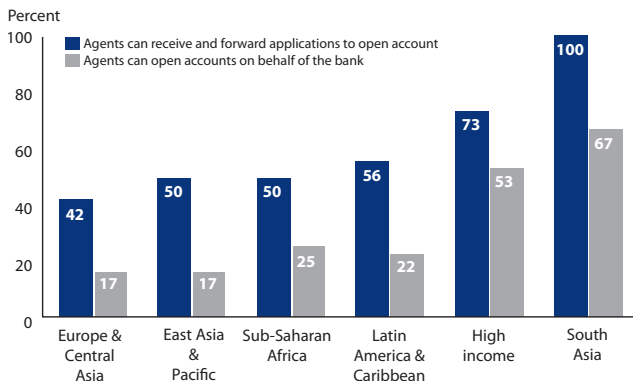


Source: CGAP (2009)

However, figure 6 also reveals that only 33% of the total countries surveyed allow agents to open accounts on behalf of the bank; and even fewer to approve loans on behalf of the bank. Figure 7 below breaks this down on a regional basis: in Africa, only 25% of the survey respondents allow agents to open accounts for customers. This is similar to the level in Latin America, but lags significantly behind South Asia where 67% of countries allow agents to open accounts.

Table 5 gives further detail of comparison among the reference countries relating to which entities can serve as agents. All countries require legal contracts to be entered with agents, some with the form of contract approved in advance, with the bank remaining fully responsible for the actions of its agents. Only South Africa and Colombia do not limit agents to legal entities. In general, the reference countries do not require authorisation of each agent in advance but instead only notification to the supervisor, recognizing that the large numbers involved effectively preclude any meaningful ex ante approval by the regulator. Instead, newer regimes, such as Colombia (2006), require real time transaction capability to manage the settlement and operational risk.

Figure 7: Agents and account opening



Source: CGAP Financial Access Survey, 2009

Specifically among the reference countries for this study, agents are authorised to conduct both transactional and administrative services. While there is some disparity between the different markets, the common threads are that nearly all of the countries allow for some form of cash acceptance (such as deposits, payments, etc) as well as cash disbursement (such as loan payments and account withdrawals). Also notable is that agents are widely allowed to handle administrative processes around account opening and credit applications, but not generally to open accounts or approve credit.

Chapter 4

PHILOSOPHY OF CHANNEL LICENSING

4.1 DEFINITION OF BRANCHES AND AGENTS

As alternative bank channels have proliferated, so it has become harder to define what constitutes a branch in many jurisdictions. Traditional distinctions about fixed premises owned or leased by the bank no longer apply: for example, banks have increasingly situated outlets within the premises of other businesses, such as retailers, so that the premises themselves no longer belong

to the bank even if they are manned by bank staff; and banks have introduced mobile branches (i.e., trucks) to cater to remote clients, so that the location of the unit may not be fixed. Table 6 below reflects a typical distinction among tiers of service points at which different levels of service are offered, with only the full branch offering the full range of banking services.

Table 4: Comparison of agent services allowed

Services provided by agents	S.A	Mexico	Peru	Brazil	India	Colombia
Receive and forward applications to open deposit or saving accounts	X	X		X		X
Open deposit or saving accounts remotely on behalf of the bank ⁶	X					
Accept cash payments for taxes, utilities, etc.	X	X	X	X		X
Disburse payments from non-financial institutions and/or government agencies	X	X		X		
Accept funds for deposit in the client's bank account	X	X	X	X	X	X
Pay withdrawals from the clients bank account	X	X	X	X	X	
Receive and forward loan requests to the bank	X	X		X	X	X
Conduct credit evaluations and approve loans in the name of the bank	X					
Collect loan payments on behalf of the bank	X	X	X	X	X	

Source: CGAP Financial Services Access Survey, 2009

⁶ Note that several countries like India permit agents to assemble the paper work required for account opening to forward to the bank, and in a recent change in Colombia, the agent is also allowed to perform the interview but direct remote opening without the approval of bank staff is not allowed.

Table 5: Comparison of agent services allowed

	Brazil	Colombia	India	Mexico	South Africa
Date of regulation	1999 – 2003	2006	2005–2007	2008	None specific to agents ⁷
What 3rd parties can work as agents?	Any enterprise	Any legal entity or natural person that serves the general public	NGOs/MFIs set up as a nonprofit trust or society, cooperative societies, section 25 nonprofit companies, post offices	Any legal entity or natural person serving the general public and without negative credit history	Not limited by specific regulation
What kind of approval is needed from the Central Bank before contracting an agent outlet/retail chain?	Approval of agents providing 'banking services' (i.e., account opening, deposits, withdrawals, and not just bill payments); changed to notification only in 2009	Approval of bank's general contract, no approval required thereafter	None specified in regulation. In practice, banks notify Central Bank.	Approval	None - in terms of general strategy
Does the bank have to sign a contract with each agent or each network manager?	With each agent or with network manager owning or subcontracting a group of agents	With each agent or with network manager owning or subcontracting a group of agents			Either under outsourcing guidelines
Is the agent required to work exclusively for one bank?	No	No	No	No	No
Is bank responsible for all transactions conducted at the agent toward its account holders?	Yes	Yes	Yes	Yes	Yes: under common law
Does transaction settlement have to happen in real time?	No, within 48 hours	Yes	No, data has to be sent at the end of day or next working day	Yes	Not specified

Source: Drawn from Mas and Siedek (2008; Annex 2)

⁷ But note the NPS Directive 2/2007 issued under National Payment System Act which relate to payer and beneficiary service providers in respect of payments service which impose requires such as written contracts, record keeping, separation of functions, no netting, but do not apply for banking services per se.

Table 6: Comparison of agent services allowed

Services allowed	Tier one	Tier two	Tier three
	Limited service outlet	Service outlet	Full branch
Payments	X	X	X
Cash disbursement	X	X	X
Deposit taking		X	X
Savings		X	X
Loan repayment		X	X
Loan disbursal		X	X
Account opening			X
Credit approvals			X

Source: Drawn from Mas and Siedek (2008; Annex 2)

But does tiers one and two constitute a 'branch', in terms of regulatory treatment, whatever name may be given to it by the bank? The current definition of branch in Kenya is wide: any [permanent] premises at which the bank transacts business. The changes to the Banking Act introduce the concept of "place of business" which is defined to include a branch, agency and mobile unit.

