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# CENTRAL AGENT REGISTER FEASIBILITY STUDY

CENTRAL BANK OF KENYA

**SEPTEMBER 2010**

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# CENTRAL AGENT REGISTER FEASIBILITY STUDY

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## EXECUTIVE SUMMARY

1. This report discusses the conditions in which a central register of agents can be used to enhance supervision of expanding agent based retail banking distribution channels. The report highlights that in addition to supervision, a central register can also assist in promoting market development and consumer protection.
2. An electronic register that is fully integrated into existing supervisory systems and interconnects with the bank networks will prove a challenge to existing operational capacity in the CBK. However with purposeful coordination and a clear delegation of authority to the appropriate third parties, capacity is not an insurmountable obstacle.
3. A clear legal position needs to address the sharing of agent information between banks, particularly if elements of this information will also be made public in the future. However, there is sufficient precedent of banks exchanging information to broker a clear legal framework for an agent register.
4. In its simplest form the agent register can focus solely on agent identification and verification of authorisation. However, the system should be designed so that the identification function provides for a broader range of functions that are driven by the needs of the market and can sustainably support the cost of the system.
5. The CBK has demonstrated a strong precedent of working with third parties to outsource management of services on its behalf. This precedent can be leveraged to provide a framework to outsource the management of an agent register to a third party manager such as the Kenya Bankers Association or a credit reference bureau.
6. There is adequate technical capacity to host an agent register within the CBK's Banking Supervision Department (BSD) but the existing workload and management structure of the BSD may not be sufficient to manage a system that requires coordination with a network of external stakeholders.
7. Banks are already providing agent data to the CBK as part of the authorisation process. This report recommends that CBK remains the host of agent data and allows a third party manager administrative rights to access select information via the Banking Supervision Application's secure web interface.
8. The credit reference bureaus (CRB's) have the core competency to manage a complex database of agents as well as the incentive to build a sustainable business model around the database. The Credit Reference Bureau Regulations (2008) also provide a legal framework that clearly mandates the appropriate system integrity and data protection mechanisms to manage a register of agents on behalf of the CBK.

9. External access to the agent register should be limited to banks until the systems and market demonstrate the capacity to manage a register that can be made publicly available. It remains to be determined what information should be made public and what should remain within the purview of the banks. Until these parameters can be determined, it is recommended that the register remains within a closed network for a pilot period of at least 12 months.
10. Although there are two CRB's in Kenya, only one is currently authorised to operate. Should both CRB's receive authorisation, it is recommended that they are invited to submit proposals regarding how they would respectively manage an agent register, highlighting a framework with clear lines of responsibility delineating data privacy, system integrity, and reporting procedures.

## GLOSSARY/ List of Acronyms

ATM	Automated teller machine
AML/CFT	Anti-Money Laundering/ Countering the Financing of Terrorism
BFA	Bankable Frontier Associates
BSA	Banking Supervision Application
BSD	Banking Supervision Department
BSS	Banking Supervision System
CBK	Central Bank of Kenya
CRB	Credit Reference Bureau
ICT	Information, Computers and Telecommunications
KBA	Kenya Bankers Association
KYC	Know Your Customer
MIC	Middle Income Country
POS	Point of sale
RAAS	Risk Analysis Automated System

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# INTRODUCTION

## Purpose of the Report

Since the release of the Guidelines for Agent Banking (2010) a few prominent banks have actively pursued authorisation to introduce agents as an additional retail distribution channel. The opportunity presented by banking agents lies in offering full banking services to a previously inaccessible market of unbanked customers. This means going beyond the payment services offered by Safaricom's M-Pesa product and funnelling credit and savings products through an agent network, on behalf of the respective banks. However such nascent distribution channels merit additionally supervisory scrutiny and oversight given the potential scale and outreach. An agent register is a mechanism that can help provide the added oversight, in tandem with other secondary benefits that will be discussed in this report.

Currently banks are submitting information on agents as part of the authorisation process, and at the time of this report the submissions had yet to be converted to an electronic format. In aggregate, this agent data has become a fixed listing of agent names and locations that is used by supervisors to assess the respective institution's ability to manage their agent operations prudently. However, given the potential for growth, a more dynamic, electronic register can be used to cost effectively track and manage the development of the market. Moving the current listing of agent information to an accessible electronic format can be further viewed as a foundation upon which greater functionality can be added as supervisors become more comfortable with the management of the agent distribution channel and as the market moves closer to maturity.

The purpose of this report is to explore the feasibility of a register of agents that can be centrally managed to track and monitor agent network development. This report investigates the feasibility of establishing a register of agents while highlighting the following issues: (i) Who would host the register (for example, CBK or a third party provider)? (ii) What information and what interface would be required? (iii) Who would fund the cost of developing and maintaining the register?

**Table 1: Checklist to terms of reference**

Issue to be covered	Reference
Regulatory Compliance	Section 5
AML/CFT, Fraud	Section 2.1
Consumer Protection	Section 2.3
Monitoring and Reporting	Section 4.1 and Section 5
System and Technology Requirements	Section 4.1
Training and capacity building needs	Section 4.2

## Methodology

The primary research for this report was conducted by in-country interviews. Additionally, information was gathered from various international contacts as well as from extensive previous work conducted by BFA in Kenya regarding the role of agents in extending financial services beyond traditional distribution channels.

Four organisations were interviewed for this research. Firstly, extensive interviews were conducted with senior BSD staff from the ICT and legal teams. The Kenya Bankers Association and Credit Reference Bureau-Africa were interviewed to explore how an agent register could be implemented under their respective management. Equity Bank was the sole bank to be interviewed for this study as the only bank authorized to acquire banking agents at the time of writing.