In the US, where branching remains relatively controlled by developed country standards (linked in part to the achievement of social policy objectives such as the Community Reinvestment Act), regulators have often been called on to provide rulings on what constitutes a branch. For example, in answer to a query about a specific case, the FDIC's legal counsel responded with the following definition that includes a statutory and a court interpretation:

"Generally, the statutory definition of "branch" includes any bank facility at which one or more of the following activities is carried on: receiving deposits, paying checks, or lending money. These activities have been collectively referred to as the "core banking functions." Engaging in one or more of these functions is clearly one of the indicia of a branch; however, it is not the sole determinative factor. Courts have determined that there are two additional criteria necessary in order for a facility to be considered a branch. First, the facility must be established by the bank. Second, the facility must provide the bank some advantage in its competition for customers; it must offer the bank's customers some convenience that gives the bank a competitive advantage over other banks."⁸

This specific test is unlikely to be helpful in Kenya, but the development of clearer 'indicia' may be. Clearly, both branches and agents differ from other alternative electronic channels such as ATMs or internet banking in one crucial respect: they both involve human service, rather than self-service.

This introduces both the potential for greater outreach, since ongoing surveys show that low income people in particular prefer human contact to the use of machines such as ATMs, but also different risks.

The main conceptual distinction between branches and agents is driven not by the services provided (since in theory the agent could provide any service allowed by law and for which it has delegated authority from the principal) nor the location (since a branch may function within the premises of another entity) but rather by the reality that branches are staffed by bank employees under an employment contract of some sort; whereas agents are not employees of the bank but operate under a service contract. The main difference relates to the degree of control exercised by the bank: the employment contract, in theory again, gives the employer greater control over the actions of the employee, whose sole or main focus is their employment. This control gives the bank more comfort to delegate authority and functions to represent it; whereas an agent is likely to carry on other business as well and is controlled solely in terms of the agent contract. Even this distinction can blur somewhat since bank employees may be part time and be highly incentivised (sales staff, for example); while agent remuneration may also have a fixed basic component, as with non-bank correspondents in some Indian networks. The thinness of this conceptual distinction highlights that the nature of bank touch points is likely to undergo considerable change, especially following a change in the law to allow agents. Based on the current reality in Kenya, drawing too fine a distinction in regulation between the services of branches and agents may limit the ability of individual banks to adapt their own cultures of governance and management to optimise their distribution. The main aim of changing the law with respect to distribution should be to enable banks which have the capability to deploy varied channels to make this distinction themselves, while ensuring that risks are adequately managed.

While the conceptual distinction between a branch and an agent may be thin, from a public perception, there is a critical distinction: a bank branch carries an implicit guarantee of liquidity by the bank to its clients, whereas an agent does not. In other words, if clients discover that a bank branch does not have cash to service withdrawals, this is a serious problem which may have systemic consequences, at least in the local area, if a bank run is triggered from resulting fears. Conversely the shortage of cash at an agent is likely to lead to the client looking for another agent, much as they would if an ATM were out of service. This indeed has been the experience with M-PESA agents, where as many as one in five of survey respondents in a 2008 survey had encountered this issue, but in general, merely went to another agent.⁹ Banks therefore spend considerable resources to make good on the implicit liquidity guarantee at their branches. Preserving this distinction in the public mind, through signage supported by public awareness-raising linked to the rollout of agents, may be an important factor in managing this risk going forward.

⁸ Robert C. Fick, Counsel FDIC--97--6, September 26, 1997
<http://www.fdic.gov/regulations/laws/rules/4000-9860.html>

⁹ FSDK Survey of M-PESA users, 2008

Table 7: Risk differences between branch and agent

Solvency risk	Over-reliance on any one channel, or unit of a channel, exposes a bank to solvency risk, i.e. the risk of failure if that channel fails. This is true for branches as much as for agents. However, a distinction with agents is that, unlike branches, agents could terminate contracts and cease to be agents in a short space of time, especially if managed through a network manager, whereas systematic failure of a branch network as such is unlikely. However, the countervailing solvency risk connected to branches is that the much higher fixed and ongoing costs associated with an unprofitable branch are much more likely to drag down the solvency of an institution.
Liquidity risk	As discussed above, banks manage the liquidity risk at branches as a core competence; whereas agents manage their own liquidity and are at risk for their own cash. Agent liquidity required to meet the demands of financial service products will compete with other non-financial products demanded by customers. This places a distinctly different management process for agents vs bank branches. In practice the banks relying on agents will want and need to support and oversee the maintenance of liquidity at agents to avoid client disappointment and frustration.
Operational risk	The operations of both a branch network and an agency network expose a bank to operational risks, linked to the robustness and integrity of systems and procedures. The extent of risk is not ex ante higher at any one: branch staff inside bank premises may have more ability to defraud the bank than the outsider agent; but it may be harder to monitor and enforce procedures and controls across agents. Bank staff also maintain a generally higher level of training and are directly supervised. However, in both cases, real time IT systems with adequate controls are a key risk management device.
	In terms of physical security risks, while bank branches currently have sufficient physical security standards, agents also must manage their existing physical security risks to protect their stock and cash. As such, agents have proven that they are capable of managing their physical security requirements which would extend to financial service products.
Settlement risk	If an agent operates other than on a real time basis, there may be settlement risk (a form of credit risk) to the bank since the agent may have received deposits which are not yet credited to the bank but for which the bank is responsible to the client. The existence of real time systems eliminate this risk however; and in their absence, this type of risk (more common in Latin American agents) has to be managed very carefully to ensure that the exposure of the bank to any one agent, or agent network, is not excessive.
Financial integrity risk	The risk that the bank could be used for money laundering or terrorist financing is again proportional to its systems and procedures to ensure adequate Know Your Customer procedures and to maintain surveillance of accounts. Again, there may be limited risk distinction between these procedures being followed by a bank staff member or an agent, if both are properly trained and supervised; however, it is likely that bank staff would be better trained and easier to monitor and supervise for the bank. Concerns that agents may not properly follow procedures have led to many countries prohibiting agents from opening accounts.
Reputation risk	The standards of service by both staff and agents expose banks to reputation risk - i.e. that their brand will be tarnished. The risk may be heightened with far flung agents although not necessarily; in either case, creating the procedures, incentives and penalties to manage client service is important. Banks should be monitoring the risk profile of the agent channel in order to compare and understand how to maintain best practice across the agent network.
Systemic risk	As discussed under solvency risk above, there is risk that illiquidity at a branch could lead to risk of a run on the bank and even the wider banking system in the area at least. This is different for agents. Agent networks could bring systemic risk to the banking system only if agents were shared, through a network manager say, and sufficiently concentrated so that failure by that network affected more than one bank. Furthermore, the evidence that allowing agents will undermine the viability of existing branches and bring systemic risk to the banking system is limited to date.

4.2 RISKS OF BRANCH AND AGENT CHANNELS

The conceptual distinctions between branch and agent channels are therefore relatively limited. However, are there fundamental differences in risks which should affect the approach to supervision? Mas and Siedek (2008; Annex 2) provide an indicative list of possible risks associated with agents and how to mitigate them, but most (theft of cash, identity theft, errors and fraud on receipts, bank errors or fraud, fraud by 3rd parties) are not limited to agents. Using the conceptual definition above, the table below highlights the possible distinctions in risk profile for traditional categories of banking risk.

As noted earlier, the development of real time IT systems enabling client balances to be credited and debited simultaneously changes the nature of risk – for the bank, the agent and the client. In fact, the typical cash-in or cash-out transaction performed by m-payment agents in certain models today hardly constitutes traditional agency at all: for example, any M-PESA user could transfer e-value to another in exchange for cash as a pure transaction without having an agency relationship with Safaricom. This transaction is not performed on behalf of M-PESA: it is performed as a service to the client using the M-PESA system which gives comfort to both parties. The only difference is that M-PESA has entered an agreement in terms of which they pay a defined group of people, called agents, a commission to undertake these transactions; and especially to do what no other user can do – open new accounts, in part because it is necessary to control this process. In the absence of real time transactions, when the agent may cause settlement risk to the bank, the risks are very different.

This discussion has also bearing on the questions of consumer protection: bank staff can abuse customers just as agents can. However, in general, banks perceive the risk with own staff to be lower, due to their generally higher levels of training and greater ability to monitor and enforce penalties. Of course, the risk of actual loss of cash by the customer is substantially reduced in either case where there are real time systems and the customer is aware of the form of receipt to expect in exchange for a deposit or payment – whether paper/hard copy (as previously required in some agent systems such as Colombia) or electronic (e.g. SMS). Another difference between branch and agent is that the pricing structure for agents may incentivise forms of behaviour which may harm the interests of clients: for example, if the commission structure is partly fixed, agents may require clients to split transactions to maximize commission, which is not to the client's advantage. Transparency of terms at the agent is therefore the best safeguard, since the most direct remedy is for the informed customer to refuse to transact at an agent who does this.

This discussion of the differences in risk between branches and agents therefore points to the conclusion that the differences in risk are more likely to result from the nature of IT systems and the management and oversight, than from the nature of the channel itself. In theory at least, the branch licensing process has allowed regulators to consider the capability of the bank to manage new

branches at each discrete application point. As the next section will argue, the same underlying consideration should apply to the capability to manage agents as well.

4.3 GENERAL APPROACH TO CHANNEL REGULATION

The de facto position in Kenya today with respect to bank channel regulation and supervision is the so-called 'orthodox' one of individual branch licensing. As section 3 showed, this approach is also still followed by a large number of developing countries. The main supervisory issues associated with this approach are the resource cost involved for each application; and the risk that it limits innovation in a wider range of branches. Since the minimum standards set by the CBK for branches do not diverge materially from those which banks themselves apply,¹⁰ changing to a notification only regime for bank branches will most likely have little consequence on the minimum standards used by banks for standard branches but will allow for a wider range of bank service outlets to emerge.

On the whole, developed countries (and also South Africa, Mexico and Colombia among the reference countries) tend to follow a 'systems' approach in terms of which individual branches are not licensed: rather, the issue of channel policy and performance is subject to ongoing discussion with bank management during supervisory visits and reviews, but not given particular focus during on site supervision unless there is a reason to do so. This approach assumes and requires a maturity both among supervisor and supervised entities to ensure that the discussion is adequately informed and focussed about the topic: this is not always the case in developed countries. This is obviously much harder to achieve with the deployment of a totally new channel such as agents.

Indeed, the issue of agents forces the case for holistic change in the approach to licensing bank distribution since it is not feasible for CBK to approve each agent; and as the previous section has shown, this is indeed not the norm in a number of the reference countries with large numbers of agents. At the same time, the unknown risks associated with establishing a new channel justify at least a staged, considered supervisory response: it would be difficult – for bank and supervisor – to have an informed discussion about the risks of the agent channel in a market where this approach has not been allowed before.

In contrast, the middle ground offered by the 'so called' market-based approach appears to offer the most promise for CBK in that it supports a move away from setting detailed standards, whether for branches and agents, and licensing each, in favour of carefully specifying the risks attached to each channel, calibrating those risks and requiring evidence that:

- i. The risk of loss at any one channel unit (whether branch, agent or

¹⁰ Based on interviews conducted for this study the selection of banks indicated that the security standards required by the CBK are adequate and reflect good business practice. The banks did not note that these standards are excessive and indicated that they would continue to maintain these standards if the regime moved to a "notification-only" standard

network if managed through a manager) exceed defined thresholds which may be linked to bank capital and maturity; or

- ii. If they do, offsetting insurance (by sound insurer) is available.

Currently, we understand that short term insurance is widely available (and already carried) by banks in Kenya to cover risk circumstances including:

1. Loss of cash in branch or in transit to any branch as result of robbery;
2. Fidelity: loss of money through fraud or dishonesty of the insured employees;
3. Direct monetary loss arising from failure of electronic information systems to record or report transactions in timely and accurate manner;
4. Property: loss resulting from fire, theft or damage to physical property such as a branch.

The availability of insurance (from sound insurers) to extend to cover the second category of cover (fidelity) in relation to agents could be investigated further. However, we are aware that existing m-payment schemes already carry insurance related to losses resulting from their agents so that this should not be a problem in principle. Similarly, M-PESA agents themselves carry insurance relating to risk circumstances 1 and 2 above, through a group scheme offered by M-PESA. Similar group schemes may be devised to cover risks at the agent level as well.