Topical areas discussed during these meetings included:

- Uses and functionality of a database of agents
- Costs of installing and maintaining a register
- Staffing and capacity requirements to maintain and update the register
- Legal ownership of agent data
- Public access to the register
- Nature of the information to be included
- Legal implications of banks sharing agent information
- Legal implications of a third party managing the system on behalf of the Central Bank

## Structure of the Report

This study begins by exploring the functions that an agent register can serve, thus underpinning the foundation of services that it can provide to the respective stakeholders. In Section 3 and 4 we take a more granular look at the capacity needed to establish and run an agent register taking into account both technical and human capacity requirements. After looking at capacity needs, Section 5 explores options for third party management of the register to understand how organisations such credit

reference bureaus or the Kenya Bankers Association could alleviate capacity demands on the CBK whilst simultaneously providing a valuable service to the market. The study concludes with an overview of the spectrum of options available to the CBK for the development of an agent register, coupled with recommendations that are tailored to the specific nature of the Kenyan market.

## MULTIPLE FUNCTIONS OF A REGISTER

This section will discuss what purpose the register can serve to the market, which in turn will influence who should have access. The range of functions provided by a register varies in resource demand and complexity, impacting the design and management of the register. In the simplest form, a register can operate as an *agent identifier*. This would be a fixed list of agents, restricted to non-variable information such as name, location, and business type for the use of BSD supervisors only. The information currently submitted to the CBK by banks falls into this category<sup>1</sup>. Such a register would only require an update should an agent move, close or change the nature of their retail business<sup>2</sup>. We can refer to an identification-only register as a **Limited Register**, given the range of additional services that are excluded from its functionality.

Moving beyond a Limited Register would require allowing for public access for a variety of reasons that are discussed further in Section 2.3 below. The concept of a register, in of itself, is one that readily provides access to basic information to all relevant parties in order to breed confidence in the system. For these reasons we refer to a register that provides for public access as a **Basic Register**.

Beyond the identification-only function, a register can additionally provide a more granular view of the respective agents' business profile. We can refer to these services as *Value Added Services (VAS)*, designed to address the demands of the market by appropriately vetting agents prior to engaging in a business relationship. The composition of VAS can vary, depending on the demand and availability of information. Business history and credit profiling are two examples of VAS that give a sense of how a broad suite of information can help the register become a more valuable resource. Business history can depict which banks the agent has contracted with in the past and the nature of the services offered. This provides a prospective bank with a view of the experience and competency the agent brings to financial service distribution. Credit profiling is more complex as it exposes the credit history of the agent (if any) that is directly related to the provision of financial services. This type of VAS could be directly linked to the credit reference bureaus.

Furthest along the range of functions is a register that can be designed to capture the *transactional activity* of an agent (in addition to identification and VAS) while allowing access by both banks and customers. Transactional activity includes, for example, the type of products offered by the agent as well as the aggregate volume and value of financial services moving through that particular agent's business. In this context, banks and customers would access the register for different purposes and as such the type of information made available to a closed network of banks would differ from the

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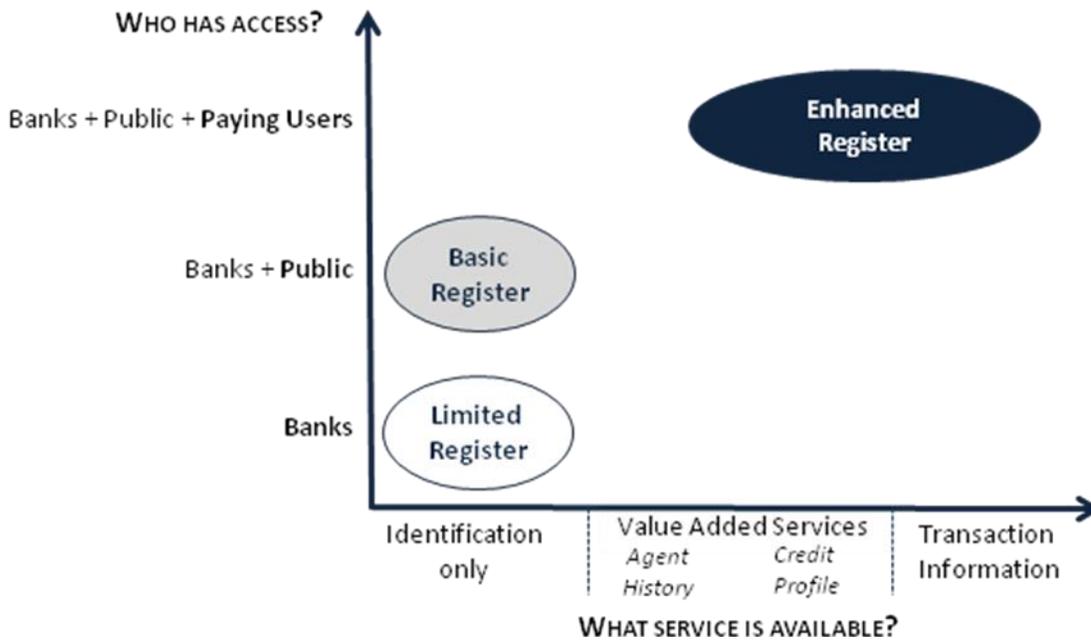
<sup>1</sup> Form 2(b) Guidelines on Agent Banking (2010)

<sup>2</sup> As indicated in Section 6.4 of the Guidelines on Agent Banking (2010).

information used by a customer to manage their financial lives. Segregating the register in such a manner would add a further degree of complexity to the system. We refer to this type register as an *Enhanced Register*.

An Enhanced Register would also be a potentially attractive resource for other actors in the financial services ecosystem (such as insurance companies). Users who have a business interest in the transactional and/or VAS information can be charged a fee for access. These fees can then be used to subsidize the operating costs of the register itself. Figure 1 below provides comparison of how the range of access and services impacts the ultimate function of the register.

**Figure 1: Categories of access and service**



As noted earlier, the purpose of the register should determine the combination of access and services, particularly at this early stage of development. Not all parties who may benefit from a register will necessarily need to have access to both agent identification and transactional information. A reasonable assumption is that the register would have some level of external access whilst remaining broadly within the control of the CBK. This report will discuss the foundation of that assumption in Section 5. Below we introduce how access to the register impacts its functionality for supervisors, banks and customers, respectively.

## Supervision

Bank supervisors are universally stretched in capacity, and therefore a register should assist supervisors in determining whether banking agents are safely extending financial services beyond the current branch networks. For supervisors and banks alike, banking agents are an unexplored and little

understood channel that has significant potential but little precedent<sup>3</sup>. There are two aspects of agent supervision to take into account to efficiently focus supervisory resources at this early stage of development.