In general, the ability to undertake such an approach requires that there is sufficient capability in banks and BSD to identify and calibrate risk; as well as the capacity to offset certain risks. This capability and capacity can be built over time, implying the need for an evolutionary approach to the levels of control, with analysis of evidence and feedback loops into supervisory procedures.

Chapter 5

ALLOWING BANK AGENTS: MAIN REGULATORY CHOICES AND OPTIONS

As discussed earlier, the case for accepting bank agents in Kenya has already been accepted by policy makers and regulators in Kenya; the question is how to regulate and supervise this. This section lays out the key regulatory choices involved, the options connected to each choice, and reviews the evidence base for suggesting a preferred option for Kenya.

In table 8 which discusses choices, we refer to several important concepts which are explained in more detail here.

5.1 AUTHORISATION OF AGENT NETWORK MANAGERS

Since the business of acquiring and managing agents is subject to economies of scale and requires some specialization, it is not likely that all banks will wish to have agents, and certainly not on scale. It is more likely that network managers could emerge, as they have in countries like Brazil, which recruit agents and manage the network for a fee. In Kenya, Paynet is a likely example. There is little doubt that it makes sense to enable and even encourage the emergence of such managers, alongside banks which have the capability to do it themselves. The regulatory question is therefore how to handle these acquirers – whether as facilitators of underlying contracts directly between the bank and each underlying agent, or rather as master agents with sub-agents under contract.

As table 5 showed, other jurisdictions allow either route. Clearly, the master agent which manages a large network of sub-agents should be subject to heightened scrutiny both by the bank which appoints it, and potentially by the supervisor, since operational and other risks would be more concentrated. If the master agent works on behalf of a number of banks, as maybe desirable if there is not easy and affordable interconnection from the acquiring bank, then it may be all the more important that the CBK focus on these entities since individual banks using the network may not be able to take a holistic view of the performance and risks. It is important to note that CBK's only authority over such entity (as with any non-bank agent not subject to the Banking Act) comes through the relationship with the bank which appoints them, hence the proposed guidelines should provide as a matter of course that:

- The contract with the agent would require that they provide direct access to information to CBK as required; and
- That if sub agents are appointed, they too must be registered in the agent register.

Similarly, M-PESA (operated by Safaricom) may be seen as a special type of master agent for the purpose of transferring value from an M-PESA account to a bank account. Already, it is possible to repay bank loans using M-PESA. Acceptance of the principle of allowing agents to take bank deposits suggests that this permission should now be extended to allow MPesa users to make transfers from their M-PESA accounts into their bank accounts provided that there is a suitable agency agreement in place between the bank and M-PESA.

The master agency agreement would have to define clearly the settlement risks, time frames and conditions under which such transfer takes place. Note that the sub-agents in the case of M-PESA are not necessarily bank agents (while they are payment agents, opening accounts and accepting and receiving cash): the M-PESA agent as M-PESA agent only transfers its own e-value float in exchange for cash, and does not initiate or accept a deposit on behalf of a bank. Safaricom as the operator of M-PESA may act as a bank agent by offering to transfer e-value to the bank deposit on specified instruction from the client.

5.2 ESTABLISHMENT OF A REGISTER OF AGENTS

One of the biggest risks faced by banks is agent fraud. Although on-line systems limit the risk to clients from this source, the banking industry has a strong interest in ensuring that dishonest agents do not get fired by one bank, only to appear, in another form, as agents of another bank. A further risk is agent churn, whereby for a variety of reasons, agents do not long stay agents of any one bank but either transfer to another bank, or else drop out of the system. This churn factor affects the cost of maintaining an agent network. These are good reasons to establish a public electronic register of agents, whereby agent acquirers are required to enter the names¹¹ of all new agents in a central electronic database and keep the list updated for changes. The list should retain the history associated with any entity and with its key officers. In this way, each bank will be able to check before acquiring an agent whether that agent or individual has been an agent before, and if so, can obtain a reference from the other entity. The register would not have to function fully like a credit bureau, containing negative or positive information, but rather like a credit register, merely listing the names and dates of the agent relationships. While further feasibility analysis of this suggestion is required, it may be feasible to encourage the prospective credit bureaus¹² to be licensed by the Central Bank of Kenya to take on this role as it is part of their core competence, thus reducing the initial investment in establishing the register and reducing the burden on CBK supervisors.

¹¹ Perhaps together with the names of owners and directors to ensure traceability even the legal name or entity changes.

¹² Following the Credit Reference Regulations for the Banking Sector in February 2009 no credit bureau is offering any services to the banking sector. The regulations require the licensing of bureaus for the banking sector by CBK. Currently the two bureaus referred to have applied for licensing by CBK.

Table 8: Main regulatory choices, options and evidence

Key choice	Options	Discussion/ Evidence base
1. Who can be agents?	1A. Any entity appointed by bank under outsourcing agreements	<p>In most markets which explicitly allow agents (with the significant exception of India), regulators tend not to limit the types of entities which can be agents (other than to legal entities) but leave this to the discretion of the acquiring bank. However, even the setting of minimum standards such as legal persona can be problematical, since it is not clear ex ante what standards are necessary or appropriate, and allowing variation seems appropriate provided that the acquiring bank is in fact aware of and able to manage the risks involved.</p> <p>For this reason, we recommend 1A for CBK.</p>
	1B. Any entity meeting minimum standards set by regulator	
	1C. Only certain types of entity (e.g. non-profits)	
2. How to regulate agents?	2A. Require approval of each agent	<p>Other countries vary in how much discretion is given to banks to appoint agents without pre-authorisation by the regulator. This is often, but not always, linked to the approach taken to approving new branches. However, approving each new agent is an onerous approach which is unlikely to give much benefit in terms of risk management but which will add significantly to the supervisor's burden.</p> <p>We suggest therefore a two phase process, in line with 2B.</p>
	2B. Require notification of each agent after general authorisation to operate an agent channel	<p>Firstly the regulated institution wishing to initiate agent operations would need to seek authorisation from the CBK to be an agent acquirer. This approval would be based on demonstrating the likely capability to manage an agent network in line with the bank's market focus and strategic plan. Other potential areas of review would include the bank's procedures to identify agents, a sample of the standard agent contract, transaction limits, as well as the security of the system they intend to use for linking agents to the core banking system.</p>
	2C. No notification required but general approval to acquire agents	<p>Then, an approved regulated institution authorised to operate an agent network would be allowed to acquire basic agents on condition that:</p> <ol style="list-style-type: none"> i. The bank notifies CBK regularly on new appointments; and, ii. The bank enters salient details of each new agent into a register of agents - see below - when/if such a register is created.
	2D. No approval or notification required	<p>Regarding the approval of certain types of agents, such as those offering more complex services such as credit, the regulated institution could be required to seek additional permission to operate a different tier of service, if this was not approved in the original approval process.</p>
3. Are there any banking services which agents cannot do?	3A. No: can do all services allowed in terms of service agreement	<p>The general norm is for agents to be able to handle all types of services on behalf of the bank with two major exceptions:</p> <ul style="list-style-type: none"> ▪ Opening new accounts (as opposed to collecting the application forms); and ▪ Granting credit.
	3B. No account opening	<p>However, as the preceding section showed, around a 25% of African countries and a majority of developed countries allow agents also to open accounts. This case is strengthened if the function is limited to a particular category of accounts which are considered to be low risk for money laundering purposes because of having restricted features and maximum transaction sizes. Such a categorization does not exist today in Kenya, but there is good reason to consider this, linked to the passage of agency guidelines i.e. account opening by agents should be allowed linked only to a specific category of low risk account with limited CDD.</p>
	3C. No credit granting	<p>However, there does appear to be good reason to prohibit agents who perform these other services from granting credit (i.e. making the credit decision, as opposed to taking and forwarding applications): because of the record of credit agents in making poor decisions resulting in bank failure, this is a primarily prudential measure, which is not currently ruled out but neither should it be enabled in terms of the purpose of these agency laws.</p>

Key choice	Options	Discussion/ Evidence base
4. Should agent exclusivity be ruled out?	4A. No	<p>In general, most regimes do not rule out exclusivity of agents; this is because exclusivity may better incentivise the rollout of new networks and it may enable better risk management if there is one principal and its agents. Exclusivity may only become an issue of standard competition policy if a particular network shows evidence of abusing its dominance. The legislation on agent banking may provide a framework to appropriately monitor and enforce a positive competitive environment.</p> <p>Not prohibiting exclusivity is not the same thing as allowing for multiple agencies which is explicitly provided for in certain countries - i.e. enabling an agent to serve more than one institution. This may be required when a network manager acquires agents on behalf of multiple banks, with each of which the agent would require a relationship.</p>
	4B. Yes	<p>Note that exclusivity here refers to the acquiring relationship which would limit an agent to serving one bank directly; this is different from the concept of interoperability, whereby clients of multiple banks could transact through the (exclusive) agent of another bank. It is generally desirable for banks and agents that as many customers as possible be able to transact through a financial touch point, but it is equally possible that acquiring networks may not enable this on their own without regulatory pressure or encouragement.</p>
5. Should agent exclusivity be ruled out?	5A. No	<p>The conventional wisdom is to prohibit agents from adding on fees. Instead fees are paid by the principal who alone may recover fees from the customer. The reason for this limitation is usually the risk of customer exploitation by agents; however, it is possible to argue that with clear and adequate disclosure of fees at point of sale, the risk may be reduced: the customer is not forced to transact at any particular agent.</p>
	5B. Yes	<p>However, this choice is settled by an external source: under current banking law in Kenya (Banking Act S.44), the CBK must approve any increase in 'bank rate or other charges'. Since agents are offering the services of banks and any additional fee charged by them would likely constitute an increase in bank charges, these would be subject to the act as well. It would simply not be practical or desirable for CBK to have to review pricing decisions by all agents hence the recommendation that agents not be able to charge extra.</p>
6. Can off-line cash transactions be done?	6A. No	<p>In order to maintain sufficient control of the operating environment and ensure that agents can in fact meet their liabilities, a real time connection must be maintained in order to ensure that the customer account can clear the respective transaction. This will reduce the credit risk to the agent, and increase confidence in the accuracy of the system. There is therefore strong reason to prefer real time connectivity, and indeed this is required of agents in many markets, including some discussed here.</p>
	6B. Yes	<p>However there may be scope to allow exemptions to this preference in the name of greater access until connectivity is ubiquitous: for example, agents operating in remote areas that require financial access may not yet have real time connectivity. These special circumstances would require the bank to deliver as part of its business plan a description of how off line agents would manage off-line transaction, how often agents would be required to 'connect' and how the bank would manage the intermittent clearing and settlement process.</p>
7. Is there a need for special consumer protection/ recourse mechanisms to cover agents?	7A. No - existing arrangements adequate	<p>The consumer protection regime in Kenya is fragmented and unclear at present. Since the spread of agents will potentially greatly increase the outreach of the financial sector to new customers, it is necessary to consider how to provide effective protection. Most existing regimes require that the principal assume full liability for all acts of the agent, and require disclosure of agent terms and pricing. Few have set up specialized recourse channels for complaints about agents, referring them instead to traditional banking channels (ombuds, etc).</p>
	7B. Yes	<p>In Kenya, too, it is proposed that the responsibility for pricing transparency, appropriate procedures and adequate recourse be left primarily with the acquiring bank. However, because of the heightened risks, we would suggest that banks which seek to be agent acquirers be required to demonstrate that they will implement adequate mechanisms to receive complaints about agents (for example, requiring that they set up a call center which is manned during the hours at which agents transact business to receive complaints and provide further information). Thereafter, banks with agents will be required to report regularly on agent complaint statistics in a standardized form which will enable CBK to analyse trends and industry benchmarks so as to prioritise when further engagement or intervention may be required.</p>

5.3 COMPETITION AND EXCLUSIVITY

The recommendation under Choice 4 above suggested that prohibiting banks from entering exclusive agency arrangements may discourage network formation. In addition, exclusive agencies may result in tighter supervision and control by the single principal than if there were multiple principals, each seeing only a portion of the business and having less influence over the agent. Exclusive agency arrangements are not per se prohibited in most regulatory regimes, although there are some signs of concern in particular market circumstances: for example, in 2008, the Central Bank of Nigeria prohibited Nigerian banks from entering new exclusive money transfer agent agreements with international money transfer operators (IMTOs) under forex regulations. This ruling applies only to new agreements; and occurs in an environment in which market choice was dominated by a few major MTOs. In 2004/5, the US Department of Justice conducted an anti-trust investigation into whether the contractual relationships of IMTO with its agents were harming the consumer or not. In an environment of intensifying competition and wide choice, they concluded that exclusive agency did not harm the US consumer. Some Latin American regimes such as Colombia explicitly enable multiple agency i.e. allowing the same agent to be acquired by multiple banks. Note that this is not the same thing as prohibiting that only one bank can acquire; and in practice, most agency relationships may be exclusive.