Firstly, agent supervision should be conducted as part of the regular assessment of a bank's operations, which includes use of retail distribution channels. The system and processes used to monitor agents should be integrated in such a way that supervisors can use standard reporting formats to evaluate the agent distribution channel independently as well as in tandem with other channels used by the bank. It is reasonable to expect that at this early stage supervisors will dedicate more time and resources to the assessment of agents used by their respective banks. However to understand how agents impact the business as a whole, agent specific supervision systems should be fully integrated into existing supervisory processes. We will discuss this in greater detail in Section 4 below.

In regards to facilitating AML/CFT and fraud prevention, the register can provide a central point in which agent identification can be verified by the Financial Intelligence Unit (FIU) (or other relevant authority) and help to support anti-money laundering and fraud tools used by BSD supervisors. A centralised system can help authorities coordinate with the BSD to request the appropriate administrative privileges to access agent information via the Banking Supervision Application (see Section 4.1). In a non-exclusive environment where agents are not prohibited from having relationships with multiple financial institutions, the register can be used to determine which parties an agent is authorised to transact with and thus assist in tracing transactions to and from their point of origin.

Secondly, the systems employed in tracking agents can be used to evaluate the breadth and depth of financial inclusion as the market continues to develop. Agent banking is poised to bring reliable financial services to the significant unbanked population in Kenya. A well-designed agent register can be used to generate useful data to analyze the extent of financial inclusion. An example of such data includes number of accounts managed, geographic penetration, services rendered, etc.

## Market Development

The Guidelines on Agent Banking (2010) mandate that agents operate non-exclusively and thus have the option to offer services on behalf of multiple banks<sup>4</sup>. The agent register can then be used to provide the necessary transparency to encourage banks to use a common pool of agents willing and able to provide financial services. Similar to a credit reference bureau, negative information shared amongst banks can help identify reliable agents and ensure that the system remains robust, for banks and customers alike.

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<sup>3</sup> While M-Pesa as a payment product has demonstrated the demand for financial services there is little precedent of agents successfully extending full banking services (credit and savings) beyond current branch networks.

<sup>4</sup> Section 6.4 *Relocation, transfer and closure of agent premises*

Banks who bear the cost of the initial due diligence on their respective agents may be hesitant to allow other banks to ride on the back of their efforts without compensation. The trade-off here is that in a non-exclusive market banks run the risk of competitors using “their” agents regardless of whether or not they share information. However, it is within the powers of the CBK to circumvent such hesitancy by making available agent data submitted as part of the agent authorization process. Additionally, it is in the interest of the system as a whole that the market can develop efficiently by weeding out non-performing agents in the distribution channel<sup>5</sup>.

## Consumer Protection

Promoting customer awareness through verification of authorization (as well as transparency of fees and services) is critical to fully develop agent banking as a nationally accessible retail-banking channel. In a non-exclusive environment, a publicly accessible agent register can provide a single point of reference to (i) verify the nature of an agent’s relationship with multiple financial institutions and (ii) provide a resource to facilitate customer redress mechanisms<sup>6</sup>.

The CBK has gone to great lengths to ensure that all agents are authorized to facilitate financial services and this process can be used to increase public confidence in the system. There are mechanisms available that can easily be integrated into the consumer experience to help drive awareness and transparency. For example, the addition of the respective agents’ identification/authorization number (along with a redress number for the respective bank) as part of the transaction’s electronic receipt. Incorporating similar tools into a publicly accessible register will allow the consumer to corroborate official authorization and incentivize agents and banks to guarantee a sufficient level of transparency in their products and services.

## COMPONENTS OF AN ELECTRONIC REGISTER

An electronic register that is fully integrated into existing supervisory systems<sup>7</sup> consists of several components that, when combined, provide the necessary platform for data to be aggregated, managed and analyzed. These components can be split into two functional categories: (i) the management and maintenance of system hardware and (ii) the administration of the database itself.

### System Hardware

*Hosting:* A hosting platform is required to allow access to data from internal or web-based computer networks. This platform functions as a repository for data submitted by banks regarding their

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<sup>5</sup> There may be a place for positive information to be shared amongst banks to fully assess the suitability of agents. However, determining exactly what type of positive information would be appropriate and/or useful may be beyond the scope of the CBK. Banks can be encouraged to identify what information should be made accessible to a closed network of peers and then work out the legal implications of sharing data amongst themselves. If appropriate, the CBK (or KBA) may be in a good position to broker such discussions.

<sup>6</sup> Redress mechanisms can include making available the respective contact details for banks as well a resource for product and pricing transparency. This can also include the details for referral of complaints to a central ombudsman once the market reaches a sufficient level of maturity.

<sup>7</sup> This paper assumes that the Banking Supervision Application will be the medium in which the agent register will communicate with internal and external parties. Using another software application managed by a third party would add additional component to the register that would have to be managed accordingly.

respective agent activity. Designated stakeholders access this data via the network for analysis and production of the relevant reports.

*Interconnection:* The register should interface directly with CBK’s existing data management systems to ensure that the data can be readily accessed and incorporated into regular supervisory assessments. In the case of the CBK an agent register needs to integrate fully into the Banking Supervision Application (BSA) currently used by BSD supervisors. In turn, banks authorised to operate agents must ensure that they can adequately connect their respective core banking systems to the BSA, using the agent specific templates issued by the CBK.

## Administration

*Data ownership:* Data submitted for the purpose of standard reporting and compliance ultimately falls within the purview of the BSD supervisors. A clear legal position on the ownership of submitted compliance data will facilitate effective dissemination of the data should it be made public or shared within a closed network of financial institutions. This is discussed further in Section 5. Once a legal clarity has been established, the functionality of the register will determine whether banks and/or customers should be allowed access to agent information (as discussed in Section 2).

*Industry coordination:* As the collection of data is refined over time, coordination with the multiple reporting institutions is necessary for supervisors to stay on top of changes in the market. Adequate coordination will ensure that all institutions are reporting quality data in a timely manner and are responsive to changes in procedures as dictated by the CBK.