The underlying policy concern here must be carefully identified in order to target its resolution. For example, simply prohibiting exclusivity could result in duplication of acquiring expense and equipment resulting in inefficiencies in distribution. This duplication may be seen in markets where interconnection between networks and banks may be limited or expensive, such as Brazil. The more relevant objective than competition per se may be to enable clients of any bank to use any agent: this would likely not come from prohibiting non-exclusivity but rather from enabling or even requiring interoperability of the acquiring banks (even if their agents are exclusively acquired). This is an important issue for the retail payment system which has been identified and is being addressed. However, it is unlikely that agent guidelines can get to grips with this complex issue, beyond articulating a clear vision of interoperable agents.

However, the biggest competition issue with respect to bank agency may lie outside the domain of bank regulation: some banks fear that the de facto allowance of non-bank agents over the past three years has allowed M-PESA to establish a dominant position through acquiring the most desirable agents under exclusivity arrangements which would limit their ability to offer similar services (which would include key cash in/cash out services). Whether this fear is justified remains to be seen: the test will be whether banks and indeed other non-bank payment providers can still build new agent networks to compete with M-PESA. However, even if it is justified, bank distribution policy alone cannot address it; indeed, allowing banks to acquire their own agents directly, and enabling other network managers to emerge, may be the best contribution

which the BSD can make to this issue in the medium term. The resolution will be closely related to the stance taken by the CBK to the regulation of e-payment agents: it may be that in the course of regulating e-payment providers, the NPS division of CBK could disallow exclusive contracts where it believed that they were not in the public interest. However, such issues are usually more the domain of the Competition Commission.

Chapter 6

CONCLUSION

6.1 THE CASE FOR CHANGE

This report has portrayed the current regulatory reality of bank distribution channels in Kenya against the broader international background, leading to two main conclusions captured in table 8 below:

- Bank agents: there is good local reason and international precedent to allow banks to have agents. This case has already been accepted by CBK in the Finance Act 2009; the issue is not why but how to change.
- Branch licensing regime: there is also a case to liberalise the current branch licensing regime sequentially and progressively in tandem with the agency regime.

The case for these proposed changes is built on three main pillars:

Table 9: Summary comparison of current and proposed approach

	Current approach	Proposed approach
Branching	Bank branches must be individually authorised with physical inspection of application of defined standards prior to opening	Banks must be authorised to operate any channel, including branches, on the basis of ability to manage the risk, with notification to CBK of all branches. Precise minimum standards are not necessary.
Bank agents	Not allowed for deposit taking as defined, although agents are already used by banks for other banking services	Banks must be authorised by BSD to operate an agent channel based on their demonstrated ability to manage the risks; and must then notify CBK of the appointment of each agent using a public register.

1. *The inclusion and growth imperative:* The government of Kenya's Vision 2030 strategy envisions Kenya reaching middle income status by the year 2030. Based on current MIC norms for countries like South Africa or Brazil, this would mean that the percentage of adults banked would rise from the current 22% to around 60%. Assuming currently population growth rates, this would mean adding some 17 million adults to today's banked population of some 5 million. To serve all these people, using MIC norms of around 100 total bank touch points per capita (excluding POS for purchase only), Kenya will need in total 22,000 proper banking service points, an increase of ten fold on today's number of some 2,300. If that increase comes through developing the same bank distribution system as observed in most MICs today, the capital cost of the increase would likely be prohibitive: the cost would certainly inhibit greater financial inclusion which will likely come with declining average revenues per customer as more low income clients are taken on. There is therefore a need to facilitate the emergence of multiple large economically viable networks of bank agents, which can reduce the transactions costs to consumers undertaking banking transactions.
2. *Emerging international practice:* Two thirds of countries in the world already allow banks to appoint agents for deposit taking; by implementing the proposed changes, Kenya would only be catching up. However, Kenya has the opportunity to go beyond the current 'orthodox' norm of low income countries by implementing a channel-based supervision regime in which a bank is authorised to operate a particular channel, including agents, but that individual outlets of that channel – whether branches or agents – are only notified to the supervisor. In this, Kenya would be following international trends in reference countries like Colombia, Mexico and South Africa; and in many ways, reinforcing its own growing reputation for openness to financial innovation. It is not necessary or appropriate for now that the liberalisation of channel regulation go as far as the systems approach proposes, in which even notification is not necessary; but rather that a sequential risk-based process of liberalisation be followed. The evidence from countries which have allowed agents, such as Brazil, on a successively liberalised basis, is that these new channels do not undermine branches per se in ways which are destabilising for the banking system, although they may rationalize the branch network in ways which are both necessary and appropriate for greater efficiency and inclusion.
3. *Efficient use of supervisory capacity to focus on understanding and monitoring new and emerging channel risks:* This report has highlighted that considerable resources are spent by BSD (and banks) in the current supervisory framework on authorizing branches, with the bulk of the time focused on matters such as compliance with the checklist based on standards which banks themselves would usually apply. The current approach focuses on very narrowly defined operational risks specific to one type of outlet, while giving less focus to the mounting risks of other electronic channels such as internet, ATM and POS which are already growing in volume and importance for many banks. The approach proposed here would seek to focus scarce supervisory resources on understanding the risks of the channel and the mitigation strategies and policies ex ante, and then ex post monitoring.

It is important to note, however, that regulatory changes such as these cannot itself result in the desired outcome of pervasive affordable bank distribution: for this to happen, regulation must enable viable competing business models for acquiring and managing agents to develop. Kenya already has one model of payment agents – the M-PESA network – which operates at large scale. Experience in other countries suggests that retail banks are not all aggressive or successful acquirers of agent networks, indeed, typically only a few may

be; and that the agent management business is subject to strong economies of scale. It is therefore not viable or desirable to have a large number of small fragmented, disconnected agent networks.