*Data input/collection:* Information input and collection should remain the responsibility of a single entity to ensure consistency and quality of data. Data collected on a regular basis will ensure that supervisors can monitor and track new developments as they occur.

## CAPACITY REQUIREMENTS

As noted in Section 2, supervisory capacity must be carefully managed to ensure that resources are efficiently committed to the supervision of agents. In the context of this study, capacity is measured across two categories: (i) system and technological requirements necessary to integrate an electronic register into existing supervisory systems; and (ii) human capacity needed to monitor, update, and interpret data collated from regular reporting of agent activity. In this section we look more closely at the how the components of the register impacts the system requirements and human capacity needed to manage a register.

### System Requirements: Integration into the Banking Supervision Application

The Banking Supervision Application (BSA) is currently used by the CBK to manage returns and financial statements submitted by regulated institutions. The BSA connects all banks in Kenya to the

CBK, providing a harmonized and practical supervision technology solution. Banking supervisors use the BSA as their primary means of managing data submitted by their respective regulated entities for assessment and analysis. The BSA provides a mechanism for the input, processing and output of compliance data.

The BSA itself is made up of two components: the Banking Supervision System (BSS) and the Risk Analysis Automated System (RAAS). The BSS employs a workflow system for off-site analysis, on-site inspection, bank licensing, and enforcement action. The BSS functions as an *internal* assessment and analysis tool to coordinate workflow among multiple departments within the CBK. The RAAS, on the other hand, is used as an *external* interface which manages data import, user administration, return management, ratio management, and report management. The RAAS functions as input and output mechanism for compliance data, aggregating data into a format that can be readily accessed by supervisors and the respective account administrators. Supervisors use the aggregated data to produce reports on specific banks, industry wide themes and/or peer group reviews. The RAAS produces both standardized and customized reports to facilitate the risk assessment process, as needed by the respective supervisors.

For returns to be processed by the BSA, the BSD must first design a template using Microsoft Excel. Regulated institutions are then issued the template, electronic returns transfer software and login credentials to access the BSA via a secure web-portal. Access to the BSA is dictated by administrative privileges managed by the ICT team within the BSD. Banks are only given limited administrative privileges to log into the BSA web portal and upload their respective returns to be processed by the RAAS. Each cell in the return template is mapped<sup>8</sup> to a designated data input in the RAAS database and made accessible for further analysis by supervisors in the BSD.

Banks can leverage the existing reporting mechanism by integrating the data into the BSA return templates discussed earlier. The existing Microsoft Excel based reporting templates need only to be reformatted to incorporate agent data. Form 2(b) from the Guidelines on Agent Banking (2010) requires 15 separate data inputs for each agent, all of which would be incorporated into a new return template. Agent information would most likely require the use of an additional tab on the respective worksheet used in the most relevant return template, thus creating a consolidated list of agents authorized to operate on behalf of the respective bank. This data could accumulate significantly as agents continue to expand. However, it is unlikely that agent data will require a significant addition of system memory on the respective servers<sup>9</sup>. The main capacity requirement will be to determine how best to map the specific agent data to the RAAS in order to produce reports that can accurately reflect the respective banks dependency on agent distribution channels and the impact of agents on improving access to financial services.

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<sup>8</sup> Data mapping is the first step in data integration between a data source (regulated firm) and a destination (RAAS).

<sup>9</sup> The average return submitted to the BSD is approx. 140kbs in size and has between 400-600 individual data inputs per return. According to the MIS department, adding agent information could conceivably increase the size of the return 5 to 10 fold but would not have a significant impact on the memory capacity of the servers used to manage the BSA database due to small file size and the limited number of banks in the market.

## Human Capacity Requirements

The human capacity needed to introduce an agent register is anchored to the upfront process of integration into the BSA and ongoing maintenance of the system. Integrating the added functionality of a register into the BSA will require the technical expertise to reformat existing return templates and map new data inputs to the RAAS. Configuring the system to accept new data templates will involve a high degree of coordination with BSD supervisors to ensure that the appropriate information is included in the new template and that the RAAS can produce reports with the necessary level of granularity. After successful system integration, ongoing maintenance will require a regular resource commitment by the respective system managers. Maintenance is not only limited to software updates but also includes coordination with banks to ensure that templates are operable and that data can be verified.

Initially the most significant resource commitment will be dedicated to the reformatting of current return templates and integrating these into existing reporting procedures. However, ongoing maintenance needs will become more substantial as the agent banking market continues to grow. A dynamic, transaction focused register that provides current snapshot of agent banking networks will require more regular management than a static, identification only register that is only updated bi-annually or quarterly. Including the option to access the register via a public web interface or within a closed network of financial institutions will also impact the nature of resources needed for ongoing management.

It is very likely that given the prominence of M-Pesa, banking agents will expand more slowly as they determine how to profitably negotiate non-exclusive relationships. The agent register can work to encourage the expansion of banking agents if it sufficiently comforts banks that the information is accurate and verifiable. A more dynamic register may require a more active role on the part of the “manager” of the register to work directly with the banking industry to understand what information they require to take full advantage of agents.

Currently, CBK personnel in the ICT and MIS departments have a sufficient level of technical expertise to develop the respective BSA compliant templates for agent banking. Likewise, there is sufficient expertise to develop an identification focused register that relies on updates via the regular compliance reporting schedule. However, within the current management structure, the ITC and MIS staff may not have the sufficient resources to manage the ongoing maintenance needed to develop a more transaction focused register. This resource limitation is assuming that ongoing maintenance requires that the register is made available to parties outside of the CBK and that it requires regular coordination with both BSD supervisors and reporting institutions.

## Application of Capacity Requirements

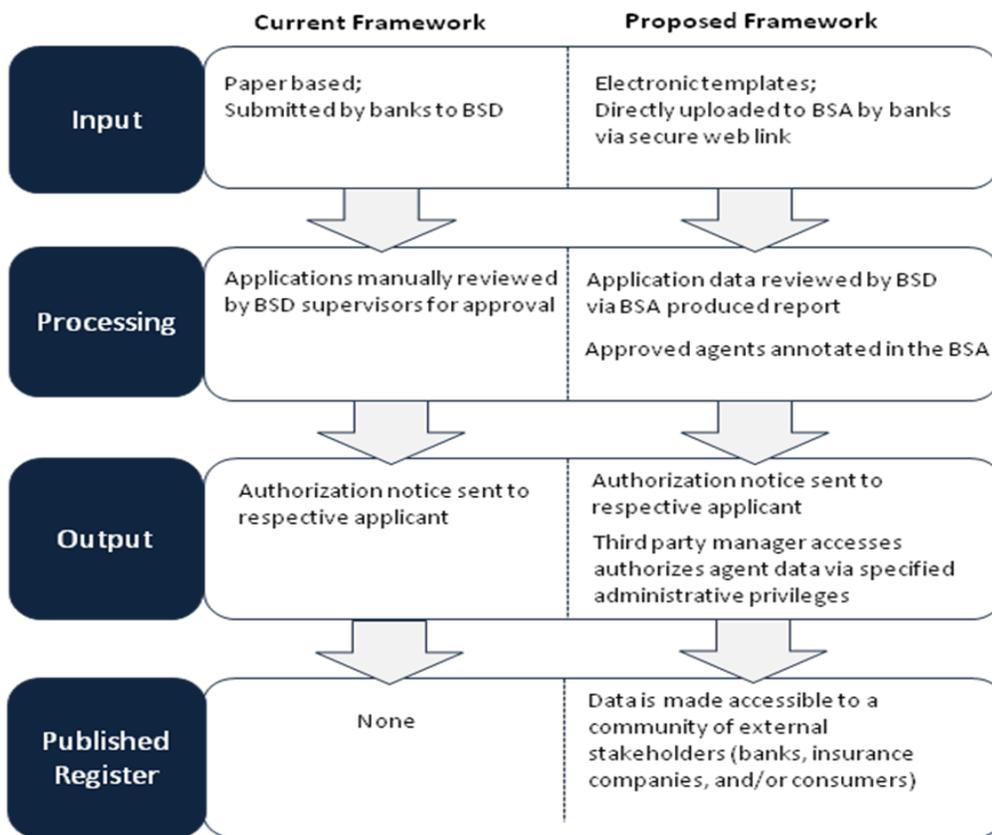
Based on the requirements discussed previously the table below applies the capacity requirements needed to meet the functions of managing an agent register.

**Table 2: Application of capacity requirements**

Category of Capacity Required	Human Capacity	System Capacity
Hosting	Coordination with reporting institutions to interconnect to host network.	Sufficient capacity in the respective servers to host additional volume of data from agent banking reporting.
Interconnection	Development of agent specific reporting template to integrate into existing return templates used by regulated financial institutions	Web-based interface with specified administrative privileges to facilitate access by reporting institutions within the designated network
Data input/collection	Coordination with BSD supervisors to determine reporting templates.	Design of central reporting template to aggregate data that can be submitted via a secure web-based interface
Data ownership	Legal clarity to determine that CBK remains ultimate owner of agent data that will be shared amongst financial institutions.	Security parameters to ensure that only authorized data are accessible by regulated institutions within the network (or customers in the case of a public register).
Industry Coordination	Designated team of supervisors and ICT professionals to allocate the appropriate administrative privileges to regulated institutions.	n/a

Figure 2, below, applies the components of the register to a framework that compares the current workflow used to approve banking agents to one that proposes the integration of agent data into an externally accessible register. Currently data used to approve agent banking is processed manually and, at the time of writing, has yet to be converted to an electronic format. The proposed framework assumes the conversion of agent data into electronic form (as discussed in Section 4.1) and demonstrates where the BSA can be used to manage the input, processing, and output of agent data to streamline the supervisory process. The framework also indicates where in the workflow external access to agent data can be integrated. In Section 5 we discuss in more detail how a third party manager can be used to facilitate the dissemination of agent data to external stakeholders, as denoted in the final stage of the workflow indicated in Figure 2.

**Figure 2: Proposed framework for management of banking agent data**



## THE CASE FOR THIRD PARTY MANAGEMENT

### Measuring the Effectiveness of Third Party Management

Management of an agent register can be delegated to a suitable third party if it effectively reduces the burden on the CBK and helps to improve the efficiency of the retail financial services market. This can be measured against specific outcomes to determine what type of institution is best suited to manage an agent register on behalf of the BSD. (See Table 3) These outcomes can be applied to an oversight framework that focuses on the functions of an agent register discussed in Section 2. Applying this framework in a principled and risk based manner can effectively maintain adequate oversight without a significant regulatory burden. The third party manager should have the freedom to build a business model around the functions of the register to ensure sustainable management of the agent register. A sustainable business model, where the manager is compensated by either the CBK or the financial services industry, will further encourage the development of innovative systems and products in tandem with the needs of the market as it moves closer to maturity.

The framework in which the CBK engages a third party manager can be organised around several functions designed to maintain the appropriately level of oversight and address issues as they arise.

Firstly, the CBK should maintain legal ownership of agent related data submitted by banks for compliance purposes and then passed on to the third party manager. A clear legal framework will enable the CBK to delegate the necessary authority to a third party while maintaining oversight of the system via regular reporting and conducting on-site visits as needed. This will also ensure that (i) data privacy and security systems are robust and well managed and (ii) data is regularly updated and checked for accuracy. To encourage these standards a clear enforcement mechanism is necessary to allow the CBK to seek redress should the previously mentioned criteria not meet pre-designated standards.