One of the main tests of the Kenyan approach to channel regulation is whether it will enable the emergence of sufficient large scale networks, which can both compete and potentially interconnect as the payment system develops. Even the approach taken and level set for charging fees for branches and agents will influence the business cases of different approaches. It is unlikely that there is market space for more than three or four larger networks of agents to emerge, and the policy approach should facilitate this outcome in a sequential, risk-based manner.

6.2 RECOMMENDATIONS AND NEXT STEPS

We recommend the following actions by CBK:

1. *Draft and issue guidelines for banks to acquire agents:* since regulations under the Banking Act must be promulgated by the Minister of Finance, these may take some time to finalize and subsequently to change. However, there is a need to guide and provide clarity to banks around the framework introduced by the Finance Act 2009. Therefore, we recommend that CBK draft guidelines embodying the main choices and procedures with the aim of issuing these as guidance which can be updated in response to experience, rather than regulations. The guidelines should embody and signal the clear intent.
2. *Investigate the feasibility of establishing a central register of agents:* the advantages of developing a central electronic register of agents were described in the text; however, the feasibility of this proposal requires further discussion to answer key questions such as: who would host it (for example, CBK or a third party data base provider)? What information and what interface required? Who would fund the cost of developing and maintaining? For this reason, we recommend a short feasibility study which would set out the concept and explore feasible methods to implement it, in order to reach a decision on whether to proceed.
3. *Confirm that there is adequate coverage available from insurers to cover operational risks associated with deployment of agent channel:*¹³ bankers and other financial service providers already take cover from insurance companies related to agent operations. This could lead to the requirement that banks which wish to acquire agents carry this insurance, at least until their capability to manage agents has been demonstrated.
4. *Engage with NPS staff over emerging e-payment framework to ensure more level playing fields between bank and non-bank agents:* this report specifically addresses bank agents, and yet, as pointed out at the beginning, Kenya already has 12 000 agents of one non-bank payment scheme, with other non-bank schemes also seeking to acquire agents. We are aware that the National Payment System Division of CBK is preparing a new framework for regulating electronic- and mobile-payments. CBK should ensure that, as far as possible, the provisions for agents of non-banks align with those of banks so as to reduce the unlevel playing fields.
5. *Propose legislation to change the requirement for branch licensing during 2010:* changing the current branching approval process will require an amendment to section 8 of the Banking Act to provide that branches, as permanent premises of banks, do not require authorisation in each case but rather that specified details about them must be notified to CBK in advance of opening. These amendments should be drafted so as to be inserted in the 2010 Finance Bill so that the changes can be implemented in 2010.
6. *Investigate the capacity and training needs of BSD to undertake these functions:* the introduction of new channels and new players to the banking system requires new skills and capacity in BSD to understand and oversee these risks. In tandem with recommendations 1 and 4 above, it is necessary to identify the training needs of supervisors in order to authorize agent acquirers; and to identify additional roles which may be necessary – for example, analysing bank reports on consumer complaints about agents in order to prioritise follow up. The move away from individual branch licensing could free up existing staff time for this purpose, but the supervision processes and capacity required to run them deserve attention in advance.

¹³ Operational Risks associated with agents are outlined in table 7: Risk differences between branch and agent

REFERENCES

Relevant country level regulations and guidelines

- *The Banking Act, Chapter 488*. Kenya: http://www.centralbank.go.ke/downloads/acts_regulations/Banking_Act.pdf
- Central Bank of Kenya. (1999). *Prudential Guidelines for Institutions Licensed under the Banking Act*: http://www.centralbank.go.ke/downloads/acts_regulations/prudential_guidelines_2006.pdf.
- *Proceeds of Crime and Money Laundering (Prevention)*, section 8. Kenya.
- *Opening of New Place of Business, Closing Existing Place of Business or Changing Location of Place of Business*, section 11. Kenya.
- The Superintendent of Banking, Insurance and Private Administrators of Pension Funds (SBS). *Resolution S.B.S. No. 775 -2008 Regulation of Opening, Conversion, Transfer or Closure of Offices, Use of Shared Premises, ATM's and ATM Correspondents*. Peru.
- Resolution 3110-03. (31.7.2003), *Amendment and consolidation of rules governing the contracting of correspondents in Brazil*, Banco Central do Brasil. Brazil.
- Circular 14a, with attached annexes 57, 58, 59 (December 2008). http://www.cnbv.gob.mx/circularesbancarias.asp?circ_id=14&anio=&circ_asunto=. Mexico.
- Superintendencia Financiera de Colombia. *Decree 2233, Article 2, Chapter 9, Rules Relating to Services Provided by Financial Institutions Through Correspondents*. Colombia.
- Reserve Bank of India; Master Circular on Bank Authorisation, DBOD.No. BL.BC.21/22.01.001/2008-09. (July 1, 2008). http://www.rbi.org.in/scripts/BS_ViewMasCirculardetails. India.
- *The Banks Act*. (1990). <http://www2.resbank.co.za/internet/Publication.nsf/>. South Africa.

Additional relevant sources

- World Bank. (2008). *Global Payment system Survey*, available via www.worldbank.org
- World Bank. *World Development Indicators*, <http://publications.worldbank.org/WDI/>
- Consultative Group to Assist the Poor (CGAP). (2009). *Financial Access: Measuring Access to Financial Services around the World*. <http://www.cgap.org/financialindicators>.
- Honohan, Patrick. (2008). *Journal of Banking and Finance*. Vol 32, No. 11, November 2008, pp. 2493-2500. *Cross-Country Variation in Household Access to Financial Services*.
- Mas, Ignacio & Hannah Siedek. (2008). *Banking through networks of agents* CGAP Focus Note 47.
- Claire D. Matthews & Yiping (Anna) Ding. (2006). *Branches Around the World* available via http://papers.ssrn.com/sol3/papers.cfm?abstract_id=958859