**Table 3**

Intended outcomes of third party outsourcing	Necessary criteria for third party manager
Reduction of resources <sup>10</sup> committed to ongoing supervision and maintenance of the register.	<ul style="list-style-type: none"> <li>• Operational capacity to collect, verify and disseminate information</li> <li>• Adequate governance structure</li> <li>• Sufficient familiarisation with CBK oversight requirements</li> <li>• Clear legal framework to access and share information</li> </ul>
Improvement in transparency to both the customer and market by making available accurate and timely information regarding the identification and verification of agents offering financial services.	<ul style="list-style-type: none"> <li>• Adequate systems to ensure data privacy and protection of customer information.</li> <li>• Robust data security systems</li> <li>• Capacity to regularly and accurately update data</li> <li>• Sufficient ability to coordinate amongst multiple stakeholders (customers and banks)</li> </ul>
Promotion of innovations that incentivize banks and agents to maintain a high level of service in a competitive, non-exclusive retail banking ecosystem.	<ul style="list-style-type: none"> <li>• Strong business relationships with relevant financial institutions.</li> <li>• Incentive to develop Value Added Services to cost effectively sustain the active sharing of information</li> </ul>

In the context of these conditions there are few organisations currently operating in Kenya that have the ability and/or incentive to take on the burden of managing the agent register on behalf of the CBK. At the moment the only known institutions that have the resources and relationships necessary to operate the agent register are the Kenya Bankers Association and the credit reference bureaus<sup>11</sup>. However, there may be scope for an Information Technology company to provide the appropriate platform to host the database and connect the relevant stakeholders to the register. In this section we will look at each organisation and discuss how they can respectively achieve the outcomes noted

<sup>10</sup> Resources are measured in both the time committed to establishing the accuracy of data and the financial cost of updating/maintaining the system

<sup>11</sup> At the time of writing there are only two credit reference bureaus in Kenya – *Metropole* and *Credit Reference Bureau- Africa*. Only Credit Reference Bureau-Africa was interviewed for this study. Therefore it is yet to be determined if Metropole can meet the necessary criteria, as stated in Section 5.

previously. We will evaluate their respective incentives to manage and maintain a register on behalf of the CBK and whether or not they have the necessary technical competencies to do so.

## Kenya Bankers Association

The KBA's primary role is to represent the banking industry and serve as a lobby for the banking sector's interests. The KBA serves as a forum to address issues affecting members' banks, including matters of regulation and regulatory compliance. The KBA's has a mandate (and thus an incentive) to work with the CBK to improve the efficiency of the banking sector and assist in the development of systems that improve the cost effectiveness of offering retail banking products to the Kenyan market.

The KBA has demonstrated this incentive through the management of two critical "backbone" interbank services on behalf of the CBK<sup>12</sup>. These services include (i) a public registry of bank branches and (ii) centralised cheque truncation. These operations directly impact all banks in Kenya and require a significant degree of coordination between parties to ensure that payment services can be carried out efficiently. This experience in coordination and management of interbank relationships could be usefully brought to bear in the updating and verification of information submitted to an agent register. We can extrapolate how the operational experience benefits the management of an agent register by looking at these two services more closely.

The central cheque truncation system was employed specifically to shorten the clearing and settlement process and improve the overall efficiency of interbank retail payment processes. To facilitate timely settlement, the banking industry is incentivized to ensure that their respective branch account information is accurate, using the KBA as an intermediary. As a fully representative organisation, the KBA is well placed to coordinate between banks to ensure that cheque origination is verified and that accounts are settled accurately. To date, the KBA has successfully leveraged this incentive, setting a precedent for the outsourcing of a critical banking function behalf of the CBK.

In tandem with the cheque truncation system, the bank branch register also requires a high level of coordination with banks and is underpinned by the KBA's role in assisting banks to share information and support a more efficient retail payment network. The branch register is publicly accessible and manually updated via member banks to verify the originating bank branch of cheques used in retail payments. The system ensures that all banks can verify the existence of any authorized bank branch in Kenya.

The KBA is in a strong position to coordinate with banks to ensure information is accurate and up to date. However, the KBA's core competence of coordination within the banking sector may not extend to the competence required to manage an electronic database that is fully integrated into the BSA and made accessible to an external network of institutions. This would require a resource commitment that may not be within the capacity of the KBA's organisational structure or operational expertise.

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<sup>12</sup> The KBA also co-manages (with the CBK) several domestic cash distribution centres. The cash centres centralise the transportation and distribution of cash beyond major urban centres, allowing banks to cost effectively subsidise the KBA's management of cash distribution operations. While this is a critical function it requires a different resource commitment than what would be necessary to support an agent register.

The cheque truncation and branch register have demonstrated the KBA's ability to coordinate a centralised system used by banks but these systems are closed networks and require no interconnection to the BSA. For the agent register to be cost effective, it will require a fully electronic data management system that is securely connected to the BSA web interface. This level of resource has not been employed by the KBA to date. Therefore is it reasonable to question whether the KBA has the capacity or incentive to manage the register, particularly if it is expected that the register will evolve to enhanced functionality, as discussed in Section 2.

## Credit Reference Bureau

Credit reference bureau's (CRB) do not have a long history of experience in Kenya and have only recently been authorized to operate. Their arrival has been heralded as an opportunity to introduce a degree of sophistication to the consumer credit market, benefiting consumers and lending institutions via greater transparency and cost effective sharing of information. The CRB's core competency involves the maintenance of systems that can sufficiently aggregate information from multiple parties and repackage this data into products that are useful to both banks and consumers. To be effective CRB's must manage a robust electronic database that can interconnect with multiple systems as well as manage a user interface that allows users to easily access the relevant information. This competency has a direct relation to the systems required to operate an agent register as discussed previously.

However, the CRB's have only just established a significant operational presence<sup>13</sup> in Kenya and have yet to establish a precedent for operating services on behalf of the CBK. The existing regulatory framework for CRB's can be leveraged to help develop a contractual relationship governing the management of an agent register on behalf of the CBK. In this context, the Credit Reference Bureau Regulations (2008) specifies the regulatory parameters within which CRB's can collect, manage and disseminate customer information to lenders in Kenya. We can determine whether CRB's are suitably empowered to manage an agent register by applying relevant sections of the CRB regulations to the previously stated criteria for third party management of an agent register. (See Table 4)

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<sup>13</sup> As of July 13<sup>th</sup> 2010, CRB-Africa was authorized to begin operations in Kenya. CRB-Africa conducted an extensive pilot of its services over the course of Q1 and Q2 2010 prior to gaining its full licence to operate.

**Table 4**

Functions of regulatory oversight of third party manager	Relevant Section of CRB Regulations (2008)
Data Security	Section 19(1): <i>The necessary security and control measures shall be taken to avoid unauthorized access or mismanagement of information</i>
Customer redress mechanisms	Section 20: <i>Customers can dispute information submitted to the CRB and the CRB must address the dispute within the designated time periods.</i>
Information Accuracy	Section 17(c): <i>Information must be current, authentic, legitimate, reliable, truthful and reflect the existing situation.</i>
Business Model Development	Section 13(1)(e): <i>Specialised literature and informational material related to its activities can be sold to financial institutions</i>
Enforcement Mechanism	Section 13(3): <i>KSh 500,000 fine for failure to comply with regulations</i>
Data Privacy	Section 15 (1)(a): <i>Customer confidentiality must be protected and can only be shared with designated parties</i>
Data Ownership	Section 26: <i>The information held by the Bureau remains the property of the Central Bank</i>
Reporting Mechanism	Section 27 (1): <i>Periodic reports shall be furnished to the Central Bank regarding business operations, including annual systems reports.</i>

Given their core competency of database management the CRB's should have the technical capacity to commit appropriate resources to the management of a register that can evolve from a Basic Register to a more dynamic, Enhanced Register that is (i) able to track the agent banking market as it develops and (ii) driven by the needs of the industry operating in a non-exclusive environment. Additionally, as a for-profit business, CRB's are incentivized to create innovative products<sup>14</sup> to better serve the needs of the market, which sets the CRB's apart from the KBA. This incentive is central to the development of a sustainable outsourcing model. The CRB's credit scoring function has already established a valuable resource to the banking industry. This value is at the centre of the CRB's business model and can be leveraged to apply to an agent register.

### Legal Clarity Regarding Information Sharing

For the CBK to adequately delegate authority to a third party manager, such as the KBA or CRB, it will be necessary to establish legal clarity around the exchange of agent specific information among

<sup>14</sup> During interviews with CRB-Africa, they indicated that they would explore using a GPS linked product to verify agent premises. CRB-Africa explained that they are currently piloting a system that uses field agents to take GPS coordinates and verify assets that are held against a customers credit profile (such as a building or farm).

banks. This is necessary to ensure that a third party can in fact collect and disseminate agent information in the case of a Basic Register, and extends as far as transaction related data in the case of an Enhanced Register. Addressing this spectrum of data will allow for an appropriately broad range of services to be offered off of the back of the register.

Section 31 (3)(b) of the Banking Act authorises the CBK to exchange information with licensed institutions “as is required for the proper discharge of their duties”. Section 31 (4) further elaborates that credit reference bureaus may collect and disseminate “credit information on clients” to licensed institutions. In this context there is a precedent of allowing a third party to manage client information on behalf of the CBK and other financial institutions. However, the limitation in this regard is the specific reference to “customer credit information”. The information used in the register is neither credit oriented nor is it solely customer focused.

In the case of the CRB’s, the Credit Reference Regulations (2008) may provide an legal framework that may be adapted to the management of agent specific data, based on an initial review by the BSD legal team. The Regulations currently allow CRB’s to manage *customer* information and share this information amongst banks. However the Regulations do not specify whether or not retail businesses (such as those managed by banking agents) would fall under these criteria. An initial solution offered by the BSD legal team, would be to categorize agents as customers of the bank and thus allow them to fall within the parameters of the Regulations. Otherwise it may be necessary to (i) amend Section 31 of the Banking Act to include agent information or (ii) issue regulations authorising “Agent Reference Bureaus” that can be run by specified licensed institutions (such as a CRB).

The KBA, on the other hand, does not benefit from such an explicit regulatory framework that addresses the dissemination of information. There is no precedent for the handling of customer or retail business information because current services managed by the KBA do not relate directly to such data. This may not preclude the KBA from managing a database of agents but a clear legal position will be necessary to ensure that the appropriate system integrity and data privacy mechanisms can be instituted under their management.

### Information Technology Platform Provider

Allowing for an IT Platform Provider to manage the agent register could be an institutionally neutral option for the CBK. As discussed in Section 4, the technology required to manage the register is not overly complex. The primary capacity requirements are focused on the ability to coordinate with multiple institutions while ensuring that data can be housed in a system that is robust enough to meet the demands of banks and customers. Inviting IT platform providers to offer a potential technology solution for the management of the register can provide the CBK with a fuller view of the options available beyond the CRB’s and KBA.

While an IT platform provider can provide an innovative perspective to the development of the register the main concerns should be one of adequate governance and familiarity with the CBK’s compliance requirements. Additionally, there is little precedent of IT providers providing services on

behalf of the CBK, as is the case with the KBA. It should also be established whether the respective IT providers have a clear strategic mandate to provide services bespoke to the financial services industry, as is the case with the credit reference bureaus. However, the core competency of managing a robust electronic database cannot be dismissed, particularly if the IT providers can demonstrate the capacity to meet the qualitative requirements discussed in Table 3.

## CONCLUSION

This report has portrayed the multiple functions of an agent register and the capacity required to facilitate those functions. Additionally, the report has discussed the conditions under which a register can be outsourced to a third party manager, describing further which third parties are best suited to managing the additional responsibility. These discussions have led to three main conclusions:

*There is currently limited human capacity within the CBK to manage anything more than an internal, identification only, agent register:* It is clear that in terms of technical capacity, the current systems used by the CBK to manage compliance reporting are sufficient to support the additional data needed for an agent register. However there may be limited time and management capacity within the BSD and ICT unit to manage an externally accessible register, which would involve greater coordination with banks as part of an ongoing process of data verification.

*The CRB's have the core competency to manage a complex database of agents as well the incentive to build a sustainable business model around an agent register:* The KBA and CRB's are the only institutions in Kenya who could adequately manage the agent register on behalf of the CBK. A clear legal and operational framework should be in place prior to outsourcing management of the register to ensure the third party manager has adequate systems and controls in place to operate the system and coordinate access to the register by banks and the public. While the KBA has established a precedent of managing services on behalf of the CBK, the CRB Regulations (2008) clearly outlines a framework that (i) provides some legal clarity and (ii) can be inform the robust operational requirements needed to operate an agent register. (See Table 5 for a comparison of the KBA and CRB's ability to meet the criteria necessary to manage the register.)