ANNEX A: PEOPLE MET

Institution	Name	Title
Central Bank of Kenya	Fredrick Pere	Director, Bank Supervision
Central Bank of Kenya	Matu Mugo	Assistant Director, Bank Supervision
Central Bank of Kenya	Alex Nandi	Assistant Director, Bank Supervision
Central Bank of Kenya	Peter Gatere	Manager, Bank Supervision
Financial Sector Deepening, Kenya	David Ferrand	Director, FSDK
Equity Bank	John Staley	Head of Back Office Platform
Equity Bank	Sam Kamiti	Head of Alternative Channels
Barclays Bank	Victor Malu	Senior Manager, Consumer Banking
CFC Stanbic	William Lynch	Director, Personal & Business Banking
CFC Stanbic	Robert Masinde	Regional Head of Global Transactional Banking
Chase Bank	Duncan Kabui	Chief Executive Officer
Chase Bank	Parmain Ole Narikae	General Manager
Chase Bank	George Mbira	Head of Risk
Post Bank	A. Nyambura Koigi	Managing Director
Post Bank	Vincent Makori	Marketing & Business Development
Kenya Commercial Bank (KCB)	Alex Chumo	Deputy Director, Operations and Technology
Kenya Commercial Bank (KCB)	Philip Gavuna	Head Channel Expansion Project
PayNet	Bernard Matthewman	Group Managing Director
PayNet	Julie Matthewman	Director, Operations and Projects
Commercial Bank of Africa (CBA)	Isaac Awuondo	Managing Director
Commercial Bank of Africa (CBA)	Jeremy Ngunze	Group Head of Business Management
Commercial Bank of Africa (CBA)	Gladys Akinyi	Head of Personal Banking

ANNEX B: CENTRAL BANK OF KENYA BRANCH OPENING CHECKLIST

		YES	NO	COMMENTS
1	TITLE DEED/LEASE AGREEMENT			
	(a) Title Deed			
	Is the institution registered as owners of the premises? Obtain a copy of the title deed.			
	(b) Lease Agreement			
	Obtain a copy of the lease agreement.			
	Is the lease signed by both parties?			
	Is the lease registered?			
	What is the duration of the lease and is it long enough to allow for economical use of the permanent improvements?			
	Is the landlord's approval for interior design/alteration obtained and other conditions satisfied?			
1.2	APPROVAL BY RELEVANT AUTHORITIES			
	Have the following approvals been obtained where necessary:-			
	o Local Authority			
	o Security firm - regarding physical security of staff, premises and assets.			
	o Approval by K.P. & L Co. for electrical wiring of the premises.			
1.3	BANKING HALL			
	Does the Banking Hall suit the type of business to be undertaken in the premises?			
1.4	STAFF OPERATING AREA			
	Is space allowed for each individual employee equal to or more than 350 cubic feet?			
	Are sufficient and suitable sanitary conveniences for employees provided and kept clean?			

		YES	NO	COMMENTS
1.5	VENTILATION			
	Is ventilation adequate for security and circulation of fresh air in the premises?			
1.6	LIGHTING			
	Is there sufficient and suitable lighting in every part of the premises?			
1.7	DISPLAYS			
	Are the following displayed?			
	<ul style="list-style-type: none"> o Approved business hours o Audited accounts o Current Banking licence o Banking Tariffs o Names of senior officers o Certificate of contribution from DPF 			
2.1	OUTER DOORS/WALL/WINDOWS			
	Are the outer doors of heavy duty metal or reinforced wood?			
	Are there a minimum of two locks of good quality?			
	Are there arrangement for an observer holder or panel chain to be used after normal business hours?			
	Are windows and glass walls reinforced with metal grills or made of anti-burglar/bullet proof glass?			
2.2	STRONGROOM (SAFE/VAULT)			
	Is there a strongroom?			
	Is its conveniently situated i.e. does it boarder with the outside walls?			
	Is there adequate space to cater for the need of the institution?			
	Are the duplicate keys stored off the premises?			
	Is there dual control for entry.			

		YES	NO	COMMENTS
2.3	FREE - STANDING SAFE			
	Is the safe fire proof?			
	Is the access to the safe and the room where the safe is, kept under the control of more than one person?			
	Is the safe in a window less room and secured by a heavy duty lock door of fire resistant material?			
2.4	RECORD ROOM AND STATIONERY STORE			
	Is it fire proof?			
2.5	CASH LOADING AREA			
	Is it protected from Public view and access?			
	Is cash in transit protected by police/security firm?			
	Are there security guards at the premises at all times - day and night?			
2.6	CASHIERS' TILL			
	Is it restricted to the individual cashiers during working hours?			
2.7	ALARM SYSTEM			
	Is there an alarm system installed in the premises? if yes,			
	Is it connected to police/security firm? Switches to be located in the:-			
	o Strongroom			
	o Cashiers' cubicles			
	o Manager's office			
2.8	EMERGENCY PLAN			
	Is there an emergency plan? Is it documented?			
	Are there fire extinguishers at appropriated places? i.e.			
	o Water type			
	o Non-water type			
	o Smoke/heat detectors			

		YES	NO	COMMENTS
2.9	COMPUTERS			
	Is the computer room located in a secure area?			
	o Passwords			
	o Access to the computer room restriction.			
	o Back-ups made and			
	o Stored outside the premises			
2.10	SAFE DEPOSIT LOCKERS			
	Is the lockers area in a separate place and not in the strong room?			
	Is there sufficient and suitable verification space?			
3	INSURANCES			
	(i) Obtain certificates for the following insurances:-			
	a) Fire and other perils			
	b) Burglary and theft			
	c) Public liability			
	d) Fidelity			
	g) Cash and valuable in premises			
	h) Motor vehicles in premises			
	i) Other assets - obtain a list of other assets and their values.			
	j) Employers' liability			
	(ii) For each of the above, carry out verification as follows:-			
	Is the issuing insurance firm licensed with the commissioner of insurance?			
	(iii) Is the insurance company connected in any way with the institution's:-			
	o Directors			
	o Management and			
	o Shareholders with more than 5% of the institution's shares?			
	Are there other insurances that are required to be taken under the lease agreement? i.e. glass windows.			
	If yes, have the covers been taken.			

			YES	NO	COMMENTS
4		DOCUMENTATION			
	(i)	Are there detailed and comprehensive policy manuals, approved by the board of directors, covering at least the following?			
		a) Staffing			
		b) Training			
		c) Fixed Assets			
		d) Deposits			
		e) Lending			
		f) Loan classification			
		g) Bad debt provision/write-offs			
		h) Investments			
		i) Management information systems			
		j) Budgeting and variance analysis			
		Additionally, each institution should maintain both operations and accounting manuals.			
	(ii)	Are the policy documents availed to all staff members and are they updated regularly on any changes?			