*External access to the agent register should be limited to banks until the systems are proven:* At this stage of market development there may be limited advantages to promoting a public register until a third party manager can demonstrate the ability to adequately manage the system. This does not absolve the banks themselves from providing their respective customers access to information regarding their agent network. Given the nascent stage of the non-exclusive agent banking environment, it is as yet difficult to determine what information is best suited for public access and consumer protection demands. However, public access is a necessary component to the register and a competent third party manager should be encouraged to provide public access as soon as the systems can support the additional functionality.

**Table 5**

Intended outcomes of third party outsourcing	Necessary criteria for third party manager	CBK	CRB	KBA	IT Platform Provider
Reduction of resources <sup>15</sup> committed to ongoing supervision and maintenance of the register.	Operational capacity to collect, verify and disseminate information	-	X		X
	Adequate governance structure	-	X		
	Sufficient familiarisation with CBK oversight requirements	-	X	X	
	Clear legal framework to access and share consumer information	-	X		
Improvement in transparency to both the customer and market by making available accurate and timely information regarding the identification and verification of agents offering financial services.	Adequate systems to ensure data privacy and protection of customer information.	X	X		X
	Robust data security systems	X	X		X
	Capacity to regularly and accurately update data	X	X		
	Sufficient ability to coordinate amongst multiple stakeholders (customers and banks)	X	X	X (Banks only)	
Promotion of innovations that incentivize banks and agents to maintain a high level of service in a competitive, non-exclusive retail-banking ecosystem.	Strong business relationships with relevant financial institutions.		X	X	
	Incentive to develop Value Added Services to cost effectively sustain the active sharing of information		X		X

<sup>15</sup> Resources are measured in both the time committed to establishing the accuracy of data and the financial cost of updating/maintaining the system

## Recommendations and the Way Forward

The framework underpinning the following recommendations begins with agent information submitted to the CBK by banks as part of the standard compliance reporting process. Existing return templates are reformatted to allow agent information to be integrated into the BSA and monitored by supervisors accordingly. In turn the CBK provides the CRB with the necessary administrative privileges to access the agent information via the BSA and manage an external database where banks can share the data amongst a closed network. This framework ensures the CBK maintains sufficient oversight that in the case of mismanagement of the register BSD supervisors can pull the system back into their domain.

Based on this framework we recommend a four stage process to outsource the management of an agent register to a credit reference bureau. As noted previously, this recommendation is limited to the development of a register that would not be publicly available until the system has proven to be robust and financially sustainable for all parties involved. If the system cannot be maintained sustainably or efficiently by a third party manager, such as the CRB's, the CBK can retain the ability to manage register within its own infrastructure by virtue of hosting the database and maintaining legal rights over the data itself.

### Stage 1: Establish a Clear Legal Authorisation for Third Party Management of Agent Data

The ambiguity around whether a CRB can collect and disseminate agent information along with credit information should be addressed prior to initiating operations. As demonstrated in Table 4, The CRB Regulations (2008) provide a framework that can be leveraged to inform the development of a contractual delegation of authority to the CRB from the CBK. The BSD legal team will have to determine if Section 31 of the Banking Act provides sufficient clarity to allow an amendment of the CRB regulations. Otherwise it may be necessary to seek an amendment to the Banking Act that allows for the CBK to authorise a licensed institution (such as a CRB) to exchange agent related information.

### Stage 2: Request for Proposals

The two credit reference bureau's operating in Kenya (CRB-Africa and Metropole) should be invited to propose how they would respectively manage a register on behalf of the CBK. The proposal should include references to integration with the BSA, coordination with Banks, system integrity, data protection, and reporting procedures. In preparation for this phase it is recommended that the CBK draft specific Terms of Reference (TOR's) for the CRB proposals to ensure that they address the respective objectives and concerns. The TOR's can be drafted in collaboration with the CRB's and banks to align the expectations of all parties involved and ensure that the appropriate capacity can be assigned to the initial stages of development.

### Stage 3: Pilot period

A pilot period can be negotiated to ensure that the CRB's adequately integrate their systems into the BSA and interconnect the respective banks to the CRBs' systems. This will allow BSD supervisors to have greater comfort that the CRB's can in fact provide sufficiently robust operational systems to run the agent register prior to allowing public access or developing complex products. This period should be no less than 9 to 12 months or the entire course of a compliance reporting period.

### Stage 4: Direct Supervision

During this final stage the CRB's will be authorized to allow banks access to the register and offer new products to the respective network of banks. During this period BSD supervisors will maintain direct supervision of the CRB to ensure that the CRB can adequately comply with the CBK standards for system integrity, data privacy and consumer protection.

## REFERENCES

Guidelines on Agent Banking, (2010), <http://tinyurl.com/32yugoe>

Credit Reference Bureau Regulations (2008), <http://tinyurl.com/2426534>

The Banking Act, Chapter 488 (as amended up to 1<sup>st</sup> January 2010), <http://tinyurl.com/2umol5z>

## ANNEX A: PEOPLE MET

Institution	Name	Title
Central Bank of Kenya	Matu Mugo	Assistant Director, Banking Supervision Department
Central Bank of Kenya	Luke Plapan	Head of ICT, Banking Supervision Department
Central Bank of Kenya	K. Kimathi	Senior Bank Officer, Banking Supervision Department
Central Bank of Kenya	James Manyonge	Manger, Banking Supervision Department
Central Bank of Kenya	Michael Owuor	Assistant Manger, Banking Supervision Department
Equity Bank	John Staley	Director, Finance and Shared Services
Kenya Banks Association	J.K. Wanyela	Executive Director
Kenya Banks Association	Fidelis M. Muia	ICT Consultant, Credit Information Sharing Initiative
Kenya Banks Association	Jared Getenga	Project Manager, Credit Information Sharing Initiative
Credit Reference Bureau-Africa	Wachira Ndege	Chief Executive Officer
Credit Reference Bureau-Africa	Antony Maseno	Head of Legal
Credit Reference Bureau-Africa	Steven Kamau	Manger, Group Marketing and Business Development